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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, DC 20549**

**FORM 10-Q**

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

**For the Quarterly Period Ended June 30, 2019**

**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)**

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

|  |  |  |
| --- | --- | --- |
|  | | |
|  |  |  |
| **Title** | **Trading Symbol** | **Name of each exchange on which registered** |
| Common Stock, par value $0.001 per share | SBUX | NASDAQ Global Select Market |

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 every Interactive Data File required to be submitted 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 such files).    Yes  x    No  ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
| Large accelerated filer | x | Accelerated filer | ¨ | Non-accelerated filer | ¨ | Smaller reporting company | ☐ |
|  |  |  |  |  |  |  |  |
| Emerging growth company | ☐ |  |  |  |  |  |  |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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.

|  |
| --- |
|  |
|  |
| **Shares Outstanding as of July 24, 2019** |
| 1,197.0 million |

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**STARBUCKS CORPORATION**

**FORM 10-Q**

**For the Quarterly Period Ended June 30, 2019**

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**PART I — FINANCIAL INFORMATION**

|  |  |
| --- | --- |
|  |  |
| **Item 1.** | ***Financial Statements*** |

**STARBUCKS CORPORATION**

**CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS**

*(in millions, except per share data)*

*(unaudited)*

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Quarter Ended** | | | | | | |  | **Three Quarters Ended** | | | | | | |
|  | **Jun 30, 2019** | | |  | **Jul 1, 2018** | | |  | **Jun 30, 2019** | | |  | **Jul 1, 2018** | | |
| Net revenues: |  | | |  |  | | |  |  | | |  |  | | |
| Company-operated stores | $ | 5,535.0 |  |  | $ | 5,060.4 |  |  | $ | 16,064.3 |  |  | $ | 14,630.3 |  |
| Licensed stores | 725.0 | |  |  | 660.6 | |  |  | 2,140.3 | |  |  | 1,968.6 | |  |
| Other | 563.0 | |  |  | 589.3 | |  |  | 1,557.0 | |  |  | 1,817.0 | |  |
| Total net revenues | 6,823.0 | |  |  | 6,310.3 | |  |  | 19,761.6 | |  |  | 18,415.9 | |  |
| Cost of sales including occupancy costs | 2,808.6 | |  |  | 2,553.4 | |  |  | 8,171.1 | |  |  | 7,569.8 | |  |
| Store operating expenses | 2,018.5 | |  |  | 1,825.0 | |  |  | 5,961.2 | |  |  | 5,351.6 | |  |
| Other operating expenses | 89.6 | |  |  | 132.3 | |  |  | 265.2 | |  |  | 382.5 | |  |
| Depreciation and amortization expenses | 343.1 | |  |  | 330.0 | |  |  | 1,032.5 | |  |  | 920.4 | |  |
| General and administrative expenses | 480.2 | |  |  | 485.9 | |  |  | 1,419.2 | |  |  | 1,299.0 | |  |
| Restructuring and impairments | 37.7 | |  |  | 16.9 | |  |  | 123.9 | |  |  | 179.2 | |  |
| Total operating expenses | 5,777.7 | |  |  | 5,343.5 | |  |  | 16,973.1 | |  |  | 15,702.5 | |  |
| Income from equity investees | 76.0 | |  |  | 71.4 | |  |  | 206.1 | |  |  | 213.5 | |  |
| Operating income | 1,121.3 | |  |  | 1,038.2 | |  |  | 2,994.6 | |  |  | 2,926.9 | |  |
| Gain resulting from acquisition of joint venture | — | |  |  | 2.5 | |  |  | — | |  |  | 1,376.4 | |  |
| Net gain resulting from divestiture of certain operations | 601.8 | |  |  | — | |  |  | 622.8 | |  |  | 496.3 | |  |
| Interest income and other, net | 40.2 | |  |  | 31.5 | |  |  | 80.2 | |  |  | 155.2 | |  |
| Interest expense | (86.4 | | ) |  | (45.4 | | ) |  | (235.3 | | ) |  | (106.4 | | ) |
| Earnings before income taxes | 1,676.9 | |  |  | 1,026.8 | |  |  | 3,462.3 | |  |  | 4,848.4 | |  |
| Income tax expense | 303.7 | |  |  | 174.8 | |  |  | 670.1 | |  |  | 1,086.5 | |  |
| Net earnings including noncontrolling interests | 1,373.2 | |  |  | 852.0 | |  |  | 2,792.2 | |  |  | 3,761.9 | |  |
| Net earnings/(loss) attributable to noncontrolling interests | 0.4 | |  |  | (0.5 | | ) |  | (4.2 | | ) |  | (0.9 | | ) |
| Net earnings attributable to Starbucks | $ | 1,372.8 |  |  | $ | 852.5 |  |  | $ | 2,796.4 |  |  | $ | 3,762.8 |  |
| Earnings per share - basic | $ | 1.13 |  |  | $ | 0.62 |  |  | $ | 2.27 |  |  | $ | 2.69 |  |
| Earnings per share - diluted | $ | 1.12 |  |  | $ | 0.61 |  |  | $ | 2.25 |  |  | $ | 2.67 |  |
| Weighted average shares outstanding: |  | | |  |  | | |  |  | | |  |  | | |
| Basic | 1,211.0 | |  |  | 1,377.1 | |  |  | 1,230.8 | |  |  | 1,397.7 | |  |
| Diluted | 1,223.0 | |  |  | 1,388.5 | |  |  | 1,242.4 | |  |  | 1,409.9 | |  |

*See Notes to Condensed Consolidated Financial Statements.*

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**STARBUCKS CORPORATION**

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

*(in millions, unaudited)*

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Quarter Ended** | | | | | | |  | **Three Quarters Ended** | | | | | | |
|  | **Jun 30, 2019** | | |  | **Jul 1, 2018** | | |  | **Jun 30, 2019** | | |  | **Jul 1, 2018** | | |
| Net earnings including noncontrolling interests | $ | 1,373.2 |  |  | $ | 852.0 |  |  | $ | 2,792.2 |  |  | $ | 3,761.9 |  |
| Other comprehensive income/(loss), net of tax: |  | | |  |  | | |  |  | | |  |  | | |
| Unrealized holding gains/(losses) on available-for-sale debt securities | 3.7 | |  |  | (0.5 | | ) |  | 9.6 | |  |  | (6.5 | | ) |
| Tax (expense)/benefit | (0.8 | | ) |  | 0.1 | |  |  | (2.1 | | ) |  | 1.8 | |  |
| Unrealized gains/(losses) on cash flow hedging instruments | (3.2 | | ) |  | 46.0 | |  |  | (24.7 | | ) |  | 0.6 | |  |
| Tax (expense)/benefit | 0.6 | |  |  | (10.4 | | ) |  | 5.9 | |  |  | (1.2 | | ) |
| Unrealized gains/(losses) on net investment hedging instruments | (21.1 | | ) |  | 32.4 | |  |  | (40.1 | | ) |  | (11.8 | | ) |
| Tax (expense)/benefit | 5.3 | |  |  | (8.3 | | ) |  | 10.2 | |  |  | 2.8 | |  |
| Translation adjustment and other | (64.9 | | ) |  | (281.9 | | ) |  | 15.0 | |  |  | (70.3 | | ) |
| Tax (expense)/benefit | — | |  |  | 1.3 | |  |  | 1.4 | |  |  | 3.5 | |  |
| Reclassification adjustment for net (gains)/losses realized in net earnings for available-for-sale debt securities, hedging instruments, and translation adjustment | 3.2 | |  |  | (17.5 | | ) |  | 5.5 | |  |  | 38.0 | |  |
| Tax expense/(benefit) | (0.3 | | ) |  | 3.2 | |  |  | 0.6 | |  |  | (4.0 | | ) |
| Other comprehensive income/(loss) | (77.5 | | ) |  | (235.6 | | ) |  | (18.7 | | ) |  | (47.1 | | ) |
| Comprehensive income including noncontrolling interests | 1,295.7 | |  |  | 616.4 | |  |  | 2,773.5 | |  |  | 3,714.8 | |  |
| Comprehensive income/(loss) attributable to noncontrolling interests | 0.4 | |  |  | (0.5 | | ) |  | (4.2 | | ) |  | (0.9 | | ) |
| Comprehensive income attributable to Starbucks | $ | 1,295.3 |  |  | $ | 616.9 |  |  | $ | 2,777.7 |  |  | $ | 3,715.7 |  |

*See Notes to Condensed Consolidated Financial Statements.*

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**STARBUCKS CORPORATION**

**CONDENSED CONSOLIDATED BALANCE SHEETS**

*(in millions, except per share data)*

*(unaudited)*

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **Jun 30, 2019** | | |  | **Sep 30, 2018** | | |
| **ASSETS** |  | | |  |  | | |
| Current assets: |  | | |  |  | | |
| Cash and cash equivalents | $ | 4,763.3 |  |  | $ | 8,756.3 |  |
| Short-term investments | 72.1 | |  |  | 181.5 | |  |
| Accounts receivable, net | 790.6 | |  |  | 693.1 | |  |
| Inventories | 1,517.2 | |  |  | 1,400.5 | |  |
| Prepaid expenses and other current assets | 591.6 | |  |  | 1,462.8 | |  |
| Total current assets | 7,734.8 | |  |  | 12,494.2 | |  |
| Long-term investments | 222.6 | |  |  | 267.7 | |  |
| Equity investments | 340.3 | |  |  | 334.7 | |  |
| Property, plant and equipment, net | 6,187.8 | |  |  | 5,929.1 | |  |
| Deferred income taxes, net | 1,533.0 | |  |  | 134.7 | |  |
| Other long-term assets | 458.0 | |  |  | 412.2 | |  |
| Other intangible assets | 853.2 | |  |  | 1,042.2 | |  |
| Goodwill | 3,564.7 | |  |  | 3,541.6 | |  |
| TOTAL ASSETS | $ | 20,894.4 |  |  | $ | 24,156.4 |  |
| **LIABILITIES AND SHAREHOLDERS' EQUITY/(DEFICIT)** |  | | |  |  | | |
| Current liabilities: |  | | |  |  | | |
| Accounts payable | $ | 1,145.4 |  |  | $ | 1,179.3 |  |
| Accrued liabilities | 3,238.7 | |  |  | 2,298.4 | |  |
| Insurance reserves | 211.5 | |  |  | 213.7 | |  |
| Current portion of deferred revenue | 1,300.2 | |  |  | 1,642.9 | |  |
| Current portion of long-term debt | — | |  |  | 349.9 | |  |
| Total current liabilities | 5,895.8 | |  |  | 5,684.2 | |  |
| Long-term liabilities: |  | | |  |  | | |
| Long-term debt | 11,159.1 | |  |  | 9,090.2 | |  |
| Deferred revenue | 6,717.9 | |  |  | 6,775.7 | |  |
| Other long-term liabilities | 1,440.6 | |  |  | 1,430.5 | |  |
| Total liabilities | 25,213.4 | |  |  | 22,980.6 | |  |
| Shareholders’ equity/(deficit): |  | | |  |  | | |
| Common stock ($0.001 par value) — authorized, 2,400.0 shares; issued and outstanding, 1,206.5 and 1,309.1 shares, respectively | 1.2 | |  |  | 1.3 | |  |
| Additional paid-in capital | 41.1 | |  |  | 41.1 | |  |
| Retained earnings/(deficit) | (4,013.9 | | ) |  | 1,457.4 | |  |
| Accumulated other comprehensive loss | (349.0 | | ) |  | (330.3 | | ) |
| Total shareholders’ equity/(deficit) | (4,320.6 | | ) |  | 1,169.5 | |  |
| Noncontrolling interests | 1.6 | |  |  | 6.3 | |  |
| Total equity/(deficit) | (4,319.0 | | ) |  | 1,175.8 | |  |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY/(DEFICIT) | $ | 20,894.4 |  |  | $ | 24,156.4 |  |

*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** | | | | | | |
|  | **Jun 30, 2019** | | |  | **Jul 1, 2018** | | |
| OPERATING ACTIVITIES: |  | | |  |  | | |
| Net earnings including noncontrolling interests | $ | 2,792.2 |  |  | $ | 3,761.9 |  |
| Adjustments to reconcile net earnings to net cash provided by operating activities: |  | | |  |  | | |
| Depreciation and amortization | 1,083.6 | |  |  | 961.5 | |  |
| Deferred income taxes, net | (1,243.5 | | ) |  | 763.7 | |  |
| Income earned from equity method investees | (174.1 | | ) |  | (167.2 | | ) |
| Distributions received from equity method investees | 163.7 | |  |  | 171.7 | |  |
| Gain resulting from acquisition of joint venture | — | |  |  | (1,376.4 | | ) |
| Net gain resulting from divestiture of certain retail operations | (622.8 | | ) |  | (496.3 | | ) |
| Stock-based compensation | 255.4 | |  |  | 185.0 | |  |
| Goodwill impairments | 10.5 | |  |  | 28.5 | |  |
| Other | 122.3 | |  |  | 26.7 | |  |
| Cash provided by changes in operating assets and liabilities: |  | | |  |  | | |
| Accounts receivable | (70.1 | | ) |  | (14.9 | | ) |
| Inventories | (140.5 | | ) |  | (21.5 | | ) |
| Prepaid expenses and other current assets | 831.6 | |  |  | (694.3 | | ) |
| Income taxes payable | 1,045.4 | |  |  | 198.7 | |  |
| Accounts payable | (15.1 | | ) |  | 72.4 | |  |
| Deferred revenue | (32.4 | | ) |  | 137.7 | |  |
| Other operating assets and liabilities | (67.4 | | ) |  | (32.8 | | ) |
| Net cash provided by operating activities | 3,938.8 | |  |  | 3,504.4 | |  |
| INVESTING ACTIVITIES: |  | | |  |  | | |
| Purchases of investments | (176.3 | | ) |  | (69.5 | | ) |
| Sales of investments | 281.7 | |  |  | 441.2 | |  |
| Maturities and calls of investments | 57.5 | |  |  | 40.6 | |  |
| Additions to property, plant and equipment | (1,280.7 | | ) |  | (1,407.8 | | ) |
| Acquisition of equity in joint venture, net of cash acquired | — | |  |  | (1,311.3 | | ) |
| Net proceeds from the divestiture of certain operations | 684.2 | |  |  | 608.2 | |  |
| Other | (72.9 | | ) |  | 1.9 | |  |
| Net cash used in investing activities | (506.5 | | ) |  | (1,696.7 | | ) |
| FINANCING ACTIVITIES: |  | | |  |  | | |
| Proceeds from issuance of commercial paper | — | |  |  | 300.0 | |  |
| Proceeds from issuance of long-term debt | 1,996.0 | |  |  | 2,596.5 | |  |
| Repayments of long-term debt | (350.0 | | ) |  | — | |  |
| Proceeds from issuance of common stock | 358.5 | |  |  | 131.9 | |  |
| Cash dividends paid | (1,330.7 | | ) |  | (1,260.2 | | ) |
| Repurchase of common stock | (7,972.9 | | ) |  | (4,061.9 | | ) |
| Minimum tax withholdings on share-based awards | (106.1 | | ) |  | (60.4 | | ) |
| Other | (17.6 | | ) |  | (13.6 | | ) |
| Net cash used by financing activities | (7,422.8 | | ) |  | (2,367.7 | | ) |
| Effect of exchange rate changes on cash and cash equivalents | (2.5 | | ) |  | (10.2 | | ) |
| Net decrease in cash and cash equivalents | (3,993.0 | | ) |  | (570.2 | | ) |
| CASH AND CASH EQUIVALENTS: |  | | |  |  | | |
| Beginning of period | 8,756.3 | |  |  | 2,462.3 | |  |
| End of period | $ | 4,763.3 |  |  | $ | 1,892.1 |  |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: |  | | |  |  | | |
| Cash paid during the period for: |  | | |  |  | | |
| Interest, net of capitalized interest | $ | 219.9 |  |  | $ | 101.4 |  |
| Income taxes, net of refunds | $ | 126.2 |  |  | $ | 899.7 |  |

*See Notes to Condensed Consolidated Financial Statements.*

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**STARBUCKS CORPORATION**

**CONDENSED CONSOLIDATED STATEMENTS OF EQUITY**

*For the Quarter Ended June 30, 2019 and July 1, 2018*

*(in millions, except per share data, unaudited)*

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Common Stock** | | |  | **Additional Paid-in Capital** | | |  | **Retained Earnings/(Deficit)** | | |  | **Accumulated Other Comprehensive Income/(Loss)** | | |  | **Shareholders’ Equity** | | |  | **Noncontrolling Interests** | | |  | **Total** | | |
| **Balance, March 31, 2019** | $ | 1.2 |  |  | $ | 41.1 |  |  | $ | (4,807.7 | ) |  | $ | (271.5 | ) |  | $ | (5,036.9 | ) |  | $ | 1.7 |  |  | $ | (5,035.2 | ) |
| Net earnings | — | |  |  | — | |  |  | 1,372.8 | |  |  | — | |  |  | 1,372.8 | |  |  | 0.4 | |  |  | 1,373.2 | |  |
| Other comprehensive loss | — | |  |  | — | |  |  | — | |  |  | (77.5 | | ) |  | (77.5 | | ) |  | — | |  |  | (77.5 | | ) |
| Stock-based compensation expense | — | |  |  | 64.0 | |  |  | — | |  |  | — | |  |  | 64.0 | |  |  | — | |  |  | 64.0 | |  |
| Exercise of stock options/vesting of RSUs | — | |  |  | 24.4 | |  |  | — | |  |  | — | |  |  | 24.4 | |  |  | — | |  |  | 24.4 | |  |
| Sale of common stock | — | |  |  | 8.6 | |  |  | — | |  |  | — | |  |  | 8.6 | |  |  | — | |  |  | 8.6 | |  |
| Repurchase of common stock | — | |  |  | (97.0 | | ) |  | (144.1 | | ) |  | — | |  |  | (241.1 | | ) |  | — | |  |  | (241.1 | | ) |
| Cash dividends declared, $0.36 per share | — | |  |  | — | |  |  | (434.9 | | ) |  | — | |  |  | (434.9 | | ) |  | — | |  |  | (434.9 | | ) |
| Net distributions to noncontrolling interests | — | |  |  | — | |  |  | — | |  |  | — | |  |  | — | |  |  | (0.5 | | ) |  | (0.5 | | ) |
| **Balance, June 30, 2019** | $ | 1.2 |  |  | $ | 41.1 |  |  | $ | (4,013.9 | ) |  | $ | (349.0 | ) |  | $ | (4,320.6 | ) |  | $ | 1.6 |  |  | $ | (4,319.0 | ) |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| **Balance, April 1, 2018** | $ | 1.4 |  |  | $ | 41.1 |  |  | $ | 4,635.8 |  |  | $ | 32.9 |  |  | $ | 4,711.2 |  |  | $ | 6.5 |  |  | $ | 4,717.7 |  |
| Net earnings/(loss) | — | |  |  | — | |  |  | 852.5 | |  |  | — | |  |  | 852.5 | |  |  | (0.5 | | ) |  | 852.0 | |  |
| Other comprehensive loss | — | |  |  | — | |  |  | — | |  |  | (235.6 | | ) |  | (235.6 | | ) |  | — | |  |  | (235.6 | | ) |
| Stock-based compensation expense | — | |  |  | 69.4 | |  |  | — | |  |  | — | |  |  | 69.4 | |  |  | — | |  |  | 69.4 | |  |
| Exercise of stock options/vesting of RSUs | — | |  |  | 14.2 | |  |  | — | |  |  | — | |  |  | 14.2 | |  |  | — | |  |  | 14.2 | |  |
| Sale of common stock | — | |  |  | 8.6 | |  |  | — | |  |  | — | |  |  | 8.6 | |  |  | — | |  |  | 8.6 | |  |
| Repurchase of common stock |  | |  |  | (92.2 | | ) |  | (847.9 | | ) |  | — | |  |  | (940.1 | | ) |  | — | |  |  | (940.1 | | ) |
| Cash dividends declared, $0.36 per share | — | |  |  | — | |  |  | (489.5 | | ) |  | — | |  |  | (489.5 | | ) |  | — | |  |  | (489.5 | | ) |
| **Balance, July 1, 2018** | $ | 1.4 |  |  | $ | 41.1 |  |  | $ | 4,150.9 |  |  | $ | (202.7 | ) |  | $ | 3,990.7 |  |  | $ | 6.0 |  |  | $ | 3,996.7 |  |

*See Notes to Condensed Consolidated Financial Statements.*

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**STARBUCKS CORPORATION**

**CONDENSED CONSOLIDATED STATEMENTS OF EQUITY**

*For the Three Quarters Ended June 30, 2019 and July 1, 2018*

*(in millions, except per share data, unaudited)*

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Common Stock** | | |  | **Additional Paid-in Capital** | | |  | **Retained Earnings/(Deficit)** | | |  | **Accumulated Other Comprehensive Income/(Loss)** | | |  | **Shareholders’ Equity** | | |  | **Noncontrolling Interests** | | |  | **Total** | | |
| **Balance, September 30, 2018** | $ | 1.3 |  |  | $ | 41.1 |  |  | $ | 1,457.4 |  |  | $ | (330.3 | ) |  | $ | 1,169.5 |  |  | $ | 6.3 |  |  | $ | 1,175.8 |  |
| Cumulative effect of adoption of new accounting guidance | — | |  |  | — | |  |  | 495.6 | |  |  | — | |  |  | 495.6 | |  |  | — | |  |  | 495.6 | |  |
| Net earnings/(loss) | — | |  |  | — | |  |  | 2,796.4 | |  |  | — | |  |  | 2,796.4 | |  |  | (4.2 | | ) |  | 2,792.2 | |  |
| Other comprehensive loss | — | |  |  | — | |  |  | — | |  |  | (18.7 | | ) |  | (18.7 | | ) |  | — | |  |  | (18.7 | | ) |
| Stock-based compensation expense | — | |  |  | 258.0 | |  |  | — | |  |  | — | |  |  | 258.0 | |  |  | — | |  |  | 258.0 | |  |
| Exercise of stock options/vesting of RSUs | — | |  |  | 227.4 | |  |  | — | |  |  | — | |  |  | 227.4 | |  |  | — | |  |  | 227.4 | |  |
| Sale of common stock | — | |  |  | 25.0 | |  |  | — | |  |  | — | |  |  | 25.0 | |  |  | — | |  |  | 25.0 | |  |
| Repurchase of common stock | (0.1 | | ) |  | (510.4 | | ) |  | (7,443.8 | | ) |  | — | |  |  | (7,954.3 | | ) |  | — | |  |  | (7,954.3 | | ) |
| Cash dividends declared, $1.08 per share | — | |  |  | — | |  |  | (1,319.5 | | ) |  | — | |  |  | (1,319.5 | | ) |  | — | |  |  | (1,319.5 | | ) |
| Net distributions to noncontrolling interests | — | |  |  | — | |  |  | — | |  |  | — | |  |  | — | |  |  | (0.5 | | ) |  | (0.5 | | ) |
| **Balance, June 30, 2019** | $ | 1.2 |  |  | $ | 41.1 |  |  | $ | (4,013.9 | ) |  | $ | (349.0 | ) |  | $ | (4,320.6 | ) |  | $ | 1.6 |  |  | $ | (4,319.0 | ) |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| **Balance, October 1, 2017** | $ | 1.4 |  |  | $ | 41.1 |  |  | $ | 5,563.2 |  |  | $ | (155.6 | ) |  | $ | 5,450.1 |  |  | $ | 6.9 |  |  | $ | 5,457.0 |  |
| Net earnings/(loss) | — | |  |  | — | |  |  | 3,762.8 | |  |  | — | |  |  | 3,762.8 | |  |  | (0.9 | | ) |  | 3,761.9 | |  |
| Other comprehensive loss | — | |  |  | — | |  |  | — | |  |  | (47.1 | | ) |  | (47.1 | | ) |  | — | |  |  | (47.1 | | ) |
| Stock-based compensation expense | — | |  |  | 187.4 | |  |  | — | |  |  | — | |  |  | 187.4 | |  |  | — | |  |  | 187.4 | |  |
| Exercise of stock options/vesting of RSUs | — | |  |  | 47.6 | |  |  | — | |  |  | — | |  |  | 47.6 | |  |  | — | |  |  | 47.6 | |  |
| Sale of common stock | — | |  |  | 23.9 | |  |  | — | |  |  | — | |  |  | 23.9 | |  |  | — | |  |  | 23.9 | |  |
| Repurchase of common stock | — | |  |  | (258.9 | | ) |  | (3,852.6 | | ) |  | — | |  |  | (4,111.5 | | ) |  | — | |  |  | (4,111.5 | | ) |
| Cash dividends declared, $0.96 per share | — | |  |  | — | |  |  | (1,322.5 | | ) |  | — | |  |  | (1,322.5 | | ) |  | — | |  |  | (1,322.5 | | ) |
| **Balance, July 1, 2018** | $ | 1.4 |  |  | $ | 41.1 |  |  | $ | 4,150.9 |  |  | $ | (202.7 | ) |  | $ | 3,990.7 |  |  | $ | 6.0 |  |  | $ | 3,996.7 |  |

*See Notes to Condensed Consolidated Financial Statements.*

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**STARBUCKS CORPORATION**

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**STARBUCKS CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

***(unaudited)***

|  |  |
| --- | --- |
|  |  |
| **Note 1:** | ***Summary of Significant Accounting Policies*** |

*Financial Statement Preparation*

The unaudited condensed consolidated financial statements as of June 30, 2019, and for the quarter and three quarters ended June 30, 2019 and July 1, 2018, have been prepared by Starbucks Corporation under the rules and regulations of the Securities and Exchange Commission (“SEC”). In the opinion of management, the financial information for the quarter and three quarters ended June 30, 2019 and July 1, 2018 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.”

Certain prior period information on the condensed consolidated statements of cash flows has been reclassified to conform to the current year presentation.

The financial information as of September 30, 2018 is derived from our audited consolidated financial statements and notes for the fiscal year ended September 30, 2018 (“fiscal 2018”) included in Item 8 in the Fiscal 2018 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 consolidated financial statements in the 10-K.

The results of operations for the quarter and three quarters ended June 30, 2019 are not necessarily indicative of the results of operations that may be achieved for the entire fiscal year ending September 29, 2019 (“fiscal 2019”).

***Recent Accounting Pronouncements***

*Recently Adopted Accounting Pronouncements*

In the third quarter of fiscal 2019, we adopted the Financial Accounting Standards Board (“FASB”) issued guidance on the accounting for hedging relationships. The new guidance eliminates the requirement to separately measure and report hedge ineffectiveness, expands permissible cash flow hedges on contractually specified components, and simplifies hedge documentation and effectiveness assessments. The adoption of the new guidance did not have a material impact to our financial statements. The presentation and disclosure requirements are being applied prospectively. See [Note 4](file:///D:\TMP\finance-docx\STARBUCKS\Starbucks-19.06.30-10-Q.html#sC0C04FFD244E5007A311C462782814D4), Derivative Instruments for further discussion.

In the first quarter of fiscal 2019, we adopted the new guidance on the accounting for income tax effects of intercompany sales or transfers of assets other than inventory. The guidance requires entities to recognize the income tax impact of an intra-entity sale or transfer of an asset other than inventory when the sale or transfer occurs, rather than when the asset has been sold to an outside party. The primary impact of the adoption was an increase to deferred income taxes, net of $227.6 million and a corresponding cumulative adjustment to opening retained earnings at the beginning of fiscal 2019.

In the first quarter of fiscal 2019, we adopted the new guidance on revenue recognition utilizing the modified retrospective method, which primarily changed the accounting method and classification of revenue recognition related to unredeemed stored value cards, referred to as stored value card breakage. Under this new guidance, expected breakage amounts must be recognized proportionately in earnings as redemptions occur. Previously, stored value card breakage was recorded to interest income and other, net utilizing the remote method. Starting in the first quarter of 2019, stored value card breakage was recorded in the revenue lines where stored value cards may be redeemed—primarily company-operated and licensed store revenues. The cumulative impact to retained earnings as of October 1, 2018 was $268.0 million.

Impact of adoption on our consolidated balance sheet at September 30, 2018:

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |
| *(in millions)* | **As reported**  **Sep 30, 2018** | | |  | **Revenue Recognition Adoption Impact** | | |  | **Adjusted**  **Oct 1, 2018** | | |
| Deferred income taxes, net | $ | 134.7 |  |  | $ | (11.0 | ) |  | $ | 123.7 |  |
| Current liabilities: |  | | |  |  | | |  |  | | |
| Stored value card liability and current portion of deferred revenue | 1,642.9 | |  |  | (422.0 | | ) |  | 1,220.9 | |  |
| Deferred revenue | 6,775.7 | |  |  | 64.0 | |  |  | 6,839.7 | |  |
| Other long-term liabilities | 1,430.5 | |  |  | 79.0 | |  |  | 1,509.5 | |  |
| Shareholders' equity: |  | | |  |  | | |  |  | | |
| Retained earnings | 1,457.4 | |  |  | 268.0 | |  |  | 1,725.4 | |  |

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Due to the adoption, we began classifying stored value card liabilities as current and long-term deferred revenue.

See [Note 2](file:///D:\TMP\finance-docx\STARBUCKS\Starbucks-19.06.30-10-Q.html#s202A00A83DF65BA292792B200E7996EF), Revenue Recognition, for further discussion of classification of impacts of the adoption.

*Recent Accounting Pronouncements Not Yet Adopted*

In February 2018, the FASB issued guidance on the reclassification of certain tax effects from accumulated other comprehensive income (“AOCI”). The guidance permits entities to reclassify the stranded tax effects resulting from the Tax Cuts and Jobs Act (the “Tax Act”) from AOCI to retained earnings. The guidance will be effective at the beginning of our first quarter of fiscal 2020 but permits adoption in an earlier period. The guidance may be applied in the period of adoption or retrospectively to each period in which the effect of the change related to the Tax Act was recognized. We do not expect a material impact upon adoption of this guidance.

In February 2016, the FASB issued guidance on the recognition and measurement of leases. Under the new guidance, lessees are required to recognize a lease liability, which represents the discounted obligation to make future minimum lease payments, and a corresponding right-of-use asset on the balance sheet for most leases. The guidance retains the current accounting for lessors and does not make significant changes to the recognition, measurement or presentation of expenses and cash flows by a lessee. Enhanced disclosures will also be required to give financial statement users the ability to assess the amount, timing and uncertainty of cash flows arising from leases. We will be applying the guidance, as permitted by the alternative method issued by the FASB, at the beginning of our first quarter of fiscal 2020, with optional practical expedients. In preparation for the adoption of the guidance, we are in the process of implementing controls and key system changes to enable the preparation of financial information. We expect this adoption will result in a right-of-use asset and lease liability in the range of approximately $8 billion to $10 billion on our condensed consolidated balance sheets but will likely have an insignificant impact on our condensed consolidated statements of earnings.

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| **Note 2:** | ***Revenue Recognition*** |

The following significant revenue recognition accounting policies from our most recent Annual Report on Form 10-K have been restated to reflect the adoption of the new guidance.

Consolidated revenues are presented net of intercompany eliminations for wholly-owned subsidiaries and investees controlled by us and for product sales to and royalty and other fees from licensees accounted for under the equity method. Additionally, consolidated revenues are recognized net of any discounts, returns, allowances and sales incentives, including coupon redemptions and rebates.

*Company-operated Store Revenues*

Company-operated store revenues are recognized when payment is tendered at the point of sale as the performance obligation has been satisfied. Company-operated store revenues are reported excluding sales, use or other transaction taxes that are collected from customers and remitted to taxing authorities.

*Licensed Store Revenues*

Licensed store revenues consist of product and equipment sales, royalties and other fees paid by licensees using the Starbucks brand. Sales of coffee, tea, food and related products are generally recognized upon shipment to licensees, depending on contract terms. Shipping charges billed to licensees are also recognized as revenue, and the related shipping costs are included in cost of sales including occupancy costs on our condensed consolidated statements of earnings.

We consider pre-opening services, including site evaluation and selection, store architectural/design and development and operational training, to be performance obligations that are separate from the license to operate under the Starbucks brand as these pre-opening services provide distinct value to our licensees, including business and industry insight and knowledge that transfers value apart from the license. Revenues associated with these pre-opening services are recognized upon completion of the related performance obligations, generally when a store is opened. Royalty revenues are recognized based upon a percentage of reported sales, and other continuing fees, such as marketing and service fees, are recognized as the performance obligations are met.

*Stored Value Cards*

Stored value cards can be activated through various channels, including at our company-operated and most licensed store locations, online at Starbucks.com or via mobile devices held by our customers, and at certain other third-party websites and locations, such as grocery stores, although they cannot be reloaded at these third-party websites or locations. Amounts loaded onto stored value cards are initially recorded as deferred revenue and recognized as revenue upon redemption. Historically, the majority of stored value cards are redeemed within one year.

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In many of our company-owned markets, including the U.S., our stored value cards do not have an expiration date nor do we charge service fees that cause a decrement to customer balances. Based on historical redemption rates, a portion of stored value cards is not expected to be redeemed and will be recognized as breakage over time in proportion to stored value card redemptions. The redemption rates are based on historical redemption patterns for each market, including the timing and business channel in which the card was activated, and unclaimed property laws, if applicable.

Breakage is recognized as company-operated stores and licensed stores revenue within the condensed consolidated statement of earnings. For the quarter and three quarters ended June 30, 2019, we recognized breakage revenue of $28.9 million and $101.2 million in company-operated store revenues and $3.5 million and $12.8 million in licensed store revenues, respectively. Prior to fiscal 2019, breakage was recorded using the remote method and recorded in interest income and other, net. There were no material impacts to the financial results for the quarter and three quarters ended June 30, 2019, respectively, including the change in income statement presentation.

*Loyalty Program*

Customers in the U.S., Canada, and certain other countries who register their Starbucks Card are automatically enrolled in the Starbucks® Rewards program, which is primarily a spend-based loyalty program. They earn loyalty points (“Stars”) with each purchase at participating Starbucks® stores and when making purchases with the Starbucks-branded credit and debit cards. After accumulating a certain number of Stars, the customer earns a reward that can be redeemed for free product that, regardless of where the related Stars were earned within that country, will be honored at company-operated stores and certain participating licensed store locations in that same country.

We defer revenue associated with the estimated selling price of Stars earned by Starbucks® Rewards members towards free product as each Star is earned and a corresponding liability is established in deferred revenue. This deferral is based on the estimated value of the product for which the reward is expected to be redeemed, net of estimated unredeemed Stars. Stars generally expire after six months.

When a customer redeems an earned reward, we recognize revenue for the redeemed product and reduce the related deferred revenue. The new guidance does not impact the timing or total revenue recognized related to the loyalty program.

*Other Revenues*

Other revenues primarily include royalty revenues, sales of packaged coffee, tea and a variety of ready-to-drink beverages and single-serve coffee and tea products to customers outside of our company-operated and licensed stores. Sales of these products are generally recognized upon shipment to customers, depending on contract terms.

Beginning in late fiscal 2018, other revenues also include product sales to and licensing revenue from Nestlé related to our Global Coffee Alliance. Product sales to Nestlé are generally recognized when the product is shipped whereas royalty revenues are recognized based on a percentage of reported sales.

The timing and amount of revenue recognized related to other revenues were not impacted by the adoption of new guidance.

*Deferred Revenues*

In the fourth quarter of fiscal 2018, we licensed the rights to sell and market our products in authorized channels to Nestlé, establishing the Global Coffee Alliance, and received an upfront prepaid royalty. The upfront payment of approximately $7 billion was recorded as deferred revenue as we have continuing performance obligations to support the Global Coffee Alliance, including providing Nestlé access to certain intellectual properties and products for future resale. The upfront payment will be recognized as other revenue on a straight-line basis over the estimated economic life of the arrangement of 40 years. At June 30, 2019, the current and long-term deferred revenue related to the Nestlé upfront payment was $174.0 million and $6.6 billion, respectively.

Additionally, deferred revenues include our unredeemed stored value card liability and unredeemed Stars associated with our loyalty program. The beginning balances of fiscal 2019 current and long-term deferred revenue related to our stored value card and loyalty program were $906.6 million and $64.0 million, respectively. The balance of current and long-term deferred revenue related to our stored value card and loyalty program was $1.1 billion and $73.4 million, respectively, as of June 30, 2019.

*Disaggregation of Revenues*

Revenues disaggregated by segment, product type and geographic area are disclosed in [Note 15](file:///D:\TMP\finance-docx\STARBUCKS\Starbucks-19.06.30-10-Q.html#s2F216EBFCBF75D58818A67A4790EC411), Segment Reporting.

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| **Note 3:** | ***Acquisitions, Divestitures and Strategic Alliance*** |

***Fiscal 2019***

In the third quarter of fiscal 2019, we sold our company-operated retail business in Thailand to Coffee Concepts Thailand, a joint-venture between Maxim's Caterers Limited and F&N Retail Connection Co. Ltd, converting this operation to a fully licensed market. This transaction resulted in a pre-tax gain of $601.9 million, which was included in net gains resulting from divestiture of certain operations on our condensed consolidated statements of earnings.

In the second quarter of fiscal 2019, we sold our company-operated retail businesses in France and the Netherlands to Alsea, S.A.B. de C.V. converting these operations to fully licensed markets. These transactions did not have a material impact to our condensed consolidated statements of earnings.

***Fiscal 2018***

We entered into an agreement on May 6, 2018 to establish the Global Coffee Alliance with Nestlé. On August 26, 2018, we licensed the rights to market, sell and distribute Starbucks consumer packaged goods and foodservice products in authorized channels to Nestlé. We received an upfront payment of approximately $7 billion consisting primarily of prepaid royalties which was recorded as current and long-term deferred revenue. See [Note 2](file:///D:\TMP\finance-docx\STARBUCKS\Starbucks-19.06.30-10-Q.html#s202A00A83DF65BA292792B200E7996EF), Revenue Recognition, for the accounting treatment.

On March 23, 2018, we sold our company-operated retail business in Brazil to SouthRock converting these operations to a fully licensed market. This transaction did not have a material impact to our condensed consolidated financial statements.

On December 31, 2017, we acquired the remaining 50% interest of our East China joint venture (“East China”) from President Chain Store (Hong Kong) Holding Ltd. and Kai Yu (BVI) collectively, “Uni-President Group” or “UPG”, for approximately $1.4 billion and resulted in a total gain of $1.4 billion that is not subject to income tax, and was presented as gain resulting from acquisition of joint venture on our condensed consolidated statements of earnings in fiscal 2018.

Concurrently, with the purchase of our East China joint venture, we sold our 50% interest in President Starbucks Coffee Taiwan Limited, our joint venture operations in Taiwan, to UPG for approximately $181.2 million. The transaction resulted in a pre-tax gain of $156.6 million which was included in net gains resulting from divestiture of certain operations on our condensed consolidated statements of earnings.

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| **Note 4:** | ***Derivative Instruments*** |

The following significant accounting policies related to derivative instruments included in our most recent Annual Report on Form 10-K have been restated to reflect the adoption of the new guidance.

We manage our exposure to various risks within our consolidated financial statements according to a market price risk management policy. Under this policy, we may engage in transactions involving various derivative instruments to hedge interest rates, commodity prices and foreign currency-denominated revenue streams, inventory purchases, assets and liabilities and investments in certain foreign operations. In order to manage our exposure to these risks, we use various types of derivative instruments including forward contracts, commodity futures contracts, collars and swaps. Forward contracts and commodity futures contracts are agreements to buy or sell a quantity of a currency or commodity at a predetermined future date and at a predetermined rate or price. A collar is a strategy that uses a combination of a purchased call option and a sold put option with equal premiums to hedge a portion of anticipated cash flows, or to limit possible gains or losses on an underlying asset or liability to a specific range. A swap agreement is a contract between two parties to exchange cash flows based on specified underlying notional amounts, assets and/or indices. We do not enter into derivative instruments for speculative purposes.

We record all derivatives on our consolidated balance sheets at fair value and typically do not offset derivative assets and liabilities. Excluding interest rate swaps and foreign currency debt, we generally do not enter into derivative instruments with maturities longer than three years. However, we are allowed to net settle transactions with respective counterparties for certain derivative contracts, inclusive of interest rate swaps and foreign currency forwards, with a single, net amount payable by one party to the other. We also enter into collateral security arrangements that provide for collateral to be received or posted when the net fair value of certain financial instruments fluctuates from contractually established thresholds. As of June 30, 2019 and September 30, 2018, we received $5.5 million and $5.4 million, respectively, of cash collateral related to the derivative instruments under collateral security arrangements. As of June 30, 2019 and September 30, 2018, the potential effects of netting arrangements with our derivative contracts, excluding the effects of collateral, would be a reduction to both derivative assets and liabilities of $4.5 million and $5.5 million, respectively, resulting in net derivative assets of $19.4 million and net derivative liabilities of $21.0 million as of June 30, 2019, and net derivative assets of $29.4 million and net derivative liabilities of $44.5 million as of September 30, 2018.

By using these derivative instruments, we expose ourselves to potential credit risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. We minimize this credit risk by entering into transactions with carefully

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selected, credit-worthy counterparties and distribute contracts among several financial institutions to reduce the concentration of credit risk.

*Cash Flow Hedges*

For derivative instruments that are designated and qualify as a cash flow hedge, the derivative's gain or loss is reported as a component of other comprehensive income (“OCI”) and recorded in accumulated other comprehensive income (“AOCI”) on our consolidated balance sheets. The gain or loss is subsequently reclassified into net earnings when the hedged exposure affects net earnings, in the same line item as the underlying hedged item on our consolidated statements of earnings.

Cash flow hedges related to anticipated transactions are designated and documented at the inception of each hedge by matching the terms of the contract to the underlying transaction. Cash flows from hedging transactions are classified in the same categories as the cash flows from the respective hedged items. For de-designated cash flow hedges in which the transactions are no longer likely to occur, the related accumulated derivative gains or losses are recognized in interest income and other, net or interest expense on our consolidated statements of earnings based on the nature of the underlying transaction.

*Net Investment Hedges*

For derivative instruments that are designated and qualify as a net investment hedge, the derivative's, or qualifying non-derivative instrument’s, gain or loss is reported as a component of OCI and recorded in AOCI. The gain or loss will be subsequently reclassified into net earnings when the hedged net investment is either sold or substantially liquidated.

*Fair Value Hedges*

For derivative instruments that are designated and qualify as a fair value hedge, the changes in fair value of the derivative instrument and the offsetting changes in fair value of the underlying hedged item due to changes in the hedged risk are recorded in interest income and other, net or interest expense on our consolidated statements of earnings.

*Derivatives Not Designated As Hedging Instruments*

We also enter into certain foreign currency forward contracts, commodity futures contracts, collars and swaps that are not designated as hedging instruments for accounting purposes. The changes in the fair values of these contracts are immediately recognized in interest income and other, net on our consolidated statements of earnings.

*Normal Purchase Normal Sale*

We enter into fixed-price and price-to-be-fixed green coffee purchase commitments, which are described further in [Note 6](file:///D:\TMP\finance-docx\STARBUCKS\Starbucks-19.06.30-10-Q.html#sE23BA70C9ED5509AABF7E34287AC2954), Inventories. For both fixed-price and price-to-be-fixed purchase commitments, we expect to take delivery of green coffee and to utilize the coffee in a reasonable period of time in the ordinary course of business. Since these types of purchase commitments qualify for the normal purchase normal sale exemption, they are not recorded as derivative instruments on our consolidated balance sheets.

*Interest Rates*

From time to time, we enter into designated cash flow hedges to manage the variability in cash flows due to changes in benchmark interest rates. We enter into interest rate swap agreements and treasury locks, which are synthetic forward sales of U.S. treasury securities settled in cash based upon the difference between an agreed upon treasury rate and the prevailing treasury rate at settlement. These agreements are cash settled at the time of the pricing of the related debt. Each derivative agreement's gain or loss is recorded in AOCI and is subsequently reclassified to interest expense over the life of the related debt.

To hedge the exposure to changes in the fair value of our fixed-rate debt, we enter into interest rate swap agreements, which are designated as fair value hedges. The changes in fair values of these derivative instruments and the offsetting changes in fair values of the underlying hedged debt due to changes in the relevant benchmark interest rates are recorded in interest expense. Refer to [Note 9](file:///D:\TMP\finance-docx\STARBUCKS\Starbucks-19.06.30-10-Q.html#s4F833487CC135D9EBEC2DE7104C56FB8), Debt, for additional information on our long-term debt.

*Foreign Currency*

To reduce cash flow volatility from foreign currency fluctuations, we enter into forward and swap contracts to hedge portions of cash flows of anticipated intercompany royalty payments, inventory purchases, and intercompany borrowing and lending activities. The resulting gains and losses from these derivatives are recorded in AOCI and subsequently reclassified to revenue, cost of sales including occupancy costs, or interest income and other, net, respectively, when the hedged exposures affect net earnings.

From time to time, we enter into forward contracts or use foreign currency-denominated debt to hedge the currency exposure of our net investments in certain international operations. The resulting gains and losses from these derivatives are recorded in

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AOCI and are subsequently reclassified to net earnings when the hedged net investment is either sold or substantially liquidated.

Foreign currency forward and swap contracts not designated as hedging instruments are used to mitigate the foreign exchange risk of certain other balance sheet items. Gains and losses from these derivatives are largely offset by the financial impact of translating foreign currency-denominated payables and receivables; these gains and losses are recorded in interest income and other, net.

*Commodities*

Depending on market conditions, we may enter into coffee forward contracts, futures contracts, and collars to hedge a portion of anticipated cash flows under our price-to-be-fixed green coffee contracts, which are described further in [Note 6](file:///D:\TMP\finance-docx\STARBUCKS\Starbucks-19.06.30-10-Q.html#sE23BA70C9ED5509AABF7E34287AC2954), Inventories. The resulting gains and losses are recorded in AOCI and are subsequently reclassified to cost of sales including occupancy costs when the hedged exposure affects net earnings.

To mitigate the price uncertainty of a portion of our future purchases, primarily of dairy products, diesel fuel and other commodities, we enter into swap contracts, futures and collars that are not designated as hedging instruments. The resulting gains and losses are recorded in interest income and other, net to help offset price fluctuations on our beverage, food, packaging and transportation costs, which are included in cost of sales including occupancy costs on our consolidated statements of earnings.

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
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|  | **Net Gains/(Losses)**  **Included in AOCI** | | | | | | |  | **Net Gains/(Losses) Expected to be Reclassified from AOCI into Earnings within 12 Months** | | |  | **Outstanding Contract/Debt Remaining Maturity**  **(Months)** |
|  | **Jun 30, 2019** | | |  | **Sep 30, 2018** | | |  |  |
| Cash Flow Hedges: |  | | |  |  | | |  |  | | |  |  |
| Interest rates | $ | 3.0 |  |  | $ | 24.7 |  |  | $ | 2.4 |  |  | 0 |
| Cross-currency swaps | (3.1 | | ) |  | (12.6 | | ) |  | — | |  |  | 65 |
| Foreign currency - other | 6.2 | |  |  | 5.8 | |  |  | 3.6 | |  |  | 36 |
| Coffee | — | |  |  | (0.2 | | ) |  | — | |  |  | 30 |
| Net Investment Hedges: |  | | |  |  | | |  |  | | |  |  |
| Foreign currency | 16.0 | |  |  | 16.0 | |  |  | — | |  |  | 0 |
| Foreign currency debt | (26.3 | | ) |  | 3.6 | |  |  | — | |  |  | 57 |

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Pretax gains and losses on derivative contracts and foreign currency-denominated long-term debt designated as hedging instruments recognized in OCI and reclassifications from AOCI to earnings (*in millions*):

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
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|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  | **Quarter Ended** | | | | | | | | | | | | | | |
|  | **Location of gain/(loss)** |  | **Gains/(Losses)**  **Recognized in**  **OCI Before Reclassifications** | | | | | | |  | **Gains/(Losses) Reclassified from**  **AOCI to Earnings** | | | | | | |
|  |  | **Jun 30, 2019** | | |  | **Jul 1, 2018** | | |  | **Jun 30, 2019** | | |  | **Jul 1, 2018** | | |
| Cash Flow Hedges: |  |  |  | | |  |  | | |  |  | | |  |  | | |
| Interest rates | Interest expense |  | $ | 5.3 |  |  | $ | 4.7 |  |  | $ | 1.1 |  |  | $ | 1.2 |  |
| Cross-currency swaps | Interest expense |  | (5.8 | | ) |  | 19.7 | |  |  | 0.1 | |  |  | 0.1 | |  |
| Interest income and other, net |  |  |  | (9.9 | | ) |  | 18.4 | |  |
| Foreign currency - other | Licensed stores revenues |  | (2.7 | | ) |  | 21.7 | |  |  | 2.2 | |  |  | 0.5 | |  |
| Cost of sales including occupancy costs |  |  |  | 1.4 | |  |  | (1.3 | | ) |
| Coffee | Cost of sales including occupancy costs |  | — | |  |  | (0.1 | | ) |  | — | |  |  | (0.5 | | ) |
| Net Investment Hedges: |  |  |  | | |  |  | | |  |  | | |  |  | | |
| Foreign currency debt |  |  | (21.1 | | ) |  | 32.4 | |  |  | — | |  |  | — | |  |
|  |  |  |  | | |  |  | | |  |  | | |  |  | | |
|  |  |  | **Three Quarters Ended** | | | | | | | | | | | | | | |
|  | **Location of gain/(loss)** |  | **Gains/(Losses)**  **Recognized in OCI Before Reclassifications** | | | | | | |  | **Gains/(Losses) Reclassified from**  **AOCI to Earnings** | | | | | | |
|  |  | **Jun 30, 2019** | | |  | **Jul 1, 2018** | | |  | **Jun 30, 2019** | | |  | **Jul 1, 2018** | | |
| Cash Flow Hedges: |  |  |  | | |  |  | | |  |  | | |  |  | | |
| Interest rates | Interest expense |  | $ | (25.3 | ) |  | $ | 1.5 |  |  | $ | 3.9 |  |  | $ | 3.6 |  |
| Cross-currency swaps | Interest expense |  | (8.4 | | ) |  | (16.4 | | ) |  | (0.5 | | ) |  | 0.5 | |  |
| Interest income and other, net |  |  |  | (19.7 | | ) |  | (8.6 | | ) |
| Foreign currency - other | Licensed stores revenues |  | 9.0 | |  |  | 15.6 | |  |  | 4.9 | |  |  | (1.2 | | ) |
| Cost of sales including occupancy costs |  |  |  | 3.6 | |  |  | (4.5 | | ) |
| Coffee | Cost of sales including occupancy costs |  | — | |  |  | (0.1 | | ) |  | (0.3 | | ) |  | (7.3 | | ) |
| Net Investment Hedges: |  |  |  | | |  |  | | |  |  | | |  |  | | |
| Foreign currency |  |  | — | |  |  | (0.1 | | ) |  | — | |  |  | — | |  |
| Foreign currency debt |  |  | (40.1 | | ) |  | (11.7 | | ) |  | — | |  |  | — | |  |

Pretax gains and losses on non-designated derivatives and designated fair value hedging instruments and the related hedged item recognized in earnings (*in millions*):

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  | **Gains/(Losses) Recognized in Earnings** | | | | | | | | | | | | | | |
|  | **Location of gain/(loss) recognized in earnings** |  | **Quarter Ended** | | | | | | |  | **Three Quarters Ended** | | | | | | |
|  |  | **Jun 30, 2019** | | |  | **Jul 1, 2018** | | |  | **Jun 30, 2019** | | |  | **Jul 1, 2018** | | |
| Non-Designated Derivatives: |  |  |  | | |  |  | | |  |  | | |  |  | | |
| Foreign currency - other | Interest income and other, net |  | $ | (2.3 | ) |  | $ | (1.3 | ) |  | $ | (9.7 | ) |  | $ | (2.4 | ) |
| Dairy | Interest income and other, net |  | 0.3 | |  |  | 0.1 | |  |  | (1.9 | | ) |  | (1.9 | | ) |
| Diesel fuel and other commodities | Interest income and other, net |  | (0.8 | | ) |  | 2.0 | |  |  | (5.5 | | ) |  | 2.9 | |  |
| Fair Value Hedges: |  |  |  | | |  |  | | |  |  | | |  |  | | |
| Interest rate swap | Interest expense |  | 15.0 | |  |  | (5.1 | | ) |  | 41.2 | |  |  | (28.5 | | ) |
| Long-term debt (hedged item) | Interest expense |  | (16.3 | | ) |  | 5.1 | |  |  | (44.8 | | ) |  | 28.5 | |  |

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Notional amounts of outstanding derivative contracts *(in millions)*:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **Jun 30, 2019** | | |  | **Sep 30, 2018** | | |
| Interest rate swap | $ | 750 |  |  | $ | 750 |  |
| Cross-currency swaps | 357 | |  |  | 434 | |  |
| Foreign currency - other | 1,162 | |  |  | 914 | |  |
| Coffee | 2 | |  |  | — | |  |
| Dairy | 5 | |  |  | 16 | |  |
| Diesel fuel and other commodities | 24 | |  |  | 21 | |  |

Fair value of outstanding derivative contracts (*in millions*) including the location of the asset and/or liability on the condensed consolidated balance sheets:

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |
|  |  |  | **Derivative Assets** | | | | | | |
|  | **Balance Sheet Location** |  | **Jun 30, 2019** | | |  | **Sep 30, 2018** | | |
| Designated Derivative Instruments: |  |  |  | | |  |  | | |
| Cross-currency swaps | Other long-term assets |  | $ | — |  |  | $ | 5.8 |  |
| Foreign currency - other | Prepaid expenses and other current assets |  | 7.3 | |  |  | 9.0 | |  |
| Other long-term assets |  | 5.7 | |  |  | 4.6 | |  |
| Interest rate swap | Other long-term assets |  | 4.6 | |  |  | — | |  |
| Non-designated Derivative Instruments: |  |  |  | | |  |  | | |
| Foreign currency | Prepaid expenses and other current assets |  | 5.8 | |  |  | 13.7 | |  |
| Dairy | Prepaid expenses and other current assets |  | 0.1 | |  |  | 0.2 | |  |
| Diesel fuel and other commodities | Prepaid expenses and other current assets |  | 0.3 | |  |  | 1.6 | |  |
|  |  |  |  | | |  |  | | |
|  |  |  | **Derivative Liabilities** | | | | | | |
|  | **Balance Sheet Location** |  | **Jun 30, 2019** | | |  | **Sep 30, 2018** | | |
| Designated Derivative Instruments: |  |  |  | | |  |  | | |
| Cross-currency swaps | Other long-term liabilities |  | $ | 11.9 |  |  | $ | 9.3 |  |
| Foreign currency - other | Accrued liabilities |  | 2.7 | |  |  | 3.6 | |  |
| Other long-term liabilities |  | 1.7 | |  |  | 1.7 | |  |
| Interest rate swap | Other long-term liabilities |  | — | |  |  | 32.5 | |  |
| Non-designated Derivative Instruments: |  |  |  | | |  |  | | |
| Foreign currency | Accrued liabilities |  | 6.2 | |  |  | 2.5 | |  |
| Other long-term liabilities |  | 0.6 | |  |  | — | |  |
| Dairy | Accrued liabilities |  | — | |  |  | 0.1 | |  |
| Diesel fuel and other commodities | Accrued liabilities |  | 2.4 | |  |  | 0.3 | |  |

The following amounts were recorded on the condensed consolidated balance sheets related to fixed-to-floating interest rate swaps designated in fair value hedging relationships:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Carrying amount of hedged assets (liabilities)** | | | | | | |  | **Cumulative amount of fair value hedging adjustment included in the carrying amount** | | | | | | |
|  | **Jun 30, 2019** | | |  | **Sep 30, 2018** | | |  | **Jun 30, 2019** | | |  | **Sep 30, 2018** | | |
| Location on the balance sheet |  | | |  |  | | |  |  | | |  |  | | |
| Long-term debt | $ | 755.8 |  |  | $ | 711.0 |  |  | $ | 5.8 |  |  | $ | (39.0 | ) |

Additional disclosures related to cash flow gains and losses included in AOCI, as well as subsequent reclassifications to earnings, are included in [Note 10](file:///D:\TMP\finance-docx\STARBUCKS\Starbucks-19.06.30-10-Q.html#sF25F44B79F375B908932AA99490F87C7), Equity.

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|  |  |
| --- | --- |
|  |  |
| **Note 5:** | ***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 June 30, 2019** | | |  | **Quoted Prices**  **in Active**  **Markets for**  **Identical Assets**  **(Level 1)** | | |  | **Significant**  **Other Observable**  **Inputs**  **(Level 2)** | | |  | **Significant**  **Unobservable  Inputs**  **(Level 3)** | | |
| **Assets:** |  | | |  |  | | |  |  | | |  |  | | |
| Cash and cash equivalents | $ | 4,763.3 |  |  | $ | 4,763.3 |  |  | $ | — |  |  | $ | — |  |
| Short-term investments: |  | | |  |  | | |  |  | | |  |  | | |
| Available-for-sale debt securities |  | | |  |  | | |  |  | | |  |  | | |
| Commercial paper | 0.2 | |  |  | — | |  |  | 0.2 | |  |  | — | |  |
| Corporate debt securities | 4.9 | |  |  | — | |  |  | 4.9 | |  |  | — | |  |
| Mortgage and other asset-backed securities | 0.2 | |  |  | — | |  |  | 0.2 | |  |  | — | |  |
| Total available-for-sale debt securities | 5.3 | |  |  | — | |  |  | 5.3 | |  |  | — | |  |
| Marketable equity securities | 66.8 | |  |  | 66.8 | |  |  | — | |  |  | — | |  |
| Total short-term investments | 72.1 | |  |  | 66.8 | |  |  | 5.3 | |  |  | — | |  |
| Prepaid expenses and other current assets: |  | | |  |  | | |  |  | | |  |  | | |
| Derivative assets | 13.5 | |  |  | 0.1 | |  |  | 13.4 | |  |  | — | |  |
| Long-term investments: |  | | |  |  | | |  |  | | |  |  | | |
| Available-for-sale debt securities |  | | |  |  | | |  |  | | |  |  | | |
| Corporate debt securities | 101.6 | |  |  | — | |  |  | 101.6 | |  |  | — | |  |
| Auction rate securities | 5.7 | |  |  | — | |  |  | — | |  |  | 5.7 | |  |
| U.S. government treasury securities | 106.2 | |  |  | 106.2 | |  |  | — | |  |  | — | |  |
| State and local government obligations | 5.0 | |  |  | — | |  |  | 5.0 | |  |  | — | |  |
| Mortgage and other asset-backed securities | 4.1 | |  |  | — | |  |  | 4.1 | |  |  | — | |  |
| Total long-term investments | 222.6 | |  |  | 106.2 | |  |  | 110.7 | |  |  | 5.7 | |  |
| Other long-term assets: |  | | |  |  | | |  |  | | |  |  | | |
| Derivative assets | 10.3 | |  |  | — | |  |  | 10.3 | |  |  | — | |  |
| Total assets | $ | 5,081.8 |  |  | $ | 4,936.4 |  |  | $ | 139.7 |  |  | $ | 5.7 |  |
| **Liabilities:** |  | | |  |  | | |  |  | | |  |  | | |
| Accrued liabilities: |  | | |  |  | | |  |  | | |  |  | | |
| Derivative liabilities | $ | 11.3 |  |  | $ | 0.6 |  |  | $ | 10.7 |  |  | $ | — |  |
| Other long-term liabilities: |  | | |  |  | | |  |  | | |  |  | | |
| Derivative liabilities | 14.2 | |  |  | — | |  |  | 14.2 | |  |  | — | |  |
| Total liabilities | $ | 25.5 |  |  | $ | 0.6 |  |  | $ | 24.9 |  |  | $ | — |  |

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|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | | |  | **Fair Value Measurements at Reporting Date Using** | | | | | | | | | | |
|  | **Balance at September 30, 2018** | | |  | **Quoted Prices**  **in Active**  **Markets for**  **Identical Assets**  **(Level 1)** | | |  | **Significant**  **Other Observable**  **Inputs**  **(Level 2)** | | |  | **Significant**  **Unobservable  Inputs**  **(Level 3)** | | |
| **Assets:** |  | | |  |  | | |  |  | | |  |  | | |
| Cash and cash equivalents | $ | 8,756.3 |  |  | $ | 8,756.3 |  |  | $ | — |  |  | $ | — |  |
| Short-term investments: |  | | |  |  | | |  |  | | |  |  | | |
| Available-for-sale debt securities |  | | |  |  | | |  |  | | |  |  | | |
| Commercial paper | 8.4 | |  |  | — | |  |  | 8.4 | |  |  | — | |  |
| Corporate debt securities | 91.8 | |  |  | — | |  |  | 91.8 | |  |  | — | |  |
| Mortgage and other asset-backed securities | 6.0 | |  |  | — | |  |  | 6.0 | |  |  | — | |  |
| Total available-for-sale debt securities | 106.2 | |  |  | — | |  |  | 106.2 | |  |  | — | |  |
| Marketable equity securities | 75.3 | |  |  | 75.3 | |  |  | — | |  |  | — | |  |
| Total short-term investments | 181.5 | |  |  | 75.3 | |  |  | 106.2 | |  |  | — | |  |
| Prepaid expenses and other current assets: |  | | |  |  | | |  |  | | |  |  | | |
| Derivative assets | 24.5 | |  |  | 1.2 | |  |  | 23.3 | |  |  | — | |  |
| Long-term investments: |  | | |  |  | | |  |  | | |  |  | | |
| Available-for-sale debt securities |  | | |  |  | | |  |  | | |  |  | | |
| Agency obligations | 5.9 | |  |  | — | |  |  | 5.9 | |  |  | — | |  |
| Corporate debt securities | 114.5 | |  |  | — | |  |  | 114.5 | |  |  | — | |  |
| Auction rate securities | 5.9 | |  |  | — | |  |  | — | |  |  | 5.9 | |  |
| Foreign government obligations | 3.6 | |  |  | — | |  |  | 3.6 | |  |  | — | |  |
| U.S. government treasury securities | 108.1 | |  |  | 108.1 | |  |  | — | |  |  | — | |  |
| State and local government obligations | 4.8 | |  |  | — | |  |  | 4.8 | |  |  | — | |  |
| Mortgage and other asset-backed securities | 24.9 | |  |  | — | |  |  | 24.9 | |  |  | — | |  |
| Total long-term investments | 267.7 | |  |  | 108.1 | |  |  | 153.7 | |  |  | 5.9 | |  |
| Other long-term assets: |  | | |  |  | | |  |  | | |  |  | | |
| Derivative assets | 10.4 | |  |  | — | |  |  | 10.4 | |  |  | — | |  |
| Total assets | $ | 9,240.4 |  |  | $ | 8,940.9 |  |  | $ | 293.6 |  |  | $ | 5.9 |  |
| **Liabilities:** |  | | |  |  | | |  |  | | |  |  | | |
| Accrued liabilities: |  | | |  |  | | |  |  | | |  |  | | |
| Derivative liabilities | $ | 6.5 |  |  | $ | 0.4 |  |  | $ | 6.1 |  |  | $ | — |  |
| Other long-term liabilities: |  | | |  |  | | |  |  | | |  |  | | |
| Derivative liabilities | 43.5 | |  |  | — | |  |  | 43.5 | |  |  | — | |  |
| Total liabilities | $ | 50.0 |  |  | $ | 0.4 |  |  | $ | 49.6 |  |  | $ | — |  |

There were no material transfers between levels, and there was no significant activity within Level 3 instruments during the periods presented. The fair values of any financial instruments presented above exclude the impact of netting assets and liabilities when a legally enforceable master netting agreement exists.

Gross unrealized holding gains and losses on available-for-sale debt securities and marketable equity securities were not material as of June 30, 2019 and September 30, 2018.

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

Assets and liabilities recognized or disclosed at fair value on the condensed consolidated financial statements on a nonrecurring basis include items such as property, plant and equipment, goodwill and other intangible assets and other assets. These assets are measured at fair value if determined to be impaired.

The estimated fair value of our long-term debt based on the quoted market price (Level 2) is included at [Note 9](file:///D:\TMP\finance-docx\STARBUCKS\Starbucks-19.06.30-10-Q.html#s4F833487CC135D9EBEC2DE7104C56FB8), Debt. There were no material fair value adjustments during the quarter and three quarters ended June 30, 2019 and July 1, 2018.

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|  |  |
| --- | --- |
|  |  |
| **Note 6:** | ***Inventories****(in millions)*: |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **Jun 30, 2019** | | |  | **Sep 30, 2018** | | |
| Coffee: |  | | |  |  | | |
| Unroasted | $ | 696.8 |  |  | $ | 588.6 |  |
| Roasted | 276.4 | |  |  | 281.2 | |  |
| Other merchandise held for sale | 252.2 | |  |  | 273.1 | |  |
| Packaging and other supplies | 291.8 | |  |  | 257.6 | |  |
| Total | $ | 1,517.2 |  |  | $ | 1,400.5 |  |

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

As of June 30, 2019, we had committed to purchasing green coffee totaling $925.7 million under fixed-price contracts and an estimated $248.8 million under price-to-be-fixed contracts. As of June 30, 2019, $1.9 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, and therefore the price, at which the base “C” coffee commodity price component will be fixed has not yet been established. For most contracts, either Starbucks or the seller has the option to “fix” the base “C” coffee commodity price prior to the delivery date. For other contracts, Starbucks and the seller may agree upon pricing parameters determined by the base “C” coffee commodity price. Until prices are fixed, we estimate the total cost of these purchase commitments. We believe, based on relationships established with our suppliers in the past, the risk of non-delivery on these purchase commitments is remote.

|  |  |
| --- | --- |
|  |  |
| **Note 7:** | ***Supplemental Balance Sheet Information****(in millions)*: |

**Prepaid Expenses and Other Current Assets**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **Jun 30, 2019** | | |  | **Sep 30, 2018** | | |
| Income tax receivable | $ | 107.5 |  |  | $ | 955.4 |  |
| Other prepaid expenses and current assets | 484.1 | |  |  | 507.4 | |  |
| Total prepaid expenses and current assets | $ | 591.6 |  |  | $ | 1,462.8 |  |

**Property, Plant and Equipment, net**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **Jun 30, 2019** | | |  | **Sep 30, 2018** | | |
| Land | $ | 46.8 |  |  | $ | 46.8 |  |
| Buildings | 679.6 | |  |  | 557.3 | |  |
| Leasehold improvements | 7,702.6 | |  |  | 7,372.8 | |  |
| Store equipment | 2,533.9 | |  |  | 2,400.2 | |  |
| Roasting equipment | 763.0 | |  |  | 658.8 | |  |
| Furniture, fixtures and other | 1,786.5 | |  |  | 1,659.3 | |  |
| Work in progress | 342.6 | |  |  | 501.9 | |  |
| Property, plant and equipment, gross | 13,855.0 | |  |  | 13,197.1 | |  |
| Accumulated depreciation | (7,667.2 | | ) |  | (7,268.0 | | ) |
| Property, plant and equipment, net | $ | 6,187.8 |  |  | $ | 5,929.1 |  |

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**Accrued Liabilities**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **Jun 30, 2019** | | |  | **Sep 30, 2018** | | |
| Accrued compensation and related costs | $ | 636.9 |  |  | $ | 656.8 |  |
| Accrued occupancy costs | 189.1 | |  |  | 164.2 | |  |
| Accrued income and other taxes | 1,265.1 | |  |  | 286.6 | |  |
| Accrued dividends payable | 434.3 | |  |  | 445.4 | |  |
| Accrued capital and other operating expenditures | 713.3 | |  |  | 745.4 | |  |
| Total accrued liabilities | $ | 3,238.7 |  |  | $ | 2,298.4 |  |

**Note 8: *Other Intangible Assets and Goodwill***

***Indefinite-lived intangible assets***

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
| *(in millions)* | **Jun 30, 2019** | | |  | **Sep 30, 2018** | | |
| Trade names, trademarks and patents | $ | 202.8 |  |  | $ | 215.9 |  |
| Other indefinite-lived intangible assets | — | |  |  | 15.1 | |  |
| Total indefinite-lived intangible assets | $ | 202.8 |  |  | $ | 231.0 |  |

***Finite-lived intangible assets***

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Jun 30, 2019** | | | | | | | | | | |  | **Sep 30, 2018** | | | | | | | | | | |
| *(in millions)* | **Gross Carrying Amount** | | |  | **Accumulated Amortization** | | |  | **Net Carrying Amount** | | |  | **Gross Carrying Amount** | | |  | **Accumulated Amortization** | | |  | **Net Carrying Amount** | | |
| Acquired and reacquired rights | $ | 1,102.7 |  |  | $ | (496.1 | ) |  | $ | 606.6 |  |  | $ | 1,081.7 |  |  | $ | (320.1 | ) |  | $ | 761.6 |  |
| Acquired trade secrets and processes | 27.6 | |  |  | (18.5 | | ) |  | 9.1 | |  |  | 27.6 | |  |  | (16.5 | | ) |  | 11.1 | |  |
| Trade names, trademarks and patents | 40.1 | |  |  | (22.0 | | ) |  | 18.1 | |  |  | 33.0 | |  |  | (19.5 | | ) |  | 13.5 | |  |
| Licensing agreements | 16.2 | |  |  | (11.6 | | ) |  | 4.6 | |  |  | 14.3 | |  |  | (5.1 | | ) |  | 9.2 | |  |
| Other finite-lived intangible assets | 22.7 | |  |  | (10.7 | | ) |  | 12.0 | |  |  | 25.6 | |  |  | (9.8 | | ) |  | 15.8 | |  |
| Total finite-lived intangible assets | $ | 1,209.3 |  |  | $ | (558.9 | ) |  | $ | 650.4 |  |  | $ | 1,182.2 |  |  | $ | (371.0 | ) |  | $ | 811.2 |  |

Amortization expense for finite-lived intangible assets was $55.2 million and $178.4 million for the quarter and three quarters ended June 30, 2019 and $58.6 million and $131.4 million for the quarter and three quarters ended July 1, 2018, respectively.

Estimated future amortization expense as of June 30, 2019 (*in millions*):

|  |  |  |  |
| --- | --- | --- | --- |
|  | | | |
|  |  |  |  |
| **Fiscal Year Ending** |  | | |
| 2019 (excluding the three quarters ended June 30, 2019) | $ | 55.1 |  |
| 2020 | 220.4 | |  |
| 2021 | 199.6 | |  |
| 2022 | 166.5 | |  |
| 2023 | 2.6 | |  |
| Thereafter | 6.2 | |  |
| Total estimated future amortization expense | $ | 650.4 |  |

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***Goodwill***

Changes in the carrying amount of goodwill by reportable operating segment *(in millions)*:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Americas** | | |  | **China/Asia Pacific** | | |  | **EMEA** | | |  | **Channel Development** | | |  | **Corporate and Other** | | |  | **Total** | | |
| Goodwill balance at September 30, 2018 | $ | 497.4 |  |  | $ | 2,986.6 |  |  | $ | 11.3 |  |  | $ | 34.7 |  |  | $ | 11.6 |  |  | $ | 3,541.6 |  |
| Acquisition/(divestiture) | — | |  |  | (5.5 | | ) |  | — | |  |  | — | |  |  | — | |  |  | (5.5 | | ) |
| Impairment | — | |  |  | — | |  |  | — | |  |  | — | |  |  | (10.5 | | ) |  | (10.5 | | ) |
| Other | (0.4 | | ) |  | 39.6 | |  |  | — | |  |  | — | |  |  | (0.1 | | ) |  | 39.1 | |  |
| Goodwill balance at June 30, 2019 | $ | 497.0 |  |  | $ | 3,020.7 |  |  | $ | 11.3 |  |  | $ | 34.7 |  |  | $ | 1.0 |  |  | $ | 3,564.7 |  |

“Other” primarily consists of changes in the goodwill balance resulting from foreign currency translation.

|  |  |
| --- | --- |
|  |  |
| **Note 9:** | ***Debt*** |

*Short-term Debt*

Under our commercial paper program, we may issue unsecured commercial paper notes up to a maximum aggregate amount outstanding at any time of $3 billion, with individual maturities that may vary but not exceed 397 days from the date of issue. Amounts outstanding under the commercial paper program are required to be backstopped by available commitments under our credit facility. The proceeds from borrowings under our commercial paper program may be used for working capital needs, capital expenditures and other corporate purposes, including, but not limited to, business expansion, payment of cash dividends on our common stock and share repurchases. As of June 30, 2019, we had no borrowings outstanding under the program.

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*Long-term Debt*

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | | |
|  | |  |  |  | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | **Jun 30, 2019** | | | | | | |  | **Sep 30, 2018** | | | | | |  | **Stated Interest Rate** | | **Effective Interest Rate (1)** | |
| **Issuance** | | **Amount** | | | | **Estimated Fair Value** | | |  | **Amount** | | | **Estimated Fair Value** | | |  |
| 2018 notes | | $ | — |  | | $ | — |  |  | $ | 350.0 |  | $ | 350 |  |  | 2.000 | % | 2.012 | % |
| 2020 notes | | 500.0 | |  | | 499 | |  |  | 500.0 | |  | 490 | |  |  | 2.200 | % | 2.228 | % |
| 2021 notes | | 500.0 | |  | | 499 | |  |  | 500.0 | |  | 489 | |  |  | 2.100 | % | 2.293 | % |
| 2021 notes | | 250.0 | |  | | 249 | |  |  | 250.0 | |  | 244 | |  |  | 2.100 | % | 1.600 | % |
| 2022 notes | | 500.0 | |  | | 506 | |  |  | 500.0 | |  | 486 | |  |  | 2.700 | % | 2.819 | % |
| 2023 notes (2) | | 750.0 | |  | | 789 | |  |  | 750.0 | |  | 759 | |  |  | 3.850 | % | 2.859 | % |
| 2023 notes | | 1,000.0 | |  | | 1,024 | |  |  | 1,000.0 | |  | 986 | |  |  | 3.100 | % | 3.107 | % |
| 2024 notes (3) | | 788.5 | |  | | 791 | |  |  | 748.4 | |  | 743 | |  |  | 0.372 | % | 0.462 | % |
| 2025 notes | | 1,250.0 | |  | | 1,334 | |  |  | 1,250.0 | |  | 1,249 | |  |  | 3.800 | % | 3.721 | % |
| 2026 notes | | 500.0 | |  | | 494 | |  |  | 500.0 | |  | 451 | |  |  | 2.450 | % | 2.511 | % |
| 2028 notes | | 600.0 | |  | | 630 | |  |  | 600.0 | |  | 576 | |  |  | 3.500 | % | 3.529 | % |
| 2028 notes | | 750.0 | |  | | 815 | |  |  | 750.0 | |  | 754 | |  |  | 4.000 | % | 3.958 | % |
| 2029 notes (4) | | 1,000.0 | |  | | 1,048 | |  |  | — | |  | — | |  |  | 3.550 | % | 3.871 | % |
| 2045 notes | | 350.0 | |  | | 368 | |  |  | 350.0 | |  | 330 | |  |  | 4.300 | % | 4.348 | % |
| 2047 notes | | 500.0 | |  | | 489 | |  |  | 500.0 | |  | 438 | |  |  | 3.750 | % | 3.765 | % |
| 2048 notes | | 1,000.0 | |  | | 1,089 | |  |  | 1,000.0 | |  | 977 | |  |  | 4.500 | % | 4.504 | % |
| 2049 notes (4) | | 1,000.0 | |  | | 1,101 | |  |  | — | |  | — | |  |  | 4.450 | % | 4.433 | % |
| Total | | 11,238.5 | |  | | 11,725 | |  |  | 9,548.4 | |  | 9,322 | |  |  |  | |  | |
| Aggregate debt issuance costs and unamortized premium/(discount), net | | (85.2 | | ) | |  | | |  | (69.3 | | ) |  | | |  |  | |  | |
| Hedge accounting fair value adjustment (2) | | 5.8 | |  | |  | | |  | (39.0 | | ) |  | | |  |  | |  | |
| Total | | $ | 11,159.1 |  | |  | | |  | $ | 9,440.1 |  |  | | |  |  | |  | |
|  |  | | | |
| (1) | Includes the effects of the amortization of any premium or discount and any gain or loss upon settlement of related treasury locks or forward-starting interest rate swaps utilized to hedge the interest rate risk prior to the debt issuance. | | | |

|  |  |
| --- | --- |
|  |  |
| (2) | Amount represents the change in fair value due to changes in benchmark interest rates related to our 2023 notes. Refer to [Note 4](file:///D:\TMP\finance-docx\STARBUCKS\Starbucks-19.06.30-10-Q.html#sC0C04FFD244E5007A311C462782814D4), Derivative Instruments, for additional information on our interest rate swap designated as a fair value hedge. |

|  |  |
| --- | --- |
|  |  |
| (3) | Japanese yen-denominated long-term debt. |

|  |  |
| --- | --- |
|  |  |
| (4) | Issued in May 2019. |

The indentures under which the above notes were issued require us to maintain compliance with certain covenants, including limits on future liens and sale and leaseback transactions on certain material properties. As of June 30, 2019, we were in compliance with all applicable covenants.

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The following table summarizes our long-term debt maturities as of June 30, 2019 by fiscal year (*in millions*):

|  |  |  |  |
| --- | --- | --- | --- |
|  | | | |
|  |  |  |  |
| **Fiscal Year** | **Total** | | |
| 2020 | $ | — |  |
| 2021 | 1,250.0 | |  |
| 2022 | 500.0 | |  |
| 2023 | 1,000.0 | |  |
| 2024 | 1,538.5 | |  |
| Thereafter | 6,950.0 | |  |
| Total | $ | 11,238.5 |  |

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|  |  |
| --- | --- |
|  |  |
| **Note 10:** | ***Equity*** |

Changes in AOCI by component, net of tax *(in millions)*:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Quarter Ended** | **Available-for-Sale Debt Securities** | | |  | **Cash Flow Hedges** | | |  | **Net Investment Hedges** | | |  | **Translation Adjustment and Other** | | |  | **Total** | | |
| *June 30, 2019* |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Net gains/(losses) in AOCI, beginning of period | $ | 0.1 |  |  | $ | 4.3 |  |  | $ | 5.5 |  |  | $ | (281.4 | ) |  | $ | (271.5 | ) |
| Net gains/(losses) recognized in OCI before reclassifications | 2.9 | |  |  | (2.6 | | ) |  | (15.8 | | ) |  | (64.9 | | ) |  | (80.4 | | ) |
| Net (gains)/losses reclassified from AOCI to earnings | 0.2 | |  |  | 4.4 | |  |  | — | |  |  | (1.7 | | ) |  | 2.9 | |  |
| Other comprehensive income/(loss) attributable to Starbucks | 3.1 | |  |  | 1.8 | |  |  | (15.8 | | ) |  | (66.6 | | ) |  | (77.5 | | ) |
| Net gains/(losses) in AOCI, end of period | $ | 3.2 |  |  | $ | 6.1 |  |  | $ | (10.3 | ) |  | $ | (348.0 | ) |  | $ | (349.0 | ) |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| *July 1, 2018* |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Net gains/(losses) in AOCI, beginning of period | $ | (5.0 | ) |  | $ | (10.7 | ) |  | $ | (19.1 | ) |  | $ | 67.7 |  |  | $ | 32.9 |  |
| Net gains/(losses) recognized in OCI before reclassifications | (0.4 | | ) |  | 35.6 | |  |  | 24.1 | |  |  | (280.6 | | ) |  | (221.3 | | ) |
| Net (gains)/losses reclassified from AOCI to earnings | 0.6 | |  |  | (14.9 | | ) |  | — | |  |  | — | |  |  | (14.3 | | ) |
| Other comprehensive income/(loss) attributable to Starbucks | 0.2 | |  |  | 20.7 | |  |  | 24.1 | |  |  | (280.6 | | ) |  | (235.6 | | ) |
| Net gains/(losses) in AOCI, end of period | $ | (4.8 | ) |  | $ | 10.0 |  |  | $ | 5.0 |  |  | $ | (212.9 | ) |  | $ | (202.7 | ) |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| **Three Quarters Ended** | **Available-for-Sale Debt Securities** | | |  | **Cash Flow Hedges** | | |  | **Net Investment Hedges** | | |  | **Translation Adjustment and Other** | | |  | **Total** | | |
| *June 30, 2019* |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Net gains/(losses) in AOCI, beginning of period | $ | (4.9 | ) |  | $ | 17.7 |  |  | $ | 19.6 |  |  | $ | (362.7 | ) |  | $ | (330.3 | ) |
| Net gains/(losses) recognized in OCI before reclassifications | 7.5 | |  |  | (18.8 | | ) |  | (29.9 | | ) |  | 16.4 | |  |  | (24.8 | | ) |
| Net (gains)/losses reclassified from AOCI to earnings | 0.6 | |  |  | 7.2 | |  |  | — | |  |  | (1.7 | | ) |  | 6.1 | |  |
| Other comprehensive income/(loss) attributable to Starbucks | 8.1 | |  |  | (11.6 | | ) |  | (29.9 | | ) |  | 14.7 | |  |  | (18.7 | | ) |
| Net gains/(losses) in AOCI, end of period | $ | 3.2 |  |  | $ | 6.1 |  |  | $ | (10.3 | ) |  | $ | (348.0 | ) |  | $ | (349.0 | ) |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| *July 1, 2018* |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Net gains/(losses) in AOCI, beginning of period | $ | (2.5 | ) |  | $ | (4.1 | ) |  | $ | 14.0 |  |  | $ | (163.0 | ) |  | $ | (155.6 | ) |
| Net gains/(losses) recognized in OCI before reclassifications | (4.7 | | ) |  | (0.6 | | ) |  | (9.0 | | ) |  | (66.8 | | ) |  | (81.1 | | ) |
| Net (gains)/losses reclassified from AOCI to earnings | 2.4 | |  |  | 14.7 | |  |  | — | |  |  | 16.9 | |  |  | 34.0 | |  |
| Other comprehensive income/(loss) attributable to Starbucks | (2.3 | | ) |  | 14.1 | |  |  | (9.0 | | ) |  | (49.9 | | ) |  | (47.1 | | ) |
| Net gains/(losses) in AOCI, end of period | $ | (4.8 | ) |  | $ | 10.0 |  |  | $ | 5.0 |  |  | $ | (212.9 | ) |  | $ | (202.7 | ) |

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Impact of reclassifications from AOCI on the consolidated statements of earnings *(in millions)*:

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |
| **Quarter Ended** |  |  | | |  |  | | |  |  |
| **AOCI Components** |  | **Amounts Reclassified from AOCI** | | | | | | |  | **Affected Line Item in the Statements of Earnings** |
|  | **Jun 30, 2019** | | |  | **Jul 1, 2018** | | |  |
| Gains/(losses) on available-for-sale debt securities |  | $ | 0.2 |  |  | $ | (0.9 | ) |  | Interest income and other, net |
| Gains/(losses) on cash flow hedges |  | (5.1 | | ) |  | 18.4 | |  |  | Please refer to [Note 4](file:///D:\TMP\finance-docx\STARBUCKS\Starbucks-19.06.30-10-Q.html#sC0C04FFD244E5007A311C462782814D4), Derivative Instruments for additional information. |
| Translation adjustment |  |  | | |  |  | | |  |  |
| Thailand |  | 1.7 | |  |  | — | |  |  | Net gain resulting from divestiture of certain operations |
|  |  | (3.2 | | ) |  | 17.5 | |  |  | Total before tax |
|  |  | 0.3 | |  |  | (3.2 | | ) |  | Tax (expense)/benefit |
|  |  | $ | (2.9 | ) |  | $ | 14.3 |  |  | Net of tax |
| **Three Quarters Ended** |  |  | | |  |  | | |  |  |
| **AOCI**  **Components** |  | **Amounts Reclassified from AOCI** | | | | | | |  | **Affected Line Item in**  **the Statements of Earnings** |
|  | **Jun 30, 2019** | | |  | **Jul 1, 2018** | | |  |
| Gains/(losses) on available-for-sale debt securities |  | $ | 0.9 |  |  | $ | (3.3 | ) |  | Interest income and other, net |
| Gains/(losses) on cash flow hedges |  | (8.1 | | ) |  | (17.5 | | ) |  | Please refer to [Note 4](file:///D:\TMP\finance-docx\STARBUCKS\Starbucks-19.06.30-10-Q.html#sC0C04FFD244E5007A311C462782814D4), Derivative Instruments for additional information. |
| Translation adjustment |  |  | | |  |  | | |  |  |
| Brazil |  | — | |  |  | (24.1 | | ) |  | Net gain resulting from divestiture of certain operations |
| East China joint venture |  | — | |  |  | 7.2 | |  |  | Gain resulting from acquisition of joint venture |
| Taiwan joint venture |  | — | |  |  | 1.4 | |  |  | Net gain resulting from divestiture of certain operations |
| Thailand |  | 1.7 | |  |  | — | |  |  | Net gain resulting from divestiture of certain operations |
| Other |  | — | |  |  | (1.7 | | ) |  | Interest income and other, net |
|  |  | (5.5 | | ) |  | (38.0 | | ) |  | Total before tax |
|  |  | (0.6 | | ) |  | 4.0 | |  |  | Tax (expense)/benefit |
|  |  | $ | (6.1 | ) |  | $ | (34.0 | ) |  | Net of tax |

In addition to 2.4 billion shares of authorized common stock with $0.001 par value per share, the Company has authorized 7.5 million shares of preferred stock, none of which was outstanding as of June 30, 2019.

In September 2018, we entered into accelerated share repurchase agreements (“ASR agreements”) with third-party financial institutions totaling $5.0 billion, effective October 1, 2018. We made a $5.0 billion upfront payment to the financial institutions and received an initial delivery of 72.0 million shares. In March 2019, we received an additional 4.9 million shares upon the completion of the program based on a volume-weighted average share price (less discount) of $65.03.

In March 2019, we entered into ASR agreements with third-party financial institutions totaling $2.0 billion, effective March 22, 2019. We made a $2.0 billion upfront payment to the financial institutions and received an initial delivery of 22.2 million shares. In June 2019, we received an additional 3.9 million shares upon the completion of the program based on a volume-weighted average share price (less discount) of $76.50.

Outside of the ASR agreements noted above, we repurchased 13.1 million shares of common stock for $954.3 million on the open market during the three quarters ended June 30, 2019. In connection with the ASR agreements and other open market transactions, we repurchased 116.1 million shares of common stock at a total cost of $8.0 billion for the three quarters ended June 30, 2019. During the same period of fiscal 2018, we repurchased 73.0 million shares at a total cost of $4.1 billion. In the first quarter 2019, we announced that our Board of Directors approved an increase of 120 million shares to our ongoing share repurchase program. As of June 30, 2019, 52.7 million shares remained available for repurchase under current authorizations.

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During the third quarter of fiscal 2019, our Board of Directors declared a quarterly cash dividend to shareholders of $0.36 per share to be paid on August 23, 2019 to shareholders of record as of the close of business on August 8, 2019.

|  |  |
| --- | --- |
|  |  |
| **Note 11:** | ***Employee Stock Plans*** |

As of June 30, 2019, there were 51.9 million shares of common stock available for issuance pursuant to future equity-based compensation awards and 12.4 million shares available for issuance under our employee stock purchase plan.

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Quarter Ended** | | | | | | |  | **Three Quarters Ended** | | | | | | |
|  | **Jun 30, 2019** | | |  | **Jul 1, 2018** | | |  | **Jun 30, 2019** | | |  | **Jul 1, 2018** | | |
| Options | $ | 2.4 |  |  | $ | 2.0 |  |  | $ | 17.9 |  |  | $ | 23.2 |  |
| Restricted Stock Units (“RSUs”) | 60.9 | |  |  | 66.4 | |  |  | 237.5 | |  |  | 161.7 | |  |
| Total stock-based compensation expense | $ | 63.3 |  |  | $ | 68.4 |  |  | $ | 255.4 |  |  | $ | 184.9 |  |

Stock option and RSU transactions from September 30, 2018 through June 30, 2019 (*in millions*):

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **Stock Options** | | |  | **RSUs** | | |
| Options outstanding/Nonvested RSUs, September 30, 2018 | 27.3 | |  |  | 11.2 | |  |
| Granted | 0.5 | |  |  | 4.5 | |  |
| Options exercised/RSUs vested | (10.2 | | ) |  | (4.4 | | ) |
| Forfeited/expired | (0.9 | | ) |  | (1.9 | | ) |
| Options outstanding/Nonvested RSUs, June 30, 2019 | 16.7 | |  |  | 9.4 | |  |
| Total unrecognized stock-based compensation expense, net of estimated forfeitures, as of June 30, 2019 | $ | 6.4 |  |  | $ | 215.2 |  |

|  |  |
| --- | --- |
|  |  |
| **Note 12:** | ***Income Taxes*** |

Our interim tax provision is determined using an estimated annual effective tax rate and adjusted for discrete taxable events that may occur during the quarter. We recognize the effects of tax legislation in the period in which the law is enacted. Our deferred tax assets and liabilities are remeasured using enacted tax rates expected to apply to taxable income in the years we estimate the related temporary differences to reverse.

On December 22, 2017, the President of the United States signed and enacted comprehensive tax legislation into law H.R. 1, commonly referred to as the Tax Act. Except for certain provisions, the Tax Act is effective for tax years beginning on or after January 1, 2018. The tax rate for fiscal 2019 and future years was reduced to 21% from our blended 24.5% in fiscal 2018. In the first quarter of fiscal 2019 the measurement period related to the Tax Act concluded, which resulted in immaterial adjustments to our provisional estimates.

In the first quarter of fiscal 2019, we revised our indefinite reinvestment assertions for prior years' earnings from certain foreign subsidiaries. This change did not have a material impact to our financial results. In foreign subsidiaries in which we are partially indefinitely reinvested, the gross taxable temporary difference between the accounting basis and tax basis was approximately $1.3 billion at December 30, 2018, for which there could be up to approximately $300 million of unrecognized tax liability.

During the third quarter of fiscal 2019, we sold our company-operated retail business in Thailand. The effective income tax rate on this transaction was approximately 13%, which contributed to the reduction of our estimated annual effective tax rate.

While the Tax Act provides for a modified territorial tax system, global intangible low-taxed income (“GILTI”) provisions are applied providing an incremental tax on foreign income. We have made an accounting policy election to treat taxes due under the GILTI provision as a current period expense.

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|  |  |
| --- | --- |
|  |  |
| **Note 13:** | ***Earnings per Share*** |

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Quarter Ended** | | | | | | |  | **Three Quarters Ended** | | | | | | |
|  | **Jun 30, 2019** | | |  | **Jul 1, 2018** | | |  | **Jun 30, 2019** | | |  | **Jul 1, 2018** | | |
| Net earnings attributable to Starbucks | $ | 1,372.8 |  |  | $ | 852.5 |  |  | $ | 2,796.4 |  |  | $ | 3,762.8 |  |
| Weighted average common shares outstanding (for basic calculation) | 1,211.0 | |  |  | 1,377.1 | |  |  | 1,230.8 | |  |  | 1,397.7 | |  |
| Dilutive effect of outstanding common stock options and RSUs | 12.0 | |  |  | 11.4 | |  |  | 11.6 | |  |  | 12.2 | |  |
| Weighted average common and common equivalent shares outstanding (for diluted calculation) | 1,223.0 | |  |  | 1,388.5 | |  |  | 1,242.4 | |  |  | 1,409.9 | |  |
| EPS — basic | $ | 1.13 |  |  | $ | 0.62 |  |  | $ | 2.27 |  |  | $ | 2.69 |  |
| EPS — diluted | $ | 1.12 |  |  | $ | 0.61 |  |  | $ | 2.25 |  |  | $ | 2.67 |  |

Potential dilutive shares consist of the incremental common shares issuable upon the exercise of outstanding stock options (both vested and nonvested) 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. As of June 30, 2019, we had no out-of-the-money stock options, compared to 7.9 million as of July 1, 2018.

|  |  |
| --- | --- |
|  |  |
| **Note 14:** | ***Commitments and Contingencies*** |

***Legal Proceedings***

On April 13, 2010, an organization named Council for Education and Research on Toxics (“Plaintiff”) filed a lawsuit in the Superior Court of the State of California, County of Los Angeles, against the Company and certain other defendants who manufacture, package, distribute or sell brewed coffee. The lawsuit is *Council for Education and Research on Toxics v. Starbucks Corporation, et al*. On May 9, 2011, the Plaintiff filed an additional lawsuit in the Superior Court of the State of California, County of Los Angeles, against the Company and additional defendants who manufacture, package, distribute or sell packaged coffee. The lawsuit is *Council for Education and Research on Toxics v. Brad Barry LLC, et al*.. Both cases have since been consolidated and now include nearly eighty defendants, which constitute the great majority of the coffee industry in California. Plaintiff alleges that the Company and the other defendants failed to provide warnings for their coffee products of exposure to the chemical acrylamide as required under California Health and Safety Code section 25249.5, the California Safe Drinking Water and Toxic Enforcement Act of 1986, better known as Proposition 65. Plaintiff seeks equitable relief, including providing warnings to consumers of coffee products, as well as civil penalties in the amount of the statutory maximum of two thousand five hundred dollars per day per violation of Proposition 65. The Plaintiff asserts that every consumed cup of coffee, absent a compliant warning, is equivalent to a violation under Proposition 65.

The Company, as part of a joint defense group organized to defend against the lawsuit, disputes the claims of the Plaintiff. Acrylamide is not added to coffee but is present in all coffee in small amounts (parts per billion) as a byproduct of the coffee bean roasting process. The Company has asserted multiple affirmative defenses. Trial of the first phase of the case commenced on September 8, 2014, and was limited to three affirmative defenses shared by all defendants. On September 1, 2015, the trial court issued a final ruling adverse to defendants on all Phase 1 defenses. Trial of the second phase of the case commenced in the fall of 2017. On May 7, 2018, the trial court issued a ruling adverse to defendants on the Phase 2 defense, the Company's last remaining defense to liability. On June 22, 2018, the California Office of Environmental Health Hazard Assessment (OEHHA) proposed a new regulation clarifying that cancer warnings are not required for coffee under Proposition 65. The case was set to proceed to a third phase trial on damages, remedies and attorneys' fees on October 15, 2018. However, on October 12, 2018, the California Court of Appeal granted the defendants request for a stay of the Phase 3 trial.

On June 3, 2019, the Office of Administrative Law (OAL) approved the coffee exemption regulation. The regulation will be effective on October 1, 2019. On June 24, 2019, the Court of Appeal lifted the stay of the litigation. A status conference before the trial judge to discuss the motions that each party intends to bring is scheduled for August 23, 2019. At this stage of the proceedings, Starbucks believes that the likelihood that the Company will ultimately incur a loss in connection with this litigation is less than reasonably possible. Accordingly, no loss contingency was 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.

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| **Note 15:** | ***Segment Reporting*** |

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

Consolidated revenue mix by product type (*in millions*):

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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|  | **Quarter Ended** | | | | | | | | | | | | |  | **Three Quarters Ended** | | | | | | | | | | | | |
|  | **Jun 30, 2019** | | | | | |  | **Jul 1, 2018(1)** | | | | | |  | **Jun 30, 2019** | | | | | |  | **Jul 1, 2018(1)** | | | | | |
| Beverage | $ | 4,122.1 |  |  | 60 | % |  | $ | 3,766.2 |  |  | 60 | % |  | $ | 11,814.2 |  |  | 60 | % |  | $ | 10,705.2 |  |  | 58 | % |
| Food | 1,220.3 | |  |  | 18 | % |  | 1,132.6 | |  |  | 18 | % |  | 3,566.1 | |  |  | 18 | % |  | 3,242.8 | |  |  | 18 | % |
| Other(2) | 1,480.6 | |  |  | 22 | % |  | 1,411.5 | |  |  | 22 | % |  | 4,381.3 | |  |  | 22 | % |  | 4,467.9 | |  |  | 24 | % |
| Total | $ | 6,823.0 |  |  | 100 | % |  | $ | 6,310.3 |  |  | 100 | % |  | $ | 19,761.6 |  |  | 100 | % |  | $ | 18,415.9 |  |  | 100 | % |

(1)Prior period amounts have not been restated for the revenue recognition adoption and continue to be reported under accounting standards in effect for that period.

(2)“Other” primarily consists of packaged and single-serve coffees and teas, royalty and licensing revenues, beverage-related ingredients, serveware, and ready-to-drink beverages, among other items.

The table below presents financial information for our reportable operating segments and Corporate and Other segment *(in millions)*:

**Quarter Ended**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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|  | **Americas** | | |  | **China/**  **Asia Pacific** | | |  | **EMEA** | | |  | **Channel**  **Development** | | |  | **Corporate and Other** | | |  | **Total** | | |
| *June 30, 2019* |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Total net revenues | $ | 4,671.8 |  |  | $ | 1,336.9 |  |  | $ | 231.7 |  |  | $ | 533.3 |  |  | $ | 49.3 |  |  | $ | 6,823.0 |  |
| Depreciation and amortization expenses | 173.2 | |  |  | 118.9 | |  |  | 5.4 | |  |  | 0.2 | |  |  | 45.4 | |  |  | 343.1 | |  |
| Income from equity investees | — | |  |  | 27.2 | |  |  | — | |  |  | 48.8 | |  |  | — | |  |  | 76.0 | |  |
| Operating income/(loss) | 1,067.1 | |  |  | 269.8 | |  |  | 16.6 | |  |  | 181.9 | |  |  | (414.1 | | ) |  | 1,121.3 | |  |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| *July 1, 2018* |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Total net revenues(1) | $ | 4,224.0 |  |  | $ | 1,229.0 |  |  | $ | 261.7 |  |  | $ | 567.4 |  |  | $ | 28.2 |  |  | $ | 6,310.3 |  |
| Depreciation and amortization expenses | 159.3 | |  |  | 120.7 | |  |  | 8.0 | |  |  | 0.2 | |  |  | 41.8 | |  |  | 330.0 | |  |
| Income from equity investees | — | |  |  | 23.5 | |  |  | — | |  |  | 47.9 | |  |  | — | |  |  | 71.4 | |  |
| Operating income/(loss) | 906.8 | |  |  | 234.1 | |  |  | 29.2 | |  |  | 232.8 | |  |  | (364.7 | | ) |  | 1,038.2 | |  |

(1)Prior period amounts have not been restated for the revenue recognition adoption and continue to be reported under the accounting standards in effect for that period.

**Three Quarters Ended**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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|  | **Americas** | | |  | **China/ Asia Pacific** | | |  | **EMEA** | | |  | **Channel Development** | | |  | **Corporate and Other** | | |  | **Total** | | |
| *June 30, 2019* |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Total net revenues | $ | 13,583.8 |  |  | $ | 3,853.4 |  |  | $ | 725.6 |  |  | $ | 1,484.5 |  |  | $ | 114.3 |  |  | $ | 19,761.6 |  |
| Depreciation and amortization expenses | 509.6 | |  |  | 357.2 | |  |  | 20.1 | |  |  | 12.6 | |  |  | 133.0 | |  |  | 1,032.5 | |  |
| Income from equity investees | — | |  |  | 75.7 | |  |  | — | |  |  | 130.4 | |  |  | — | |  |  | 206.1 | |  |
| Operating income/(loss) | 2,978.0 | |  |  | 722.9 | |  |  | 40.8 | |  |  | 506.6 | |  |  | (1,253.7 | | ) |  | 2,994.6 | |  |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| *July 1, 2018* |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Total net revenues(1) | $ | 12,478.0 |  |  | $ | 3,259.1 |  |  | $ | 780.8 |  |  | $ | 1,758.0 |  |  | $ | 140.0 |  |  | $ | 18,415.9 |  |
| Depreciation and amortization expenses | 477.7 | |  |  | 296.0 | |  |  | 23.5 | |  |  | 1.2 | |  |  | 122.0 | |  |  | 920.4 | |  |
| Income from equity investees | — | |  |  | 91.0 | |  |  | — | |  |  | 122.5 | |  |  | — | |  |  | 213.5 | |  |
| Operating income/(loss) | 2,685.9 | |  |  | 635.4 | |  |  | 50.6 | |  |  | 736.2 | |  |  | (1,181.2 | | ) |  | 2,926.9 | |  |

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(1)Prior period amounts have not been restated for the revenue recognition adoption and continue to be reported under the accounting standards in effect for that period.

Lease exit costs associated with our restructuring efforts, primarily related to the closure of TeavanaTM/MC retail stores and certain Starbucks® company-operated stores, are recognized concurrently with actual store closures. These expenses are primarily recorded within Corporate and Other and Americas. Total lease exit costs are expected to be approximately $195.1 million of which $18.5 million and $47.5 million were recorded within restructuring and impairments on the consolidated statement of earnings in the quarter and three quarters ended June 30, 2019, respectively. In fiscal year 2018, $1.5 million and $119.0 million of lease exit costs were recorded within restructuring and impairments in the quarter and three quarters ended July 1, 2018, respectively. Previous lease exit costs recorded within restructuring expenses for fiscal 2018 and 2017 totaled $135.0 million.

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| **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 are “forward-looking” statements within the meaning of the Private Securities Litigation Reform Act of 1995. Generally, these statements can be identified by the use of words such as “anticipate,” “expect,” “believe,” “could,” “estimate,” “feel,” “forecast,” “intend,” “may,” “plan,” “potential,” “project,” “should,” “will,” “would,” and similar expressions intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. These statements include statements relating to* t*rends in or expectations relating to the expected effects of our initiatives and plans, as well as trends in or expectations regarding our financial results and long-term growth model and drivers, our focus on accelerating growth in high-returning businesses, the conversion of several market operations to fully-licensed models, expanding our licensing to Nestlé of our consumer packaged goods and Foodservice businesses and its effects on our Channel Development segment results, tax rates, business opportunities and expansion, strategic acquisitions, expenses, dividends, share repurchases, commodity costs and our mitigation strategies, liquidity, cash flow from operations, use of cash and cash requirements, investments, borrowing capacity and use of proceeds, repatriation of cash to the U.S., the likely issuance of additional debt and the applicable interest rate, the expected effects of new accounting pronouncements and the estimated impact of changes in U.S. tax law, including on tax rates, investments funded by these changes, and potential outcomes and effects of legal proceedings. 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, fluctuations in U.S. and international economies and currencies, our ability to preserve, grow and leverage our brands, potential negative effects of incidents involving food or beverage-borne illnesses, tampering, adulteration, contamination or mislabeling, potential negative effects of material breaches of our information technology systems to the extent we experience a material breach, material failures of our information technology systems, costs associated with, and the successful execution of, the company's initiatives and plans, including the integration of the East China business and the successful expansion of our Global Coffee Alliance with Nestlé, our ability to obtain financing on acceptable terms, the acceptance of the company's products by our customers, the impact of competition, the prices and availability of coffee, dairy and other raw materials, the effect of legal proceedings, the effects of the Tax Cuts and Jobs Act and related guidance and regulations that may be promulgated, and other risks detailed in our filings with the SEC, including in Part I Item IA*“*Risk Factors*”*in the 10-K.*

*A forward-looking statement is neither a prediction nor a guarantee of future events or circumstances, and those future events or circumstances may not occur. You should not place undue reliance on the forward-looking statements, which speak only as of the date of this report. We are under no obligation to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise.*

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

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**Introduction and Overview**

Starbucks is the premier coffee roaster and retailer of specialty coffee with operations in 80 markets around the world. As of June 30, 2019, Starbucks had over 30,000 company-operated and licensed stores, an increase of 7% from the prior year. Additionally, we sell a variety of consumer-packaged goods, or CPG, primarily through the Global Coffee Alliance established with Nestlé in August 2018 and other partnerships and joint ventures. Our financial results and long-term growth model will continue to be driven by new store openings, comparable store sales and margin management. Comparable store sales represent company-operated stores open for 13 months or longer and exclude the impact of foreign currency translation. During the quarter ended June 30, 2019, our global comparable store sales grew 6%.

Starbucks results for the third quarter of fiscal 2019 reflect the impacts of certain restructuring and streamlining efforts, initiated during the fourth quarter of fiscal 2017, to focus on accelerating growth in high-returning businesses and the conversion of several market operations, such as Thailand, France and the Netherlands, to fully licensed models. These efforts also include licensing our CPG and Foodservice businesses to Nestlé.

We have four reportable operating segments: Americas, China/Asia Pacific (“CAP”), Europe, Middle East and Africa (“EMEA”) and Channel Development. Non-reportable operating segments and unallocated corporate expenses are reported within Corporate and Other.

In December 2017, the U.S. government enacted comprehensive tax legislation into law H.R. 1, commonly referred to as the Tax Cuts and Jobs Act (the “Tax Act”), which significantly changed existing U.S. tax law and included numerous provisions that affect our business. Our U.S. corporate income tax rate for fiscal 2019 and future years is 21%, while a blended rate of 24.5% was applied in fiscal 2018.

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.

**Comparable Store Sales**

Starbucks comparable store sales for the third quarter of fiscal 2019:

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
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|  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Quarter Ended Jun 30, 2019** | | | | |  | **Three Quarters Ended Jun 30, 2019** | | | | |
|  | **Sales**  **Growth** |  | **Change in**  **Transactions** |  | **Change in**  **Ticket** |  | **Sales**  **Growth** |  | **Change in**  **Transactions** |  | **Change in**  **Ticket** |
| Consolidated | 6% |  | 3% |  | 3% |  | 4% |  | 1% |  | 3% |
| Americas | 7% |  | 3% |  | 4% |  | 5% |  | 1% |  | 4% |
| China/Asia Pacific | 5% |  | 2% |  | 3% |  | 3% |  | 1% |  | 3% |
| EMEA(1) | 3% |  | —% |  | 3% |  | 1% |  | —% |  | 2% |

(1)Company-operated stores represent 11% of the EMEA segment store portfolio as of June 30, 2019.

Refer to our [Quarterly Store Data](file:///D:\TMP\finance-docx\STARBUCKS\Starbucks-19.06.30-10-Q.html#sDEBBC3E176B75661847038714768D22E), also included in Item 2 of Part I of this 10-Q, for additional information on our company-operated and licensed store portfolio.

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**Results of Operations*(in millions)***

Revenues

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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|  | **Quarter Ended** | | | | | | | | | | | | | |  | **Three Quarters Ended** | | | | | | | | | | | | | |
|  | **Jun 30, 2019** | | |  | **Jul 1, 2018** | | |  | **$**  **Change** | | |  | **%**  **Change** | |  | **Jun 30, 2019** | | |  | **Jul 1, 2018** | | |  | **$**  **Change** | | |  | **%**  **Change** | |
| Company-operated stores | $ | 5,535.0 |  |  | $ | 5,060.4 |  |  | $ | 474.6 |  |  | 9.4 | % |  | $ | 16,064.3 |  |  | $ | 14,630.3 |  |  | $ | 1,434.0 |  |  | 9.8 | % |
| Licensed stores | 725.0 | |  |  | 660.6 | |  |  | 64.4 | |  |  | 9.7 |  |  | 2,140.3 | |  |  | 1,968.6 | |  |  | 171.7 | |  |  | 8.7 |  |
| Other | 563.0 | |  |  | 589.3 | |  |  | (26.3 | | ) |  | (4.5 | ) |  | 1,557.0 | |  |  | 1,817.0 | |  |  | (260.0 | | ) |  | (14.3 | ) |
| **Total net revenues** | **$** | **6,823.0** |  |  | **$** | **6,310.3** |  |  | **$** | **512.7** |  |  | **8.1** | **%** |  | **$** | **19,761.6** |  |  | **$** | **18,415.9** |  |  | **$** | **1,345.7** |  |  | **7.3** | **%** |

*Quarter ended June 30, 2019 compared with quarter ended July 1, 2018*

Total net revenues for the third quarter of fiscal 2019 increased $513 million, primarily due to increased revenues from company-operated stores ($475 million). The growth in company-operated store revenues was driven by a 6% increase in comparable store sales ($301 million) and incremental revenues from 885 net new Starbucks® company-operated store openings, or a 6% increase, over the past 12 months ($249 million). Partially offsetting these increases was unfavorable foreign currency translation ($72 million).

Licensed store revenue growth also contributed to the increase in total net revenues ($64 million), driven by increased product and equipment sales to and royalty revenues from our licensees ($58 million), primarily resulting from the opening of 1,036 net new Starbucks® licensed stores, or an 8% increase, over the past 12 months.

Other revenues decreased $26 million, primarily due to licensing our CPG and Foodservice businesses to Nestlé, which we expect will remain the trend through fiscal 2019.

*Three quarters ended June 30, 2019 compared with three quarters ended July 1, 2018*

Total net revenues for the first three quarters of fiscal 2019 increased $1.3 billion, primarily due to increased revenues from company-operated stores ($1.4 billion). The growth in company-operated store revenues was primarily driven by incremental revenues from net new store openings over the past 12 months ($731 million) and a 4% increase in comparable store sales ($625 million), attributable to a 3% increase in average ticket. Partially offsetting these increases was unfavorable foreign currency translation ($176 million).

Licensed store revenue growth also contributed to the increase in total net revenues ($172 million), driven by increased product and equipment sales to and royalty revenues from our licensees ($189 million), primarily resulting from growth in Starbucks® licensed stores over the past 12 months. Partially offsetting this increase was unfavorable foreign currency translation ($33 million).

Other revenues decreased $260 million, primarily due to licensing our CPG and Foodservice businesses to Nestlé, which we expect will remain the trend through fiscal 2019.

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Operating Expenses

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|  | **Quarter Ended** | | | | | | | | | | | | | | | | |  | **Three Quarters Ended** | | | | | | | | | | | | | | | | |
|  | **Jun 30, 2019** | | |  | **Jul 1, 2018** | | |  | **$**  **Change** | | |  | **Jun 30, 2019** | |  | **Jul 1, 2018** | |  | **Jun 30, 2019** | | |  | **Jul 1, 2018** | | |  | **$**  **Change** | | |  | **Jun 30, 2019** | |  | **Jul 1, 2018** | |
|  |  | | |  |  | | |  |  | | |  | **As a % of Total**  **Net Revenues** | | | | |  |  | | |  |  | | |  |  | | |  | **As a % of Total**  **Net Revenues** | | | | |
| Cost of sales including occupancy costs | $ | 2,808.6 |  |  | $ | 2,553.4 |  |  | $ | 255.2 |  |  | 41.2 | % |  | 40.5 | % |  | $ | 8,171.1 |  |  | $ | 7,569.8 |  |  | $ | 601.3 |  |  | 41.3 | % |  | 41.1 | % |
| Store operating expenses | 2,018.5 | |  |  | 1,825.0 | |  |  | 193.5 | |  |  | 29.6 |  |  | 28.9 |  |  | 5,961.2 | |  |  | 5,351.6 | |  |  | 609.6 | |  |  | 30.2 |  |  | 29.1 |  |
| Other operating expenses | 89.6 | |  |  | 132.3 | |  |  | (42.7 | | ) |  | 1.3 |  |  | 2.1 |  |  | 265.2 | |  |  | 382.5 | |  |  | (117.3 | | ) |  | 1.3 |  |  | 2.1 |  |
| Depreciation and amortization expenses | 343.1 | |  |  | 330.0 | |  |  | 13.1 | |  |  | 5.0 |  |  | 5.2 |  |  | 1,032.5 | |  |  | 920.4 | |  |  | 112.1 | |  |  | 5.2 |  |  | 5.0 |  |
| General and administrative expenses | 480.2 | |  |  | 485.9 | |  |  | (5.7 | | ) |  | 7.0 |  |  | 7.7 |  |  | 1,419.2 | |  |  | 1,299.0 | |  |  | 120.2 | |  |  | 7.2 |  |  | 7.1 |  |
| Restructuring and impairments | 37.7 | |  |  | 16.9 | |  |  | 20.8 | |  |  | 0.6 |  |  | 0.3 |  |  | 123.9 | |  |  | 179.2 | |  |  | (55.3 | | ) |  | 0.6 |  |  | 1.0 |  |
| Total operating expenses | 5,777.7 | |  |  | 5,343.5 | |  |  | 434.2 | |  |  | 84.7 |  |  | 84.7 |  |  | 16,973.1 | |  |  | 15,702.5 | |  |  | 1,270.6 | |  |  | 85.9 |  |  | 85.3 |  |
| Income from equity investees | 76.0 | |  |  | 71.4 | |  |  | 4.6 | |  |  | 1.1 |  |  | 1.1 |  |  | 206.1 | |  |  | 213.5 | |  |  | (7.4 | | ) |  | 1.0 |  |  | 1.2 |  |
| **Operating income** | **$** | **1,121.3** |  |  | **$** | **1,038.2** |  |  | **$** | **83.1** |  |  | **16.4** | **%** |  | **16.5** | **%** |  | **$** | **2,994.6** |  |  | **$** | **2,926.9** |  |  | **$** | **67.7** |  |  | **15.2** | **%** |  | **15.9** | **%** |
| Store operating expenses as a % of company-operated store revenues | | | |  |  | | |  |  | | |  | 36.5 | % |  | 36.1 | % |  |  | | |  |  | | |  |  | | |  | 37.1 | % |  | 36.6 | % |

*Quarter ended June 30, 2019 compared with quarter ended July 1, 2018*

Cost of sales including occupancy costs as a percentage of total net revenues increased 70 basis points for the third quarter of fiscal 2019, primarily due to licensing our CPG and Foodservice businesses to Nestlé (approximately 130 basis points), product mix shift (approximately 40 basis points) and higher inventory reserves (approximately 30 basis points). These increases were partially offset by sales leverage and cost savings initiatives (approximately 100 basis points).

Store operating expenses as a percentage of total net revenues increased 70 basis points for the third quarter of fiscal 2019. Store operating expenses as a percentage of company-operated store revenues increased 40 basis points, primarily due to increased partner investments and growth in wages and benefits (approximately 80 basis points), largely in the Americas segment. This increase was partially offset by sales leverage and the adoption of new revenue recognition guidance on stored value card breakage.

Other operating expenses decreased $43 million for the third quarter of fiscal 2019, primarily due to cost savings related to licensing our CPG and Foodservice businesses to Nestlé ($48 million).

General and administrative expenses decreased $6 million, primarily due to lapping the prior year May 29th anti-bias training costs, partially offset by higher performance-based compensation.

Restructuring and impairment expenses increased $21 million, primarily due to higher exit costs associated with the closure of certain company-operated stores ($17 million) and severance costs ($9 million), partially offset by lower asset impairments associated with the decision to close certain company-operated stores in U.S. and Canada ($11 million).

Income from equity investees increased $5 million, primarily due to improved comparable store sales from our CAP joint venture operations in South Korea and higher income from our North American Coffee Partnership joint venture.

The combination of these changes resulted in an overall decrease in operating margin of 10 basis points for the third quarter of fiscal 2019.

*Three quarters ended June 30, 2019 compared with three quarters ended July 1, 2018*

Cost of sales including occupancy costs as a percentage of total net revenues increased 20 basis points for the first three quarters of fiscal 2019, primarily due to licensing our CPG and Foodservice businesses to Nestlé (approximately 90 basis points), partially offset by cost savings initiatives (approximately 70 basis points).

Store operating expenses as a percentage of total net revenues increased 110 basis points for the first three quarters of fiscal 2019. Store operating expenses as a percentage of company-operated store revenues increased 50 basis points, primarily driven

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by increased investments in our store partners that are funded by savings from the Tax Act and growth in wages and benefits (approximately 90 basis points), largely in the Americas segment. This was partially offset by sales leverage and the impact of the adoption of new revenue recognition guidance on stored value card breakage.

Other operating expenses decreased $117 million for the first three quarters of fiscal 2019, primarily due to cost savings related to licensing our CPG and Foodservice businesses to Nestlé.

General and administrative expenses increased $120 million, primarily driven by higher performance-based compensation and the U.S. stock award, which was granted in the third quarter of fiscal 2018, was funded by savings from the Tax Act and vested in the third quarter of fiscal 2019.

Restructuring and impairment expenses decreased $55 million, primarily due to lower restructuring and impairment costs related to our strategy to close TeavanaTM/MCretail stores ($131 million) and lower impairments related to our Switzerland retail market ($18 million), partially offset by higher exit costs associated with the closure of certain Starbucks® company-operated stores ($43 million) and severance costs ($42 million).

Income from equity investees decreased $7 million, primarily due to the impact of our ownership change in East China. This decrease was partially offset by improved comparable store sales from our CAP joint venture operations in South Korea and higher income from our North American Coffee Partnership joint venture.

The combination of these changes resulted in an overall decrease in operating margin of 70 basis points for the first three quarters of fiscal 2019.

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Other Income and Expenses

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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|  | **Quarter Ended** | | | | | | | | | | | | | | | | |  | **Three Quarters Ended** | | | | | | | | | | | | | | | | |
|  | **Jun 30, 2019** | | |  | **Jul 1, 2018** | | |  | **$**  **Change** | | |  | **Jun 30, 2019** | |  | **Jul 1, 2018** | |  | **Jun 30, 2019** | | |  | **Jul 1, 2018** | | |  | **$**  **Change** | | |  | **Jun 30, 2019** | |  | **Jul 1, 2018** | |
|  |  | | |  |  | | |  |  | | |  | **As a % of Total**  **Net Revenues** | | | | |  |  | | |  |  | | |  |  | | |  | **As a % of Total Net Revenues** | | | | |
| Operating income | $ | 1,121.3 |  |  | $ | 1,038.2 |  |  | $ | 83.1 |  |  | 16.4 | % |  | 16.5 | % |  | $ | 2,994.6 |  |  | $ | 2,926.9 |  |  | $ | 67.7 |  |  | 15.2 | % |  | 15.9 | % |
| Gain resulting from acquisition of joint venture | — | |  |  | 2.5 | |  |  | (2.5 | | ) |  | — |  |  | — |  |  | — | |  |  | 1,376.4 | |  |  | (1,376.4 | | ) |  | — |  |  | 7.5 |  |
| Net gain resulting from divestiture of certain operations | 601.8 | |  |  | — | |  |  | 601.8 | |  |  | 8.8 |  |  | — |  |  | 622.8 | |  |  | 496.3 | |  |  | 126.5 | |  |  | 3.2 |  |  | 2.7 |  |
| Interest income and other, net | 40.2 | |  |  | 31.5 | |  |  | 8.7 | |  |  | 0.6 |  |  | 0.5 |  |  | 80.2 | |  |  | 155.2 | |  |  | (75.0 | | ) |  | 0.4 |  |  | 0.8 |  |
| Interest expense | (86.4 | | ) |  | (45.4 | | ) |  | (41.0 | | ) |  | (1.3 | ) |  | (0.7 | ) |  | (235.3 | | ) |  | (106.4 | | ) |  | (128.9 | | ) |  | (1.2 | ) |  | (0.6 | ) |
| Earnings before income taxes | 1,676.9 | |  |  | 1,026.8 | |  |  | 650.1 | |  |  | 24.6 |  |  | 16.3 |  |  | 3,462.3 | |  |  | 4,848.4 | |  |  | (1,386.1 | | ) |  | 17.5 |  |  | 26.3 |  |
| Income tax expense | 303.7 | |  |  | 174.8 | |  |  | 128.9 | |  |  | 4.5 |  |  | 2.8 |  |  | 670.1 | |  |  | 1,086.5 | |  |  | (416.4 | | ) |  | 3.4 |  |  | 5.9 |  |
| Net earnings including noncontrolling interests | 1,373.2 | |  |  | 852.0 | |  |  | 521.2 | |  |  | 20.1 |  |  | 13.5 |  |  | 2,792.2 | |  |  | 3,761.9 | |  |  | (969.7 | | ) |  | 14.1 |  |  | 20.4 |  |
| Net earnings/(loss) attributable to noncontrolling interests | 0.4 | |  |  | (0.5 | | ) |  | 0.9 | |  |  | — |  |  | — |  |  | (4.2 | | ) |  | (0.9 | | ) |  | (3.3 | | ) |  | — |  |  | — |  |
| **Net earnings attributable to Starbucks** | **$** | **1,372.8** |  |  | **$** | **852.5** |  |  | **$** | **520.3** |  |  | **20.1** | **%** |  | **13.5** | **%** |  | **$** | **2,796.4** |  |  | **$** | **3,762.8** |  |  | **$** | **(966.4** | **)** |  | **14.2** | **%** |  | **20.4** | **%** |
| Effective tax rate including noncontrolling interests |  | | |  |  | | |  |  | | |  | 18.1 | % |  | 17.0 | % |  |  | | |  |  | | |  |  | | |  | 19.4 | % |  | 22.4 | % |

*Quarter ended June 30, 2019 compared with quarter ended July 1, 2018*

Interest income and other, net increased $9 million, primarily due to the gain on the sale of a non-operating asset. This increase was offset by the adoption of the new revenue recognition guidance on a prospective basis, which required estimated breakage on unredeemed stored value cards to be recorded as revenue. We recorded breakage in interest income and other, net in the prior year.

Interest expense increased $41 million primarily related to additional interest incurred on long-term debt issued in August 2018 and May 2019.

The effective tax rate for the quarter ended June 30, 2019 was 18.1% compared to 17.0% for the same quarter in fiscal 2018. The increase was primarily due to lapping the gain on the purchase of East China joint venture that was not subject to income tax (approximately 610 basis points) and lapping the transition tax on our accumulated undistributed foreign earnings and remeasurement of our deferred tax liabilities (approximately 50 basis points), partially offset by the lower corporate tax rate as a result of the Tax Act (approximately 350 basis points) and the tax impacts of the gain on the sale of our Thailand retail operations (approximately 270 basis points).

*Three quarters ended June 30, 2019 compared with three quarters ended July 1, 2018*

Interest income and other, net decreased $75 million primarily due to the adoption of the new revenue recognition guidance on a prospective basis, which required estimated breakage on unredeemed stored value cards to be recorded as revenue. We recorded stored value card breakage in interest income and other, net in the prior year.

Interest expense increased $129 million primarily related to additional interest incurred on long-term debt issued in November 2017, March 2018, August 2018, and May 2019.

The effective tax rate for the three quarters ended June 30, 2019 was 19.4% compared to 22.4% for the same period in fiscal 2018. The decrease was primarily due to the lower corporate tax rate as a result of the Tax Act (approximately 350 basis

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points), lapping the transition tax on our accumulated undistributed foreign earnings and remeasurement of our deferred tax liabilities (approximately 340 basis points), stock-based compensation excess tax benefit (approximately 150 basis points), the release of income tax reserves related to the settlement of a U.S. tax examination and the expiration of statute of limitations (approximately 150 basis points) and the tax impacts of the gain on the sale of our Thailand retail operations (approximately 130 basis points). These favorable impacts were partially offset by lapping the gain on the purchase of our East China joint venture that was not subject to income tax (approximately 570 basis points) and the impact of changes in indefinite reinvestment assertions for certain foreign subsidiaries during the first quarter of fiscal 2019 (approximately 220 basis points).

**Segment Information**

Results of operations by segment *(in millions)*:

***Americas***

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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|  | **Quarter Ended** | | | | | | | | | | | | | | | | |  | **Three Quarters Ended** | | | | | | | | | | | | | | | | |
|  | **Jun 30, 2019** | | |  | **Jul 1, 2018** | | |  | **$**  **Change** | | |  | **Jun 30, 2019** | |  | **Jul 1, 2018** | |  | **Jun 30, 2019** | | |  | **Jul 1, 2018** | | |  | **$ Change** | | |  | **Jun 30, 2019** | |  | **Jul 1, 2018** | |
|  |  | | |  |  | | |  |  | | |  | **As a % of Americas**  **Total Net Revenues** | | | | |  |  | | |  |  | | |  |  | | |  | **As a % of Americas**  **Total Net Revenues** | | | | |
| Net revenues: |  | | |  |  | | |  |  | | |  |  | |  |  | |  |  | | |  |  | | |  |  | | |  |  | |  |  | |
| Company-operated stores | $ | 4,172.9 |  |  | $ | 3,768.5 |  |  | $ | 404.4 |  |  | 89.3 | % |  | 89.2 | % |  | $ | 12,100.1 |  |  | $ | 11,120.5 |  |  | $ | 979.6 |  |  | 89.1 | % |  | 89.1 | % |
| Licensed stores | 496.3 | |  |  | 452.0 | |  |  | 44.3 | |  |  | 10.6 |  |  | 10.7 |  |  | 1,474.0 | |  |  | 1,348.0 | |  |  | 126.0 | |  |  | 10.9 |  |  | 10.8 |  |
| Other | 2.6 | |  |  | 3.5 | |  |  | (0.9 | | ) |  | 0.1 |  |  | 0.1 |  |  | 9.7 | |  |  | 9.5 | |  |  | 0.2 | |  |  | 0.1 |  |  | 0.1 |  |
| **Total net revenues** | **4,671.8** | |  |  | **4,224.0** | |  |  | **447.8** | |  |  | **100.0** |  |  | **100.0** |  |  | **13,583.8** | |  |  | **12,478.0** | |  |  | **1,105.8** | |  |  | **100.0** |  |  | **100.0** |  |
| Cost of sales including occupancy costs | 1,700.8 | |  |  | 1,570.8 | |  |  | 130.0 | |  |  | 36.4 |  |  | 37.2 |  |  | 5,002.2 | |  |  | 4,694.9 | |  |  | 307.3 | |  |  | 36.8 |  |  | 37.6 |  |
| Store operating expenses | 1,615.6 | |  |  | 1,447.6 | |  |  | 168.0 | |  |  | 34.6 |  |  | 34.3 |  |  | 4,741.6 | |  |  | 4,292.9 | |  |  | 448.7 | |  |  | 34.9 |  |  | 34.4 |  |
| Other operating expenses | 41.3 | |  |  | 36.7 | |  |  | 4.6 | |  |  | 0.9 |  |  | 0.9 |  |  | 124.2 | |  |  | 109.2 | |  |  | 15.0 | |  |  | 0.9 |  |  | 0.9 |  |
| Depreciation and amortization expenses | 173.2 | |  |  | 159.3 | |  |  | 13.9 | |  |  | 3.7 |  |  | 3.8 |  |  | 509.6 | |  |  | 477.7 | |  |  | 31.9 | |  |  | 3.8 |  |  | 3.8 |  |
| General and administrative expenses | 58.7 | |  |  | 84.4 | |  |  | (25.7 | | ) |  | 1.3 |  |  | 2.0 |  |  | 172.0 | |  |  | 196.4 | |  |  | (24.4 | | ) |  | 1.3 |  |  | 1.6 |  |
| Restructuring and impairments | 15.1 | |  |  | 18.4 | |  |  | (3.3 | | ) |  | 0.3 |  |  | 0.4 |  |  | 56.2 | |  |  | 21.0 | |  |  | 35.2 | |  |  | 0.4 |  |  | 0.2 |  |
| Total operating expenses | 3,604.7 | |  |  | 3,317.2 | |  |  | 287.5 | |  |  | 77.2 |  |  | 78.5 |  |  | 10,605.8 | |  |  | 9,792.1 | |  |  | 813.7 | |  |  | 78.1 |  |  | 78.5 |  |
| **Operating income** | **$** | **1,067.1** |  |  | **$** | **906.8** |  |  | **$** | **160.3** |  |  | **22.8** | **%** |  | **21.5** | **%** |  | **$** | **2,978.0** |  |  | **$** | **2,685.9** |  |  | **$** | **292.1** |  |  | **21.9** | **%** |  | **21.5** | **%** |
| Store operating expenses as a % of company-operated store revenues | | | |  |  | | |  |  | | |  | 38.7 | % |  | 38.4 | % |  |  | | |  |  | | |  |  | | |  | 39.2 | % |  | 38.6 | % |

*Quarter ended June 30, 2019 compared with quarter ended July 1, 2018*

Revenues

Americas total net revenues for the third quarter of fiscal 2019 increased $448 million, or 11%, primarily driven by a 7% increase in comparable store sales ($244 million) and 259 net new Starbucks®company-operated store openings, or a 3% increase, over the past 12 months ($138 million). Also contributing were higher product sales to and royalty revenues from our licensees ($43 million), primarily resulting from the opening of 382 net new Starbucks® licensed stores, or a 5% increase, over the past 12 months and the impact of the adoption of revenue recognition guidance on stored value card breakage ($27 million).

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Operating Expenses

Cost of sales including occupancy costs as a percentage of total net revenues decreased 80 basis points for the third quarter of fiscal 2019, primarily driven by cost savings initiatives (approximately 110 basis points) and sales leverage, partially offset by higher inventory reserves (approximately 50 basis points).

Store operating expenses as a percentage of total net revenues increased 30 basis points for the third quarter of fiscal 2019. Store operating expenses as a percentage of company-operated store revenues increased 30 basis points, primarily driven by growth in wages (approximately 90 basis points), partially offset by sales leverage and the impact of the adoption of new revenue recognition guidance on stored value card breakage.

Other operating expenses increased $5 million for the third quarter of fiscal 2019, primarily due to lapping the receipt of a favorable settlement in the third quarter of fiscal 2018.

General and administrative expenses decreased $26 million, primarily due to lapping the prior year May 29th anti-bias training costs.

Restructuring and impairment expenses decreased $3 million, primarily due to lower asset impairments in the U.S. and Canada ($11 million), partially offset by higher exit costs associated with the closure of certain company-operated stores in the U.S. and Canada.

The combination of these changes resulted in an overall increase in operating margin of 130 basis points for the third quarter of fiscal 2019.

*Three quarters ended June 30, 2019 compared with three quarters ended July 1, 2018*

Revenues

Americas total net revenues for the first three quarters of fiscal 2019 increased $1.1 billion, or 9%, primarily driven by a 5% increase in comparable store sales ($526 million) and growth in Starbucks®company-operated stores over the past 12 months ($434 million). Also contributing were higher product sales to and royalty revenues from our licensees ($123 million), primarily resulting from growth in Starbucks® licensed stores over the past 12 months and the impact of the adoption of revenue recognition guidance on stored value card breakage ($97 million).

Operating Expenses

Cost of sales including occupancy costs as a percentage of total net revenues decreased 80 basis points for the first three quarters of fiscal 2019, primarily due to cost savings initiatives (approximately 70 basis points).

Store operating expenses as a percentage of total net revenues increased 50 basis points for the first three quarters of fiscal 2019. Store operating expenses as a percentage of company-operated store revenues increased 60 basis points, primarily driven by higher investments in our store partners largely funded by savings from the Tax Act and growth in wages and benefits (approximately 130 basis points), partially offset by sales leverage and the impact of the adoption of new revenue recognition guidance on stored value card breakage.

Other operating expenses increased $15 million for the first three quarters of fiscal 2019, primarily due to lapping prior year favorable settlements, including the Target Canada store closure settlement.

General and administrative expenses decreased $24 million, primarily due to lapping the prior year May 29th anti-bias training costs.

Restructuring and impairment expenses increased $35 million, primarily due to higher exit costs associated with the closure of certain company-operated stores in the U.S. and Canada ($26 million) and headcount-related restructuring costs ($7 million).

The combination of these changes resulted in an overall increase in operating margin of 40 basis points for the first three quarters of fiscal 2019.

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***China/Asia Pacific***

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|  | **Quarter Ended** | | | | | | | | | | | | | | | | |  | **Three Quarters Ended** | | | | | | | | | | | | | | | | |
|  | **Jun 30, 2019** | | |  | **Jul 1, 2018** | | |  | **$**  **Change** | | |  | **Jun 30, 2019** | |  | **Jul 1, 2018** | |  | **Jun 30, 2019** | | |  | **Jul 1, 2018** | | |  | **$**  **Change** | | |  | **Jun 30, 2019** | |  | **Jul 1, 2018** | |
|  |  | | |  |  | | |  |  | | |  | **As a % of CAP**  **Total Net Revenues** | | | | |  |  | | |  |  | | |  |  | | |  | **As a % of CAP**  **Total Net Revenues** | | | | |
| Net revenues: |  | | |  |  | | |  |  | | |  |  | |  |  | |  |  | | |  |  | | |  |  | | |  |  | |  |  | |
| Company-operated stores | $ | 1,229.8 |  |  | $ | 1,136.5 |  |  | $ | 93.3 |  |  | 92.0 | % |  | 92.5 | % |  | $ | 3,539.7 |  |  | $ | 2,977.6 |  |  | $ | 562.1 |  |  | 91.9 | % |  | 91.4 | % |
| Licensed stores | 103.8 | |  |  | 90.1 | |  |  | 13.7 | |  |  | 7.8 |  |  | 7.3 |  |  | 303.1 | |  |  | 272.8 | |  |  | 30.3 | |  |  | 7.9 |  |  | 8.4 |  |
| Other | 3.3 | |  |  | 2.4 | |  |  | 0.9 | |  |  | 0.2 |  |  | 0.2 |  |  | 10.6 | |  |  | 8.7 | |  |  | 1.9 | |  |  | 0.3 |  |  | 0.3 |  |
| **Total net revenues** | **1,336.9** | |  |  | **1,229.0** | |  |  | **107.9** | |  |  | **100.0** |  |  | **100.0** |  |  | **3,853.4** | |  |  | **3,259.1** | |  |  | **594.3** | |  |  | **100.0** |  |  | **100.0** |  |
| Cost of sales including occupancy costs | 548.7 | |  |  | 505.4 | |  |  | 43.3 | |  |  | 41.0 |  |  | 41.1 |  |  | 1,620.9 | |  |  | 1,388.9 | |  |  | 232.0 | |  |  | 42.1 |  |  | 42.6 |  |
| Store operating expenses | 347.9 | |  |  | 310.2 | |  |  | 37.7 | |  |  | 26.0 |  |  | 25.2 |  |  | 1,020.8 | |  |  | 835.3 | |  |  | 185.5 | |  |  | 26.5 |  |  | 25.6 |  |
| Other operating expenses | 4.7 | |  |  | 4.4 | |  |  | 0.3 | |  |  | 0.4 |  |  | 0.4 |  |  | 17.8 | |  |  | 18.7 | |  |  | (0.9 | | ) |  | 0.5 |  |  | 0.6 |  |
| Depreciation and amortization expenses | 118.9 | |  |  | 120.7 | |  |  | (1.8 | | ) |  | 8.9 |  |  | 9.8 |  |  | 357.2 | |  |  | 296.0 | |  |  | 61.2 | |  |  | 9.3 |  |  | 9.1 |  |
| General and administrative expenses | 74.1 | |  |  | 77.7 | |  |  | (3.6 | | ) |  | 5.5 |  |  | 6.3 |  |  | 188.9 | |  |  | 175.8 | |  |  | 13.1 | |  |  | 4.9 |  |  | 5.4 |  |
| Restructuring and impairments | — | |  |  | — | |  |  | — | |  |  | — |  |  | — |  |  | 0.6 | |  |  | — | |  |  | 0.6 | |  |  | — |  |  | — |  |
| Total operating expenses | 1,094.3 | |  |  | 1,018.4 | |  |  | 75.9 | |  |  | 81.9 |  |  | 82.9 |  |  | 3,206.2 | |  |  | 2,714.7 | |  |  | 491.5 | |  |  | 83.2 |  |  | 83.3 |  |
| Income from equity investees | 27.2 | |  |  | 23.5 | |  |  | 3.7 | |  |  | 2.0 |  |  | 1.9 |  |  | 75.7 | |  |  | 91.0 | |  |  | (15.3 | | ) |  | 2.0 |  |  | 2.8 |  |
| **Operating income** | **$** | **269.8** |  |  | **$** | **234.1** |  |  | **$** | **35.7** |  |  | **20.2** | **%** |  | **19.0** | **%** |  | **$** | **722.9** |  |  | **$** | **635.4** |  |  | **$** | **87.5** |  |  | **18.8** | **%** |  | **19.5** | **%** |
| Store operating expenses as a % of company-operated store revenues | | | |  |  | | |  |  | | |  | 28.3 | % |  | 27.3 | % |  |  | | |  |  | | |  |  | | |  | 28.8 | % |  | 28.1 | % |

At the beginning of the second quarter of fiscal 2019, we lapped the conversion to fully consolidated operations for East China, which converted from an equity method joint venture since the acquisition date of December 31, 2017. Although the impact of the conversion is no longer significant after the first quarter of fiscal 2019, discussion of year to date results may reference the ownership change in East China.

*Quarter ended June 30, 2019 compared with quarter ended July 1, 2018*

Revenues

CAP total net revenues for the third quarter of fiscal 2019 increased $108 million, or 9%, primarily driven by 664 net new Starbucks®company-operated store openings, or a 13% increase, over the past 12 months ($112 million), a 5% increase in comparable store sales ($53 million) and increased product sales to and royalty revenues from licensees ($6 million), primarily resulting from the opening of 330 net new licensed stores, or a 10% increase, over the past 12 months. These increases were partially offset by unfavorable foreign currency translation ($55 million).

Operating Expenses

Cost of sales including occupancy costs as a percentage of total net revenues decreased 10 basis points for the third quarter of fiscal 2019, primarily driven by sales leverage and cost savings initiatives, partially offset by product mix shift (approximately 70 basis points).

Store operating expenses as a percentage of total net revenues increased 80 basis points for the third quarter of fiscal 2019. As a percentage of company-operated store revenues, store operating expenses increased 100 basis points, primarily driven by incremental investments, primarily in China, to support store growth and strategic initiatives and growth in wages and benefits.

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Depreciation and amortization expenses as a percentage of total net revenues decreased 90 basis points, primarily due to sales leverage, mostly associated with new stores in China.

Income from equity investees increased $4 million, primarily due to improved comparable store sales and new store growth in our joint venture operations in South Korea.

The combination of these changes resulted in an overall increase in operating margin of 120 basis points for the third quarter of fiscal 2019.

*Three quarters ended June 30, 2019 compared with three quarters ended July 1, 2018*

Revenues

CAP total net revenues for the first three quarters of fiscal 2019 increased $594 million, or 18%, primarily driven by growth in Starbucks®company-operated stores over the past 12 months ($297 million), the ownership change in East China ($280 million), a 3% increase in comparable store sales ($95 million) and increased product sales to and royalty revenues from licensees ($30 million), primarily resulting from growth in Starbucks®licensed stores over the past 12 months. These increases were partially offset by unfavorable foreign currency translation ($122 million).

Operating Expenses

Cost of sales including occupancy costs as a percentage of total net revenues decreased 50 basis points for the first three quarters of fiscal 2019, primarily driven by cost savings initiatives.

Store operating expenses as a percentage of total net revenues increased 90 basis points for the first three quarters of fiscal 2019. As a percentage of company-operated store revenues, store operating expenses increased 70 basis points, primarily driven by incremental investments, primarily in China, to support store growth and strategic initiatives.

Depreciation and amortization expenses as a percentage of total net revenues increased 20 basis points, primarily due to the ownership change in East China (approximately 90 basis points), partially offset by sales leverage, mostly associated with new stores in China (approximately 40 basis points).

Income from equity investees decreased $15 million, primarily due to the impact of our ownership change in East China.

The combination of these changes resulted in an overall decrease in operating margin of 70 basis points for the first three quarters of fiscal 2019.

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***EMEA***

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|  | **Quarter Ended** | | | | | | | | | | | | | | | | |  | **Three Quarters Ended** | | | | | | | | | | | | | | | | |
|  | **Jun 30, 2019** | | |  | **Jul 1, 2018** | | |  | **$**  **Change** | | |  | **Jun 30, 2019** | |  | **Jul 1, 2018** | |  | **Jun 30, 2019** | | |  | **Jul 1, 2018** | | |  | **$**  **Change** | | |  | **Jun 30, 2019** | |  | **Jul 1, 2018** | |
|  |  | | |  |  | | |  |  | | |  | **As a % of EMEA**  **Total Net Revenues** | | | | |  |  | | |  |  | | |  |  | | |  | **As a % of EMEA**  **Total Net Revenues** | | | | |
| Net revenues: |  | | |  |  | | |  |  | | |  |  | |  |  | |  |  | | |  |  | | |  |  | | |  |  | |  |  | |
| Company-operated stores | $ | 106.4 |  |  | $ | 142.9 |  |  | $ | (36.5 | ) |  | 45.9 | % |  | 54.6 | % |  | $ | 361.1 |  |  | $ | 433.1 |  |  | $ | (72.0 | ) |  | 49.8 | % |  | 55.5 | % |
| Licensed stores | 124.9 | |  |  | 118.5 | |  |  | 6.4 | |  |  | 53.9 |  |  | 45.3 |  |  | 363.2 | |  |  | 346.7 | |  |  | 16.5 | |  |  | 50.1 |  |  | 44.4 |  |
| Other | 0.4 | |  |  | 0.3 | |  |  | 0.1 | |  |  | 0.2 |  |  | 0.1 |  |  | 1.3 | |  |  | 1.0 | |  |  | 0.3 | |  |  | 0.2 |  |  | 0.1 |  |
| **Total net revenues** | **231.7** | |  |  | **261.7** | |  |  | **(30.0** | | **)** |  | **100.0** |  |  | **100.0** |  |  | **725.6** | |  |  | **780.8** | |  |  | **(55.2** | | **)** |  | **100.0** |  |  | **100.0** |  |
| Cost of sales including occupancy costs | 123.3 | |  |  | 137.2 | |  |  | (13.9 | | ) |  | 53.2 |  |  | 52.4 |  |  | 380.8 | |  |  | 420.7 | |  |  | (39.9 | | ) |  | 52.5 |  |  | 53.9 |  |
| Store operating expenses | 38.9 | |  |  | 58.0 | |  |  | (19.1 | | ) |  | 16.8 |  |  | 22.2 |  |  | 142.2 | |  |  | 170.4 | |  |  | (28.2 | | ) |  | 19.6 |  |  | 21.8 |  |
| Other operating expenses | 17.7 | |  |  | 14.3 | |  |  | 3.4 | |  |  | 7.6 |  |  | 5.5 |  |  | 54.0 | |  |  | 47.0 | |  |  | 7.0 | |  |  | 7.4 |  |  | 6.0 |  |
| Depreciation and amortization expenses | 5.4 | |  |  | 8.0 | |  |  | (2.6 | | ) |  | 2.3 |  |  | 3.1 |  |  | 20.1 | |  |  | 23.5 | |  |  | (3.4 | | ) |  | 2.8 |  |  | 3.0 |  |
| General and administrative expenses | 13.2 | |  |  | 15.0 | |  |  | (1.8 | | ) |  | 5.7 |  |  | 5.7 |  |  | 41.1 | |  |  | 40.1 | |  |  | 1.0 | |  |  | 5.7 |  |  | 5.1 |  |
| Restructuring and impairments | 16.6 | |  |  | — | |  |  | 16.6 | |  |  | 7.2 |  |  | — |  |  | 46.6 | |  |  | 28.5 | |  |  | 18.1 | |  |  | 6.4 |  |  | 3.7 |  |
| Total operating expenses | 215.1 | |  |  | 232.5 | |  |  | (17.4 | | ) |  | 92.8 |  |  | 88.8 |  |  | 684.8 | |  |  | 730.2 | |  |  | (45.4 | | ) |  | 94.4 |  |  | 93.5 |  |
| **Operating income** | **$** | **16.6** |  |  | **$** | **29.2** |  |  | **$** | **(12.6** | **)** |  | **7.2** | **%** |  | **11.2** | **%** |  | **$** | **40.8** |  |  | **$** | **50.6** |  |  | **$** | **(9.8** | **)** |  | **5.6** | **%** |  | **6.5** | **%** |
| Store operating expenses as a % of company-operated store revenues | | | |  |  | | |  |  | | |  | 36.6 | % |  | 40.6 | % |  |  | | |  |  | | |  |  | | |  | 39.4 | % |  | 39.3 | % |

*Quarter ended June 30, 2019 compared with quarter ended July 1, 2018*

Revenues

EMEA total net revenues decreased $30 million, or 11%, for the third quarter of fiscal 2019, primarily driven by the conversions of our France and the Netherlands retail businesses to fully licensed operations during the second quarter of fiscal 2019 ($22 million) and unfavorable currency translation ($15 million). These decreases were partially offset by increased product sales to and royalty revenues from our licensees ($9 million), primarily resulting from the opening of 324 net new Starbucks® licensed stores, or a 12% increase, over the past 12 months.

Operating Expenses

Cost of sales including occupancy costs as a percentage of total net revenues increased 80 basis points for the third quarter of fiscal 2019, primarily due to lapping the prior year favorable foreign currency impact on cost of sales.

Store operating expenses as a percentage of total net revenues decreased 540 basis points for the third quarter of fiscal 2019. As a percentage of company-operated store revenues, store operating expenses decreased 400 basis points, primarily due to the continued shift in portfolio towards more licensed stores, which includes the conversion of our France and the Netherlands retail businesses to fully licensed operations during the second quarter of fiscal 2019 and the closure of certain company-operated stores (approximately 310 basis points), and lapping prior year store asset impairments (approximately 150 basis points).

Depreciation and amortization expenses as a percentage of total net revenues decreased 80 basis points, primarily due to the shift in the portfolio towards more licensed stores.

Restructuring and impairment expenses increased $17 million, primarily due to higher costs associated with the closure of certain company-operated stores.

The combination of these changes resulted in an overall decrease in operating margin of 400 basis points for the third quarter of fiscal 2019.

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*Three quarters ended June 30, 2019 compared with three quarters ended July 1, 2018*

Revenues

EMEA total net revenues decreased $55 million, or 7%, for the first three quarters of fiscal 2019, primarily driven by unfavorable foreign currency translation ($46 million) and the conversions of our France and the Netherlands retail businesses to fully licensed operations during the second quarter of fiscal 2019 ($37 million), partially offset by increased product sales to and royalty revenues from our licensees ($36 million), primarily resulting from the growth in Starbucks® licensed stores over the past 12 months.

Operating Expenses

Cost of sales including occupancy costs as a percentage of total net revenues decreased 140 basis points for the first three quarters of fiscal 2019, primarily due to lower occupancy costs attributable to the continued shift in our portfolio towards more licensed stores, which includes the conversion of France and the Netherlands retail operations to fully licensed during the second quarter of fiscal 2019 and the closure of certain company-operated stores.

Other operating expenses increased $7 million for the first three quarters of fiscal 2019, primarily driven by increased investments related to the growth in our licensed stores.

Depreciation and amortization expenses as a percentage of total net revenues decreased 20 basis points, primarily due to the shift in the portfolio towards more licensed stores, which includes the conversion of our France and the Netherlands retail operations to fully licensed during the second quarter of fiscal 2019 and the closure of certain company-operated stores.

Restructuring and impairment expenses increased $18 million, primarily due to higher costs associated with the closure of certain company-operated stores ($16 million) and severance costs ($13 million), partially offset by lower impairment expenses related to our Switzerland retail market ($18 million).

The combination of these changes resulted in an overall decrease in operating margin of 90 basis points for the first three quarters of fiscal 2019.

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***Channel Development***

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|  | **Quarter Ended** | | | | | | | | | | | | | | | | |  | **Three Quarters Ended** | | | | | | | | | | | | | | | | |
|  | **Jun 30, 2019** | | |  | **Jul 1, 2018** | | |  | **$**  **Change** | | |  | **Jun 30, 2019** | |  | **Jul 1, 2018** | |  | **Jun 30, 2019** | | |  | **Jul 1, 2018** | | |  | **$ Change** | | |  | **Jun 30, 2019** | |  | **Jul 1, 2018** | |
|  |  | | |  |  | | |  |  | | |  | **As a % of Channel Development Total Net Revenues** | | | | |  |  | | |  |  | | |  |  | | |  | **As a % of Channel Development Total Net Revenues** | | | | |
| Net revenues | $ | 533.3 |  |  | $ | 567.4 |  |  | $ | (34.1 | ) |  |  |  |  |  |  |  | $ | 1,484.5 |  |  | $ | 1,758.0 |  |  | $ | (273.5 | ) |  |  |  |  |  |  |
| Cost of sales | 377.1 | |  |  | 304.6 | |  |  | 72.5 | |  |  | 70.7 | % |  | 53.7 | % |  | 1,030.9 | |  |  | 938.0 | |  |  | 92.9 | |  |  | 69.4 | % |  | 53.4 | % |
| Other operating expenses | 20.2 | |  |  | 74.0 | |  |  | (53.8 | | ) |  | 3.8 |  |  | 13.0 |  |  | 55.9 | |  |  | 194.5 | |  |  | (138.6 | | ) |  | 3.8 |  |  | 11.1 |  |
| Depreciation and amortization expenses | 0.2 | |  |  | 0.2 | |  |  | — | |  |  | — |  |  | — |  |  | 12.6 | |  |  | 1.2 | |  |  | 11.4 | |  |  | 0.8 |  |  | 0.1 |  |
| General and administrative expenses | 2.7 | |  |  | 3.7 | |  |  | (1.0 | | ) |  | 0.5 |  |  | 0.7 |  |  | 8.9 | |  |  | 10.6 | |  |  | (1.7 | | ) |  | 0.6 |  |  | 0.6 |  |
| Total operating expenses | 400.2 | |  |  | 382.5 | |  |  | 17.7 | |  |  | 75.0 |  |  | 67.4 |  |  | 1,108.3 | |  |  | 1,144.3 | |  |  | (36.0 | | ) |  | 74.7 |  |  | 65.1 |  |
| Income from equity investees | 48.8 | |  |  | 47.9 | |  |  | 0.9 | |  |  | 9.2 |  |  | 8.4 |  |  | 130.4 | |  |  | 122.5 | |  |  | 7.9 | |  |  | 8.8 |  |  | 7.0 |  |
| **Operating income** | **$** | **181.9** |  |  | **$** | **232.8** |  |  | **$** | **(50.9** | **)** |  | **34.1** | **%** |  | **41.0** | **%** |  | **$** | **506.6** |  |  | **$** | **736.2** |  |  | **$** | **(229.6** | **)** |  | **34.1** | **%** |  | **41.9** | **%** |

*Quarter ended June 30, 2019 compared with quarter ended July 1, 2018*

Revenues

Channel Development total net revenues for the third quarter of fiscal 2019 decreased $34 million, or 6%, primarily due to licensing our CPG and Foodservice businesses to Nestlé, which we expect will remain the trend through fiscal 2019.

Operating Expenses

Cost of sales as a percentage of total net revenues increased 1,700 basis points for the third quarter, primarily due to licensing our CPG and Foodservice businesses to Nestlé.

Other operating expenses decreased $54 million primarily due to cost savings related to licensing our CPG and Foodservice businesses to Nestlé, partially offset by Global Coffee Alliance headcount-related costs.

The combination of these changes resulted in an overall decrease in operating margin of 690 basis points for the third quarter of fiscal 2019.

*Three quarters ended June 30, 2019 compared with three quarters ended July 1, 2018*

Revenues

Channel Development total net revenues for the first three quarters of fiscal 2019 decreased $274 million, or 16%, when compared to the prior year period, primarily due to licensing our CPG and Foodservice businesses to Nestlé, which we expect to continue through the remainder of fiscal 2019.

Operating Expenses

Cost of sales as a percentage of total net revenues increased 1,600 basis points for the first three quarters, primarily due to licensing our CPG and Foodservice businesses to Nestlé.

Other operating expenses decreased $139 million, primarily due to cost savings related to licensing our CPG and Foodservice businesses to Nestlé, partially offset by Global Coffee Alliance headcount-related costs, including retention costs.

Depreciation and amortization expenses as a percentage of total net revenues increased 70 basis points, primarily due to the correction of amortization expenses pertaining to prior periods.

Income from equity investees increased $8 million due to higher income from our North American Coffee Partnership joint venture, primarily driven by new product launches in Frappuccino®, Starbucks Tripleshot™ and Iced Espresso beverages.

The combination of these changes resulted in an overall decrease in operating margin of 780 basis points for the first three quarters of fiscal 2019.

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***Corporate and Other***

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|  | **Quarter Ended** | | | | | | | | | | | | | |  | **Three Quarters Ended** | | | | | | | | | | | | | |
|  | **Jun 30, 2019** | | |  | **Jul 1, 2018** | | |  | **$**  **Change** | | |  | **%**  **Change** | |  | **Jun 30, 2019** | | |  | **Jul 1, 2018** | | |  | **$**  **Change** | | |  | **%**  **Change** | |
| Net revenues: |  | | |  |  | | |  |  | | |  |  | |  |  | | |  |  | | |  |  | | |  |  | |
| Company-operated stores | $ | 25.9 |  |  | $ | 12.5 |  |  | $ | 13.4 |  |  | 107.2 | % |  | $ | 63.4 |  |  | $ | 99.1 |  |  | $ | (35.7 | ) |  | (36.0 | )% |
| Licensed stores | — | |  |  | — | |  |  | — | |  |  | nm |  |  | — | |  |  | 1.1 | |  |  | (1.1 | | ) |  | nm |  |
| Other | 23.4 | |  |  | 15.7 | |  |  | 7.7 | |  |  | 49.0 |  |  | 50.9 | |  |  | 39.8 | |  |  | 11.1 | |  |  | 27.9 |  |
| **Total net revenues** | **49.3** | |  |  | **28.2** | |  |  | **21.1** | |  |  | **74.8** |  |  | **114.3** | |  |  | **140.0** | |  |  | **(25.7** | | **)** |  | **(18.4** | **)** |
| Cost of sales including occupancy costs | 58.7 | |  |  | 35.4 | |  |  | 23.3 | |  |  | 65.8 |  |  | 136.3 | |  |  | 127.3 | |  |  | 9.0 | |  |  | 7.1 |  |
| Store operating expenses | 16.1 | |  |  | 9.2 | |  |  | 6.9 | |  |  | 75.0 |  |  | 56.6 | |  |  | 53.0 | |  |  | 3.6 | |  |  | 6.8 |  |
| Other operating expenses | 5.7 | |  |  | 2.9 | |  |  | 2.8 | |  |  | 96.6 |  |  | 13.3 | |  |  | 13.1 | |  |  | 0.2 | |  |  | 1.5 |  |
| Depreciation and amortization expenses | 45.4 | |  |  | 41.8 | |  |  | 3.6 | |  |  | 8.6 |  |  | 133.0 | |  |  | 122.0 | |  |  | 11.0 | |  |  | 9.0 |  |
| General and administrative expenses | 331.5 | |  |  | 305.1 | |  |  | 26.4 | |  |  | 8.7 |  |  | 1,008.3 | |  |  | 876.1 | |  |  | 132.2 | |  |  | 15.1 |  |
| Restructuring and impairments | 6.0 | |  |  | (1.5 | | ) |  | 7.5 | |  |  | nm |  |  | 20.5 | |  |  | 129.7 | |  |  | (109.2 | | ) |  | (84.2 | ) |
| Total operating expenses | 463.4 | |  |  | 392.9 | |  |  | 70.5 | |  |  | 17.9 |  |  | 1,368.0 | |  |  | 1,321.2 | |  |  | 46.8 | |  |  | 3.5 |  |
| **Operating loss** | **$** | **(414.1** | **)** |  | **$** | **(364.7** | **)** |  | **$** | **(49.4** | **)** |  | **13.5** | **%** |  | **$** | **(1,253.7** | **)** |  | **$** | **(1,181.2** | **)** |  | **$** | **(72.5** | **)** |  | **6.1** | **%** |

Corporate and Other primarily consists of our unallocated corporate expenses, the results from Siren Retail and Evolution Fresh, and the legacy operations of the Teavana retail business, which substantially ceased during fiscal 2018. Unallocated corporate expenses include 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.

General and administrative expenses increased $26 million and $132 million during the third quarter of fiscal 2019 and the first three quarters of fiscal 2019, respectively, primarily driven by higher performance-based compensation. Also contributing to the increase for the first three quarters of fiscal 2019 was the U.S. stock award which was granted in the third quarter of fiscal 2018, was funded by savings from the Tax Act and fully vested in the third quarter of fiscal 2019.

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**Quarterly Store Data**

Our store data for the periods presented is as follows:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
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|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Net stores opened/(closed) and**  **transferred during the period** | | | | | | | | | | |  |  | |  |  | |
|  | **Quarter Ended** | | | | |  | **Three Quarters Ended** | | | | |  | **Stores open as of** | | | | |
|  | **Jun 30, 2019** | |  | **Jul 1, 2018** | |  | **Jun 30, 2019** | |  | **Jul 1, 2018** | |  | **Jun 30, 2019** | |  | **Jul 1, 2018** | |
| Americas |  | |  |  | |  |  | |  |  | |  |  | |  |  | |
| Company-operated stores | 82 |  |  | 94 |  |  | 165 |  |  | 177 |  |  | 9,849 |  |  | 9,590 |  |
| Licensed stores | 53 |  |  | 86 |  |  | 226 |  |  | 468 |  |  | 7,996 |  |  | 7,614 |  |
| Total Americas | 135 |  |  | 180 |  |  | 391 |  |  | 645 |  |  | 17,845 |  |  | 17,204 |  |
| China/Asia Pacific(1) |  | |  |  | |  |  | |  |  | |  |  | |  |  | |
| Company-operated stores | (217 | ) |  | 163 |  |  | 107 |  |  | 1,909 |  |  | 5,266 |  |  | 4,979 |  |
| Licensed stores | 470 |  |  | 94 |  |  | 609 |  |  | (1,136 | ) |  | 3,980 |  |  | 3,273 |  |
| Total China/Asia Pacific | 253 |  |  | 257 |  |  | 716 |  |  | 773 |  |  | 9,246 |  |  | 8,252 |  |
| EMEA(2) |  | |  |  | |  |  | |  |  | |  |  | |  |  | |
| Company-operated stores | (16 | ) |  | — |  |  | (114 | ) |  | (6 | ) |  | 376 |  |  | 496 |  |
| Licensed stores | 71 |  |  | 76 |  |  | 317 |  |  | 269 |  |  | 3,147 |  |  | 2,741 |  |
| Total EMEA | 55 |  |  | 76 |  |  | 203 |  |  | 263 |  |  | 3,523 |  |  | 3,237 |  |
| Corporate and Other |  | |  |  | |  |  | |  |  | |  |  | |  |  | |
| Company-operated stores | (1 | ) |  | 1 |  |  | 4 |  |  | (285 | ) |  | 12 |  |  | 5 |  |
| Licensed stores | — |  |  | (3 | ) |  | (12 | ) |  | (15 | ) |  | — |  |  | 22 |  |
| Total Corporate and Other | (1 | ) |  | (2 | ) |  | (8 | ) |  | (300 | ) |  | 12 |  |  | 27 |  |
| **Total Company** | **442** |  |  | **511** |  |  | **1,302** |  |  | **1,381** |  |  | **30,626** |  |  | **28,720** |  |
| (1) China/Asia Pacific store data includes the transfer of 377 company-operated stores in Thailand to licensed stores as a result of the sale of operations late in the third quarter of fiscal 2019 and the transfer of 1,477 licensed stores in East China to company-operated retail stores as a result of the purchase of our East China joint venture in the first quarter of fiscal 2018. | | | | | | | | | | | | | | | | | |
| (2) EMEA store data includes the transfer of 82 company-operated retail stores in France and the Netherlands to licensed stores as a result of the sales of these retail operations in the second quarter of fiscal 2019. | | | | | | | | | | | | | | | | | |

**Financial Condition, Liquidity and Capital Resources**

Investment Overview

Our cash and investments totaled $5.1 billion as of June 30, 2019 and $9.2 billion as of September 30, 2018. We actively manage our cash and investments in order to internally fund operating needs, make scheduled interest and principal payments on our borrowings, make acquisitions, and return cash to shareholders through common stock cash dividend payments and share repurchases. Our investment portfolio primarily includes highly liquid available-for-sale securities, including corporate debt securities, government treasury securities (foreign and domestic), mortgage and asset-backed securities and agency obligations. As of June 30, 2019, approximately $1.7 billion of cash was held in foreign subsidiaries.

Borrowing Capacity

Our $2.0 billion unsecured 5-year revolving credit facility (the “2018 credit facility”) and our $1.0 billion unsecured 364-day credit facility (the “364-day credit facility”) are available for working capital, capital expenditures and other corporate purposes, including acquisitions and share repurchases.

The 2018 credit facility, of which $150 million may be used for issuances of letters of credit, is currently set to mature on October 25, 2022. We have the option, subject to negotiation and agreement with the related banks, to increase the maximum commitment amount by an additional $500 million. Borrowings under the credit facility will bear interest at a variable rate based on LIBOR, and, for U.S. dollar-denominated loans under certain circumstances, a Base Rate (as defined in the credit facility), in each case plus an applicable margin. The applicable margin is based on the better of (i) the Company's long-term credit ratings assigned by Moody's and Standard & Poor's rating agencies and (ii) the Company's fixed charge coverage ratio, pursuant to a pricing grid set forth in the five-year credit agreement. The current applicable margin is 0.910% for Eurocurrency Rate Loans and 0.000% (nil) for Base Rate Loans.

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The 364-day credit facility, of which no amount may be used for issuances of letters of credit, is currently set to mature on October 23, 2019. We have the option, subject to negotiation and agreement with the related banks, to increase the maximum commitment amount by an additional $500 million. Borrowings under the credit facility will bear interest at a variable rate based on LIBOR, and, for U.S. dollar-denominated loans under certain circumstances, a Base Rate (as defined in the credit facility), in each case plus an applicable margin. The applicable margin is 0.920% for Eurocurrency Rate Loans and 0.000% (nil) for Base Rate Loans.

Both credit facilities contain provisions requiring us to maintain compliance with certain covenants, including a minimum fixed charge coverage ratio, which measures our ability to cover financing expenses. As of June 30, 2019, we had no borrowings outstanding and were in compliance with all applicable covenants related to our credit facilities.

Under our commercial paper program, we may issue unsecured commercial paper notes up to a maximum aggregate amount outstanding at any time of $3 billion, with individual maturities that may vary but not exceed 397 days from the date of issue. Amounts outstanding under the commercial paper program are required to be backstopped by available commitments under our credit facility discussed above. The proceeds from borrowings under our commercial paper program may be used for working capital needs, capital expenditures and other corporate purposes, including, but not limited to, business expansion, payment of cash dividends on our common stock and share repurchases. As of June 30, 2019, we had no borrowings outstanding under our commercial paper program.

On May 13, 2019, we issued long-term debt in an underwritten registered public offering, which consisted of $1 billion of 10-year 3.550% Senior Notes (the “2029 notes”) due August 2029 and $1 billion of 30-year 4.450% Senior Notes (the “2049 notes”) due August 2049. We will use the net proceeds from the offering of the 2029 notes for general corporate purposes, including the repurchases of Starbucks common stock under our ongoing share repurchase program, business expansion and payment of dividends. We will use the net proceeds from the offering of the 2049 notes to enhance our sustainability programs. Interest on the 2029 notes and the 2049 notes is payable semi-annually on February 15 and August 15, commencing on August 15, 2019.

See [Note 9](file:///D:\TMP\finance-docx\STARBUCKS\Starbucks-19.06.30-10-Q.html#s4F833487CC135D9EBEC2DE7104C56FB8), Debt, to the condensed consolidated financial statements included in Item 1 of Part I of this 10-Q for details of the components of our long-term debt.

The indentures under which all of our Senior Notes were issued require us to maintain compliance with certain covenants, including limits on future liens and sale and leaseback transactions on certain material properties. As of June 30, 2019, we were in compliance with all applicable covenants.

Use of Cash

We expect to use our available cash and investments, including, but not limited to, additional potential future borrowings under the credit facilities, commercial paper program and the issuance of debt, to invest in our core businesses, including capital expenditures, new product innovations, related marketing support and partner and digital investments, return cash to shareholders through common stock cash dividend payments and share repurchases, as well as other new business opportunities related to our core and developing businesses. Further, we may use our available cash resources to make proportionate capital contributions to our investees. We may also seek strategic acquisitions to leverage existing capabilities and further build our business in support of our growth-at-scale agenda. Acquisitions may include increasing our ownership interests in our investees. Any decisions to increase such ownership interests will be driven by valuation and fit with our ownership strategy.

We believe that future cash flows generated from operations and existing cash and investments both domestically and internationally combined with our ability to leverage our balance sheet through the issuance of debt will be sufficient to finance capital requirements for our core businesses as well as shareholder distributions for the foreseeable future. Significant new joint ventures, acquisitions and/or other new business opportunities may require additional outside funding. We have borrowed funds and continue to believe we have the ability to do so at reasonable interest rates; however, additional borrowings would result in increased interest expense in the future. In this regard, we may incur additional debt, within targeted levels, as part of our plans to fund our capital programs, including cash returns to shareholders through dividends and share repurchases.

We regularly review our cash positions and our determination of indefinite reinvestment of foreign earnings. In the event we determine that all or a portion of such foreign earnings are no longer indefinitely reinvested, we may be subject to additional foreign withholding taxes and U.S. state income taxes, which could be material. The Company revised its indefinite reinvestment assertions for prior years' cumulative earnings from certain foreign subsidiaries. This change did not have a material impact to our financial results. We have not, nor do we anticipate the need for, repatriated funds to the U.S. to satisfy domestic liquidity needs. See [Note 12](file:///D:\TMP\finance-docx\STARBUCKS\Starbucks-19.06.30-10-Q.html#s9DA7F416C1755ACAB2EE7FA42844F01C), Income Taxes, for further discussion.

During the third quarter of fiscal 2019, our Board of Directors declared a quarterly cash dividend to shareholders of $0.36 per share to be paid on August 23, 2019 to shareholders of record as of the close of business on August 8, 2019.

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We entered into accelerated share repurchase agreements (“ASR agreements”) with third-party financial institutions totaling $5.0 billion, effective October 1, 2018. We made a $5.0 billion upfront payment to the financial institutions and received an initial delivery of 72.0 million shares of our common stock. In March 2019, we received an additional 4.9 million shares upon the completion of the program based on a volume-weighted average share price (less discount) of $65.03.

Additionally, we entered into ASR agreements with third-party financial institutions totaling $2.0 billion, effective March 22, 2019. We made a $2.0 billion upfront payment to the financial institutions and received an initial delivery of 22.2 million shares of our common stock. In June 2019, we received an additional 3.9 million shares upon the completion of the program based on a volume-weighted average share price (less discount) of $76.50.

Outside of the ASR agreements noted above, we repurchased 13.1 million shares of common stock for $954.3 million on the open market during the three quarters ended June 30, 2019. In connection with the ASR agreements and other open market transactions, we repurchased 116.1 million shares of common stock at a total cost of $8.0 billion for the three quarters ended June 30, 2019. In the first quarter 2019, we announced that our Board of Directors approved an increase of 120 million shares to our ongoing share repurchase program. As of June 30, 2019, 52.7 million shares remained available for repurchase under current authorizations.

Other than normal operating expenses, cash requirements for the remainder of fiscal 2019 are expected to consist primarily of capital expenditures for investments in our new and existing stores and our supply chain and corporate facilities. Total capital expenditures for fiscal 2019 are expected to be approximately $2.0 billion.

Cash Flows

Cash provided by operating activities was $3.9 billion for the first three quarters of fiscal 2019, compared to $3.5 billion for the same period in fiscal 2018. The change was primarily due to the timing of tax payments and refunds.

Cash used by investing activities for the first three quarters of fiscal 2019 totaled $506.5 million, compared to cash used by investing activities of $1.7 billion for the same period in fiscal 2018. The change was primarily driven by lapping the prior year payment to acquire the 50% ownership interest in our East China joint venture and higher proceeds from the divestiture of certain operations.

Cash used by financing activities for the first three quarters of fiscal 2019 and fiscal 2018 totaled $7.4 billion and $2.4 billion, respectively. The change was primarily due to higher repurchases of our common stock under accelerated share repurchase agreements in fiscal 2019 and lower proceeds from issuance of long-term debt.

**Contractual Obligations**

In Management’s Discussion and Analysis of Financial Condition and Results of Operations included in the 10-K, we disclosed that we had $24.3 billion in total contractual obligations as of September 30, 2018. Other than the issuance of our 2029 notes and our 2049 notes in the third quarter of fiscal 2019 as described in [Note 9](file:///D:\TMP\finance-docx\STARBUCKS\Starbucks-19.06.30-10-Q.html#s4F833487CC135D9EBEC2DE7104C56FB8), Debt, to the condensed consolidated financial statements included in Item 1 of Part I of this 10-Q, there have been no material changes to our total obligations during the period covered by this 10-Q outside of the normal course of our business.

**Off-Balance Sheet Arrangements**

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

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

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

**Seasonality and Quarterly Results**

Our business is subject to moderate seasonal fluctuations, of which our fiscal second quarter typically experiences lower revenues and operating income. Additionally, as our stored value cards are issued to and loaded by customers during the holiday season, we tend to have higher cash flows from operations during the first quarter of the fiscal year. However, since revenues from our stored value cards are recognized upon redemption and not when cash is loaded, the impact of seasonal fluctuations on the consolidated statements of earnings is much less pronounced. As a result of moderate seasonal fluctuations, results for any quarter are not necessarily indicative of the results that may be achieved for the full fiscal year.

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**RECENT ACCOUNTING PRONOUNCEMENTS**

See [Note 1](file:///D:\TMP\finance-docx\STARBUCKS\Starbucks-19.06.30-10-Q.html#sEB8DC4C7A60359F7B7D6F5FA2BB7218B), Summary of Significant Accounting Policies, to the condensed consolidated financial statements included in Item 1 of Part I of this 10-Q, for a detailed description of recent accounting pronouncements.

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| **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 2019, we carried out an evaluation, under the supervision and with the participation of our management, including our chief executive officer and our chief financial officer, of the effectiveness of the design and operation of the disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act. Based upon that evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective, as of the end of the period covered by this report (June 30, 2019).

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](file:///D:\TMP\finance-docx\STARBUCKS\sbux-6302019xexhibit311.htm) and [31.2](file:///D:\TMP\finance-docx\STARBUCKS\sbux-6302019xexhibit312.htm) to this 10-Q.

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**PART II — OTHER INFORMATION**

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| **Item 1.** | ***Legal Proceedings*** |

See [Note 14](file:///D:\TMP\finance-docx\STARBUCKS\Starbucks-19.06.30-10-Q.html#s1EDB1127F1445F45BC51AD796D3AB27E), Commitments and Contingencies, to the condensed consolidated financial statements included in Item 1 of Part I of this 10-Q for information regarding certain legal proceedings in which we are involved.

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| **Item 1A.** | ***Risk Factors*** |

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

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| **Item 2.** | ***Unregistered Sales of Equity Securities and Use of Proceeds*** |

Information regarding repurchases of our common stock during the quarter ended June 30, 2019:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
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|  | |  | |  |  |  |  |  |  |  |  |  |  |  |  |
|  | |  | | **Total Number of Shares Purchased** | |  | **Average Price Paid per Share** | | |  | **Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(2)** | |  | **Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs(3)** | |
| Period(1) | |  | |  | |  |  | | |  |  | |  |  | |
| April 1, 2019 - April 28, 2019 | |  | | — |  |  | $ | — |  |  | — |  |  | 59,482,496 |  |
| April 29, 2019 - May 26, 2019 | |  | | — |  |  | — | |  |  | — |  |  | 59,482,496 |  |
| May 27, 2019 - June 30, 2019 | |  | | 6,784,350 |  |  | 79.63 | |  |  | 6,784,350 |  |  | 52,698,146 |  |
| Total | |  | | 6,784,350 |  |  | $ | 79.63 |  |  | 6,784,350 |  |  |  | |
|  |  | |
| (1) | Monthly information is presented by reference to our fiscal months during the third quarter of fiscal 2019. | |

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| (2) | Share repurchases are conducted under our ongoing share repurchase program announced in September 2001, which has no expiration date. |

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| --- | --- |
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| (3) | This column includes the total number of shares available for repurchase under the Company's ongoing share repurchase program. Shares under our ongoing share repurchase program may be repurchased in open market transactions, including pursuant to a trading plan adopted in accordance with Rule 10b5-1 of the Securities Exchange Act of 1934, or through privately negotiated transactions. The timing, manner, price and amount of repurchases will be determined at our discretion and the share repurchase program may be suspended, terminated or modified at any time for any reason. |

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| **Item 6.** | ***Exhibits*** |

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|  |  |  |  | **Incorporated by Reference** | | | | | | | | | | |  |  | |
| **Exhibit**  **No.** |  | **Exhibit Description** |  | **Form** | |  | **File No.** | |  | **Date of**  **Filing** | |  | **Exhibit Number** | |  | **Filed**  **Herewith** | |
| [3.1](http://www.sec.gov/Archives/edgar/data/829224/000082922415000017/sbux-3292015xexhibit31.htm) |  | [Restated Articles of Incorporation of Starbucks Corporation](http://www.sec.gov/Archives/edgar/data/829224/000082922415000017/sbux-3292015xexhibit31.htm) |  | 10-Q | |  | 0-20322 | |  | 04/28/2015 | |  | 3.1 | |  |  | |
| [3.2](http://www.sec.gov/Archives/edgar/data/829224/000119312518183697/d596086dex31.htm) |  | [Amended and Restated Bylaws of Starbucks Corporation (As amended and restated through June 1, 2018)](http://www.sec.gov/Archives/edgar/data/829224/000119312518183697/d596086dex31.htm) |  | 8-K | |  | 0-20322 | |  | 06/05/2018 | |  | 3.1 | |  |  | |
| [4.1](http://www.sec.gov/Archives/edgar/data/829224/000119312519145447/d652512dex42.htm) |  | [Fifth Supplemental Indenture, dated as of May 13, 2019, by and between Starbucks Corporation and U.S. Bank National Association, as trustee](http://www.sec.gov/Archives/edgar/data/829224/000119312519145447/d652512dex42.htm) |  | 8-K | |  | 0-20322 | |  | 05/13/2019 | |  | 4.2 | |  |  | |
| [4.2](http://www.sec.gov/Archives/edgar/data/829224/000119312519145447/d652512dex42.htm) |  | [Form of 3.550% Senior Notes due August 15, 2029 (included in Exhibit 4.2)](http://www.sec.gov/Archives/edgar/data/829224/000119312519145447/d652512dex42.htm) |  | 8-K | |  | 0-20322 | |  | 05/13/2019 | |  | 4.3 | |  |  | |
| [4.3](http://www.sec.gov/Archives/edgar/data/829224/000119312519145447/d652512dex42.htm) |  | [Form of 4.550% Senior Notes due August 15, 2049 (included in Exhibit 4.2)](http://www.sec.gov/Archives/edgar/data/829224/000119312519145447/d652512dex42.htm) |  | 8-K | |  | 0-20322 | |  | 05/13/2019 | |  | 4.4 | |  |  | |
| [10.1\*](file:///D:\TMP\finance-docx\STARBUCKS\sbux-6302019xexhibit101.htm) |  | [Starbucks Corporation Executive Management Bonus Plan, as amended and restated on June 25, 2019](file:///D:\TMP\finance-docx\STARBUCKS\sbux-6302019xexhibit101.htm) |  | — | |  | — | |  | — | |  | — | |  | X | |
| [31.1](file:///D:\TMP\finance-docx\STARBUCKS\sbux-6302019xexhibit311.htm) |  | [Certification of Principal Executive Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, As Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](file:///D:\TMP\finance-docx\STARBUCKS\sbux-6302019xexhibit311.htm) |  | — | |  | — | |  | — | |  | — | |  | X | |
| [31.2](file:///D:\TMP\finance-docx\STARBUCKS\sbux-6302019xexhibit312.htm) |  | [Certification of Principal Financial Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, As Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](file:///D:\TMP\finance-docx\STARBUCKS\sbux-6302019xexhibit312.htm) |  | — | |  | — | |  | — | |  | — | |  | X | |
| [32\*](file:///D:\TMP\finance-docx\STARBUCKS\sbux-6302019xexhibit32.htm) |  | [Certifications of Principal Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002](file:///D:\TMP\finance-docx\STARBUCKS\sbux-6302019xexhibit32.htm) |  | — | |  | — | |  | — | |  | — | |  | — | |
| 101 |  | The following financial statements from the Company's 10-Q for the fiscal quarter ended June 30, 2019, formatted in iXBRL: (i) Condensed Consolidated Statements of Earnings, (ii) Condensed Consolidated Statements of Comprehensive Income, (iii) Condensed Consolidated Balance Sheets, (iv) Condensed Consolidated Statements of Cash Flows, (v) Condensed Consolidated Statements of Equity and (vi) Notes to Condensed Consolidated Financial Statements |  | — | |  | — | |  | — | |  | — | |  | X | |

\* Furnished herewith.

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**SIGNATURES**

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

July 30, 2019

|  |  |  |  |
| --- | --- | --- | --- |
|  | | | |
|  |  |  |  |
|  | **STARBUCKS CORPORATION** | | |
|  |  |  | |
|  | By: |  | /s/ Patrick J. Grismer |
|  |  |  | Patrick J. Grismer |
|  |  |  | executive vice president, chief financial officer |
|  |  |  | Signing on behalf of the registrant and as  principal financial officer |

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