STARBUCKS CORP
Form 10-Q
July 28, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended June 28, 2015
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to .
Commission File Number: 0-20322
Starbucks Corporation
(Exact Name of Registrant as Specified in its Charter)

Washington	91-1325671
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)

2401 Utah Avenue South, Seattle, Washington 98134
(Address of principal executive offices)
(206) 447-1575
(Registrant's Telephone Number, including Area Code)
Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act): Yes ¨ No x
Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Title	Shares Outstanding as of July 22, 2015
Common Stock, par value $0.001 per share	1,484.2 million

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FORM 10-Q
For the Quarterly Period Ended June 28, 2015
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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 28, 2015	Jun 29, 2014	Jun 28, 2015	Jun 29, 2014
Net revenues:				
Company-operated stores	$3,915.0	$3,290.5	$11,310.7	$9,702.3
Licensed stores	475.2	408.1	1,380.5	1,166.1
CPG, foodservice and other	491.0	455.1	1,556.7	1,398.7
Total net revenues	4,881.2	4,153.7	14,247.9	12,267.1
Cost of sales including occupancy costs	1,953.9	1,711.5	5,804.9	5,135.7
Store operating expenses	1,392.4	1,176.5	4,032.5	3,486.1
Other operating expenses	131.6	120.6	394.5	346.3
Depreciation and amortization expenses	236.5	180.1	659.6	524.2
General and administrative expenses	288.5	269.4	892.8	752.6
Litigation credit	—	—	—	(20.2)
Total operating expenses	4,002.9	3,458.1	11,784.3	10,224.7
Income from equity investees	60.3	72.9	168.0	183.9
Operating income	938.6	768.5	2,631.6	2,226.3
Gain resulting from acquisition of joint venture	—	—	390.6	—
Interest income and other, net	25.5	19.4	36.6	57.0
Interest expense	(19.1)	(16.4)	(52.3)	(47.7)
Earnings before income taxes	945.0	771.5	3,006.5	2,235.6
Income tax expense	318.5	259.0	899.7	755.4
Net earnings including noncontrolling interests	626.5	512.5	2,106.8	1,480.2
Net earnings/(loss) attributable to noncontrolling interests	(0.2)	(0.1)	1.9	(0.1)
Net earnings attributable to Starbucks	$626.7	$512.6	$2,104.9	$1,480.3
Earnings per share - basic	$0.42	$0.34	$1.40	$0.98
Earnings per share - diluted	$0.41	$0.34	$1.39	$0.97
Weighted average shares outstanding:				
Basic	1,498.5	1,503.5	1,499.3	1,507.9
Diluted	1,515.7	1,522.0	1,516.3	1,527.8
Cash dividends declared per share	$0.16	$0.13	$0.48	$0.39

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 28, 2015	Jun 29, 2014	Jun 28, 2015	Jun 29, 2014
Net earnings including noncontrolling interests	$626.5	$512.5	$2,106.8	$1,480.2
Other comprehensive income/(loss), net of tax:				
Unrealized holding gains/(losses) on available-for-sale securities	(1.8)	1.7	0.3	0.8
Tax (expense)/benefit	0.7	(0.6)	(0.1)	(0.2)
Unrealized gains/(losses) on cash flow hedging instruments	33.9	(13.8)	97.8	6.1
Tax (expense)/benefit	(8.8)	3.6	(24.2)	(2.4)
Unrealized gains/(losses) on net investment hedging instruments	—	(0.7)	4.3	5.2
Tax (expense)/benefit	—	0.3	(1.6)	(1.9)
Translation adjustment	(6.0)	19.8	(169.3)	(2.9)
Tax (expense)/benefit	(5.0)	(2.2)	2.6	(5.6)
Reclassification adjustment for net (gains)/losses realized in net earnings for available-for-sale securities, hedging instruments, and translation adjustment	(38.2)	(2.6)	(94.0)	2.8
Tax expense/(benefit)	11.0	1.1	27.8	2.0
Other comprehensive income/(loss)	(14.2)	6.6	(156.4)	3.9
Comprehensive income including noncontrolling interests	612.3	519.1	1,950.4	1,484.1
Comprehensive income/(loss) attributable to noncontrolling interests	(0.2)	(0.1)	(29.2)	(0.1)
Comprehensive income attributable to Starbucks	$612.5	$519.2	$1,979.6	$1,484.2

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

	Jun 28, 2015	Sep 28, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$2,080.5	$1,708.4
Short-term investments	94.7	135.4
Accounts receivable, net	672.7	631.0
Inventories	1,166.0	1,090.9
Prepaid expenses and other current assets	413.8	285.6
Deferred income taxes, net	333.0	317.4
Total current assets	4,760.7	4,168.7
Long-term investments	390.1	318.4
Equity and cost investments	359.4	514.9
Property, plant and equipment, net	3,977.7	3,519.0
Deferred income taxes, net	851.2	903.3
Other long-term assets	443.3	198.9
Other intangible assets	525.8	273.5
Goodwill	1,560.6	856.2
TOTAL ASSETS	$12,868.8	$10,752.9
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$603.2	$533.7
Accrued liabilities	1,656.9	1,514.4
Insurance reserves	214.7	196.1
Stored value card liability	1,024.6	794.5
Current portion of long-term debt	549.8	—
Total current liabilities	4,049.2	3,038.7
Long-term debt	2,347.4	2,048.3
Other long-term liabilities	613.9	392.2
Total liabilities	7,010.5	5,479.2
Shareholders’ equity:		
Common stock ($0.001 par value) — authorized, 2,400.0 shares; issued and outstanding, 1,490.8 shares and 1,499.1 shares, respectively	1.5	0.7
Additional paid-in capital	41.1	39.4
Retained earnings	5,945.0	5,206.6
Accumulated other comprehensive income/(loss)	(131.1)	25.3
Total shareholders’ equity	5,856.5	5,272.0
Noncontrolling interests	1.8	1.7
Total equity	5,858.3	5,273.7
TOTAL LIABILITIES AND EQUITY	$12,868.8	$10,752.9

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

	Three Quarters Ended	
	Jun 28, 2015	Jun 29, 2014
OPERATING ACTIVITIES:		
Net earnings including noncontrolling interests	$2,106.8	$1,480.2
Adjustments to reconcile net earnings to net cash provided/(used) by operating activities:		
Depreciation and amortization	693.3	554.0
Deferred income taxes, net	44.1	32.1
Income earned from equity method investees	(123.3)	(120.2)
Distributions received from equity method investees	84.3	82.9
Gain resulting from acquisition of joint venture	(390.6)	—
Stock-based compensation	156.2	142.6
Excess tax benefit on share-based awards	(97.9)	(101.6)
Other	41.8	33.5
Cash provided/(used) by changes in operating assets and liabilities:		
Accounts receivable	(31.4)	(19.0)
Inventories	(64.3)	85.2
Accounts payable	53.7	(3.1)
Accrued litigation charge	—	(2,763.9)
Income taxes payable, net	(42.5)	179.8
Accrued liabilities and insurance reserves	119.3	117.1
Stored value card liability	206.6	177.0
Prepaid expenses, other current assets and other assets	23.1	(10.0)
Net cash provided/(used) by operating activities	2,779.2	(133.4)
INVESTING ACTIVITIES:		
Purchase of investments	(466.8)	(1,545.2)
Sales of investments	420.1	832.4
Maturities and calls of investments	16.0	425.5
Acquisitions, net of cash acquired	(284.3)	—
Additions to property, plant and equipment	(943.5)	(811.2)
Other	(33.9)	(24.4)
Net cash used by investing activities	(1,292.4)	(1,122.9)
FINANCING ACTIVITIES:		
Proceeds from issuance of long-term debt	848.5	748.5
Cash used or restricted for purchase of noncontrolling interest	(366.3)	—
Proceeds from issuance of common stock	146.9	117.6
Excess tax benefit on share-based awards	97.9	101.6
Cash dividends paid	(719.7)	(587.8)
Repurchase of common stock	(921.1)	(595.2)
Minimum tax withholdings on share-based awards	(74.5)	(76.8)
Other	(8.5)	(3.6)
Net cash (used)/provided by financing activities	(996.8)	(295.7)
Effect of exchange rate changes on cash and cash equivalents	(117.9)	(4.3)
Net increase/(decrease) in cash and cash equivalents	372.1	(1,556.3)
CASH AND CASH EQUIVALENTS:		

Beginning of period	1,708.4	2,575.7
End of period	$2,080.5	$1,019.4
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest, net of capitalized interest	$56.6	$39.2
Income taxes, net of refunds	$936.5	$548.0

See Notes to Condensed Consolidated Financial Statements

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STARBUCKS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Note 1: Summary of Significant Accounting Policies

Financial Statement Preparation

The unaudited condensed consolidated financial statements as of June 28, 2015, and for the quarter and three quarters ended June 28, 2015 and June 29, 2014, 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 28, 2015 and June 29, 2014 reflects all adjustments and accruals, which are of a normal recurring nature, necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods. In this Quarterly Report on Form 10-Q ("10-Q") Starbucks Corporation is referred to as "Starbucks," the "Company," "we," "us" or "our."

The financial information as of September 28, 2014 is derived from our audited consolidated financial statements and notes for the fiscal year ended September 28, 2014 ("fiscal 2014") included in Item 8 in the Fiscal 2014 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 28, 2015 are not necessarily indicative of the results of operations that may be achieved for the entire fiscal year ending September 27, 2015 ("fiscal 2015").

Stock Split

On April 9, 2015, we effected a two-for-one stock split of our $0.001 par value common stock for shareholders of record as of March 30, 2015. All share and per-share data in our consolidated financial statements and notes has been retroactively adjusted to reflect this stock split. We adjusted shareholders' equity to reflect the stock split by reclassifying an amount equal to the par value of the additional shares arising from the split from retained earnings to common stock during the second quarter of fiscal 2015, resulting in no net impact to shareholders' equity on our consolidated balance sheets.

Recent Accounting Pronouncements

In July 2015, the Financial Accounting Standards Board ("FASB") issued guidance on the subsequent measurement of inventory, which changes the measurement from lower of cost or market to lower of cost and net realizable value. The guidance will require prospective application at the beginning of our first quarter of fiscal 2018, but permits adoption in an earlier period. We are currently evaluating the impact this guidance will have on our consolidated financial statements and the timing of adoption.

In April 2015, the FASB issued guidance on the financial statement presentation of debt issuance costs. This guidance requires debt issuance costs to be presented in the balance sheet as a reduction of the related debt liability rather than an asset. The guidance will become effective for us at the beginning of our first quarter of fiscal 2017 and will only result in an immaterial change in presentation of these costs on our consolidated balance sheets.

In February 2015, the FASB issued guidance that changes the evaluation criteria for consolidation and related disclosure requirements. This guidance introduces evaluation criteria specific to limited partnerships and other similar entities, as well as amends the criteria for evaluating variable interest entities with which the reporting entity is involved and certain investment funds. The guidance will become effective for us at the beginning of our first quarter of fiscal 2017. We do not expect the adoption of this guidance will have a material impact on our consolidated financial statements.

In May 2014, the FASB issued guidance outlining a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers that supersedes most current revenue recognition guidance. This guidance requires an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Additionally, this guidance expands related disclosure requirements. The original effective date of the guidance would have required us to adopt at the beginning of our first quarter of fiscal 2018. In July 2015, the FASB approved an optional one-year deferral of the effective date. The new guidance will require full or modified retrospective application. We are currently evaluating the impact this guidance will have on our consolidated financial statements, as well as the expected timing and method of adoption.

In April 2014, the FASB issued guidance that changes the criteria for reporting discontinued operations. To qualify as a discontinued operation under the amended guidance, a component or group of components of an entity that has been disposed of or is classified as held for sale must represent a strategic shift that has or will have a major effect on the entity's operations

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and financial results. This guidance also expands related disclosure requirements. The guidance will become effective for us at the beginning of our first quarter of fiscal 2016. We do not expect the adoption of this guidance will have a material impact on our consolidated financial statements.

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

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

Note 2: Acquisition

On September 23, 2014, we entered into a tender offer bid agreement with Starbucks Coffee Japan, Ltd. ("Starbucks Japan"), at the time a 39.5% owned equity method investment, and our joint venture partner, Sazaby League, Ltd. ("Sazaby"), to acquire the remaining 60.5% ownership interest in Starbucks Japan. Acquiring Starbucks Japan further leverages our existing infrastructure to continue disciplined retail store growth and expand our presence into other channels in the Japan market, such as consumer packaged goods ("CPG"), licensing and foodservice. This acquisition was structured as a two-step tender offer.

On October 31, 2014, we acquired Sazaby's 39.5% ownership interest in Starbucks Japan through the first tender offer step for ¥55 billion in cash, or $509 million with Japanese yen converted into U.S. dollars at a reference conversion rate of 108.13 JPY to USD, based on a spot rate that approximates the rate as of the acquisition date, bringing our total ownership in Starbucks Japan to a controlling 79% interest. The estimated fair values of the assets acquired, liabilities assumed and the noncontrolling interest are based on preliminary valuation as of the October 31, 2014 acquisition date and are subject to change as additional information about the fair value of assets acquired, liabilities assumed and noncontrolling interest becomes available.

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The following table summarizes the allocation of the total consideration to the fair values of the assets acquired and liabilities assumed as of October 31, 2014 (in millions):

Consideration:	
Cash paid for Sazaby's 39.5% equity interest	$508.7
Fair value of our preexisting 39.5% equity interest	577.0
Total consideration	$1,085.7
Fair value of assets acquired and liabilities assumed:	
Cash and cash equivalents	$224.4
Accounts receivable, net	37.4
Inventories	26.4
Prepaid expenses and other current assets	35.7
Deferred income taxes, net (current)	23.4
Property, plant and equipment	282.9
Other long-term assets	141.4
Other intangible assets	323.0
Goodwill	811.6
Total assets acquired	1,906.2
Accounts payable	(54.5)
Accrued liabilities	(115.9)
Stored value card liability	(36.5)
Deferred income taxes (noncurrent)	(92.9)
Other long-term liabilities	(109.6)
Total liabilities assumed	(409.4)
Noncontrolling interest	(411.1)
Total consideration	$1,085.7

In the third quarter of fiscal 2015, the acquisition date fair value of goodwill was reduced by $4.0 million, due to revisions that decreased the acquisition date fair value of accrued liabilities by the same amount. The adjustment did not have a material effect on our current or prior period consolidated financial statements.

The assets acquired and liabilities assumed are reported within our China/Asia Pacific segment. Other current and long-term assets acquired primarily include various deposits, specifically lease and key money deposits. Accrued liabilities and other long-term liabilities assumed primarily include the financing obligations associated with the build-to-suit leases discussed below, as well as asset retirement obligations.

The intangible assets are definite-lived and include reacquired rights, licensing agreements with Starbucks Japan's current licensees and Starbucks Japan's customer loyalty program. The reacquired rights of $305.0 million represent the fair value, calculated over the remaining original contractual period, to exclusively operate licensed Starbucks® retail stores in Japan. These rights will be amortized on a straight-line basis through March 2021, or over a period of approximately 6.4 years. The licensing agreements were valued at $15.0 million and will be amortized on a straight-line basis over a period of approximately 10.9 years, which is based on the remaining terms of the respective licensing agreements. The customer loyalty program was valued at $3.0 million and will be amortized on a straight-line basis over a period of 4.0 years, which represents the period during which we expect to benefit from these customer relationships.

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Below is a tabular summary of the acquired intangible assets as of June 28, 2015, for which the gross balances in total are $41.0 million lower than as of the October 31, 2014 acquisition date due to foreign currency translation (in millions):

	Jun 28, 2015		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Reacquired rights	$266.2	$(27.6)	$238.6
Licensing agreements	13.1	(0.8)	12.3
Customer loyalty program	2.6	(0.4)	2.2
Total acquired definite-lived intangible assets	$281.9	$(28.8)	$253.1

Amortization expense for these definite-lived intangible assets for the quarter and three quarters ended June 28, 2015 was $11.0 million and $30.0 million, respectively, and is estimated to be approximately $43 million each year for the next five years and approximately $38 million thereafter.

The $811.6 million of goodwill represents the intangible assets that do not qualify for separate recognition and primarily includes the acquired current customer base, the acquired workforce including store partners in the region that have strong relationships with these customers, the existing geographic retail and online presence, and the expected geographic presence in new channels. The goodwill was allocated to the China/Asia Pacific segment and is not deductible for income tax purposes. Due to foreign currency translation, the balance of goodwill related to the acquisition declined $103.6 million to $708.0 million as of June 28, 2015.

As a part of this acquisition we acquired a significant number of operating leases, including $7.5 million of favorable lease assets, which are included in prepaid expenses and other current assets and other long-term assets, and $15.5 million of unfavorable lease liabilities, which are included in accrued liabilities and other long-term liabilities on the consolidated balance sheets. The fair values of these assets and liabilities were determined based on market terms for similar leases as of the date of the acquisition, and will be amortized on a straight-line basis as rent expense, or a reduction of rent expense, respectively, in cost of sales including occupancy costs on the consolidated statements of earnings over the remaining terms of the leases, for which the weighted-average period was 9.4 years as of the October 31, 2014 acquisition date. We recorded a net reduction of rent expense of $0.2 million and $0.6 million for the quarter and three quarters ended June 28, 2015, respectively, in connection with the leases acquired.

Additionally, we acquired a number of build-to-suit lease arrangements that are accounted for as financing leases. Starbucks Japan is the deemed owner of buildings under build-to-suit lease arrangements since Starbucks Japan has significant continuing involvement with the respective lessors and does not qualify for sales recognition during the lease term under sale-leaseback accounting guidance. Accordingly, we have recorded the acquired buildings in property, plant and equipment, and the assumed offsetting lease financing obligations, representing the related future minimum lease payments, in other long-term liabilities, with the current portion recorded in accrued liabilities on the consolidated balance sheets. These financing obligations will be amortized based on the terms of the related lease agreements.

The table below summarizes our estimated minimum future rental payments under the acquired non-cancelable operating leases and lease financing arrangements as of June 28, 2015 (in millions):

	Operating Leases	Lease Financing Arrangements
Year 1	$88.8	$2.9
Year 2	71.1	2.9
Year 3	51.9	2.9
Year 4	37.9	2.9
Year 5	30.0	2.9
Thereafter	144.4	28.1
Total minimum lease payments	$424.1	$42.6

The fair value of the noncontrolling interest in Starbucks Japan was estimated by applying the market approach. Specifically, the fair value was determined based on the purchase price we expected to pay for the remaining 21%

noncontrolling interest, which was comprised of a set market price and a premium above the market price. The market price premium is a customary business practice for public tender offer transactions in Japan, so we believe this is what a market participant would pay and should be included in the fair value determination.

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As a result of this acquisition, we remeasured the carrying value of our preexisting 39.5% equity method investment to fair value, which resulted in a pre-tax gain of $390.6 million that was presented separately as gain resulting from acquisition of joint venture within other income on the consolidated statements of earnings. The fair value of $577.0 million was calculated using an average of the income and market approach. The income approach fair value measurement was based on significant inputs that are not observable in the market and thus represents a fair value measurement categorized within Level 3 of the fair value hierarchy. Key assumptions used in estimating future cash flows included projected revenue growth and operating expenses, as well as the selection of an appropriate discount rate. Estimates of revenue growth and operating expenses were based on internal projections and considered the historical performance of stores, local market economics and the business environment impacting the stores' performance. The discount rate applied was based on Starbucks Japan's weighted-average cost of capital and included a company-specific risk premium. The market approach fair value measurement was based on the implied fair value of Starbucks Japan using the purchase price of Sazaby's 39.5% ownership interest and the purchase price of the 21% remaining noncontrolling interest.

We began consolidating Starbucks Japan's results of operations and cash flows into our consolidated financial statements beginning after October 31, 2014. For the quarter and three quarters ended June 28, 2015, Starbucks Japan's revenue included in our consolidated statements of earnings was $332.7 million and $816.8 million, respectively. For the quarter and three quarters ended June 28, 2015, Starbucks Japan's net earnings included in our consolidated statements of earnings were $42.3 million and $81.1 million, respectively.

The following table provides the supplemental pro forma revenue and net earnings of the combined entity had the acquisition date of Starbucks Japan been the first day of our first quarter of fiscal 2014 rather than during our first quarter of fiscal 2015 (in millions):

	Pro Forma (unaudited)			
	Quarter Ended		Three Quarters Ended	
	Jun 28, 2015	Jun 29, 2014	Jun 28, 2015	Jun 29, 2014
Revenue	$4,881.2	$4,470.8	$14,339.7	$13,149.6
Net earnings attributable to Starbucks[(1)]	626.9	523.1	1,724.2	1,863.4

(1) The pro forma net earnings attributable to Starbucks for fiscal 2014 includes the acquisition-related gain of $390.6 million in our first quarter of fiscal 2014, and transaction and integration costs of $0.5 million and $12.7 million for the quarter and three quarters ended June 29, 2014, respectively.

The amounts in the supplemental pro forma earnings for the periods presented above fully eliminate intercompany transactions, apply our accounting policies and reflect adjustments for additional occupancy costs, depreciation and amortization that would have been charged assuming the same fair value adjustments to leases, property, plant and equipment and acquired intangibles had been applied on September 30, 2013. These pro forma results are unaudited and are not necessarily indicative of results of operations that would have occurred had the acquisition actually occurred in the prior year period or indicative of the results of operations for any future period.

We initiated the second tender offer step on November 10, 2014 to acquire the remaining 21% ownership interest held by the public shareholders and option holders of Starbucks Japan's common stock, with the objective of acquiring all of the remaining outstanding shares including outstanding stock options. At the close of the second tender offer period on December 22, 2014, we funded the second tender offer step to acquire an additional 14.7% ownership interest for ¥31 billion in cash, or $258 million with Japanese yen converted into U.S. dollars at a reference conversion rate of 120.39 JPY to USD. However, we did not complete the second tender offer nor obtain control of these shares until the settlement date of December 29, 2014, which was the first day of our second quarter of fiscal 2015.

Subsequent to the completion of the second tender offer step, we commenced a cash-out procedure under Japanese law (the "Cash-out") to acquire all remaining shares of Starbucks Japan (an approximate 6.3% interest). On March 26, 2015, we obtained control of these shares resulting in 100% ownership of Starbucks Japan. The purchase price for the Cash-out was ¥13.5 billion, or $109 million, with Japanese yen converted into U.S. dollars at a reference conversion rate of 123.87 JPY to USD. During the third quarter of fiscal 2015, we settled ¥9.6 billion, or $78 million, of the purchase price in offshore cash. The remaining ¥3.9 billion, or $31 million, is recorded as restricted cash within prepaid expenses and other current assets with a corresponding liability in accrued liabilities on our consolidated balance sheets and represents cash that was unclaimed by minority shareholders as of June 28, 2015. The majority of this restricted cash had been settled as of the date of this filing.

For the first quarter of fiscal 2015, net earnings attributable to noncontrolling interests in our consolidated statement of earnings related to Starbucks Japan reflects the 21% of minority shareholders’ interests that we did not own as of the end of the first quarter of fiscal 2015. For the second quarter of fiscal 2015, net earnings attributable to noncontrolling interests in our consolidated statement of earnings related to Starbucks Japan reflects the approximate 6.3% of minority shareholders’ interests that we did not obtain control of until March 26, 2015.

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The following table shows the effects of the change in Starbucks ownership interest in Starbucks Japan on Starbucks equity:

	Three Quarters Ended	
	Jun 28, 2015	Jun 29, 2014
Net earnings attributable to Starbucks	$2,104.9	$1,480.3
Transfers (to)/from the noncontrolling interest:		
Increase/(decrease) in additional paid-in capital for purchase of interest in subsidiary	1.7	—
Change from net earnings attributable to Starbucks and transfers (to)/from noncontrolling interest	$2,106.6	$1,480.3

During the quarter and three quarters ended June 28, 2015, we incurred approximately $0.2 million and $11.5 million, respectively, of acquisition-related costs, such as regulatory, legal, and advisory fees, which we have recorded within unallocated corporate general and administrative expenses.

Note 3: Derivative Financial Instruments

Interest Rates

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

During the first quarter of fiscal 2015, we entered into forward-starting interest rate swap agreements with an aggregate notional amount of $250.0 million related to the $500 million of 7-year 2.700% Senior Notes (the "2022 notes") due in June 2022 issued in the third quarter of fiscal 2015. During the third quarter of fiscal 2015, we entered into forward-starting interest rate swap agreements with an aggregate notional amount of $250.0 million related to the $350 million of 30-year 4.300% Senior Notes (the "2045 notes") due in June 2045 issued in the third quarter of fiscal 2015. We cash settled these swap agreements at the time of the pricing of the 2022 and the 2045 notes, effectively locking in the benchmark interest rate in effect at the time the swap agreements were initiated. Refer to Note 7, Debt, for details of the components of 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 revenue streams, inventory purchases, and principal and interest payments on intercompany loans in currencies other than the entity's functional currency. The effective portion of the derivative's gain or loss is recorded in AOCI and is subsequently reclassified to revenue, cost of sales, or interest income and other, net, respectively, when the hedged exposure affects net earnings.

In connection with the acquisition of Starbucks Japan that is discussed in Note 2, Acquisition, we entered into cross-currency swap contracts during the first and third quarters of fiscal 2015 to hedge the foreign currency transaction risk of certain yen-denominated intercompany loans with a total notional value of ¥86.5 billion, or approximately $698 million as of June 28, 2015. Gains and losses from these swaps offset the changes in value of interest and principal payments as a result of changes in foreign exchange rates, which are also recorded in net interest income and other on the consolidated statements of earnings. We recognize the difference between the U.S. dollar interest payments received from the swap counterparty and the U.S. dollar equivalent of the Japanese yen interest payments made to the swap counterparty in interest income and other, net or interest expense on our consolidated statements of earnings. This difference varies over time and is driven by a number of market factors, including relevant interest rate differentials and foreign exchange rates. These swaps have been designated as cash flow hedges and mature in September 2016 and November 2024 at the same time as the related loans. There are no credit-risk-related contingent features associated with these swaps, although we may hold or post collateral depending upon the gain or loss position of the swap agreement.

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

reclassified to net earnings when the hedged net investment is either sold or substantially liquidated.
As a result of our acquisition of Starbucks Japan, we reclassified the pretax cumulative net gains in AOCI of $7.2 million related to our net investment derivative instruments used to hedge our preexisting 39.5% equity method investment in Starbucks Japan into earnings, which was included in the gain resulting from acquisition of joint venture line item on the consolidated statements of earnings. These gains offset the cumulative translation adjustment loss balance associated with our preexisting investment included in the calculation of the remeasurement gain, which is described further in Note 2, Acquisition.

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

Commodities

Depending on market conditions, we enter into coffee futures contracts and collars (the combination of a purchased call option and a sold put option) to hedge a portion of anticipated cash flows under our price-to-be-fixed green coffee contracts, which are described further in Note 5, Inventories. The effective portion of each derivative's gain or loss is recorded in AOCI and is subsequently reclassified to cost of sales when the hedged exposure affects net earnings.

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

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

	Net Gains/(Losses) Included in AOCI		Net Gains/(Losses) Expected to be Reclassified from AOCI into Earnings within 12 Months	Contract Remaining Maturity (Months)
	Jun 28, 2015	Sep 28, 2014		
Cash Flow Hedges:				
Interest rates	$29.6	$36.4	$2.2	0
Cross-currency swaps	(1.3)	—	—	114
Foreign currency - other	19.3	10.6	14.0	35
Coffee	(2.6)	(0.7)	(2.0)	15
Net Investment Hedges:				
Foreign currency	1.3	3.2	—	0

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

	Quarter Ended				Three Quarters Ended			
	Gains/(Losses) Recognized in OCI Before Reclassifications		Gains/(Losses) Reclassified from AOCI to Earnings		Gains/(Losses) Recognized in OCI Before Reclassifications		Gains/(Losses) Reclassified from AOCI to Earnings	
	Jun 28, 2015	Jun 29, 2014	Jun 28, 2015	Jun 29, 2014	Jun 28, 2015	Jun 29, 2014	Jun 28, 2015	Jun 29, 2014
Cash Flow Hedges:								
Interest rates	$(0.7)	$—	$1.2	$1.3	$(7.0)	$0.5	$3.8	$3.8
Cross-currency swaps	44.0	—	29.5	—	80.3	—	82.0	—
Foreign currency - other	(7.5)	(10.8)	7.3	2.2	29.9	7.8	16.9	5.5
Coffee	(1.9)	(3.0)	(0.7)	(0.9)	(5.4)	(2.2)	(3.3)	(11.8)
Net Investment Hedges:								
Foreign currency	—	(0.7)	—	—	4.3	5.2	7.2	—

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

	Gains/(Losses) Recognized in Earnings			
	Quarter Ended		Three Quarters Ended	
	Jun 28, 2015	Jun 29, 2014	Jun 28, 2015	Jun 29, 2014
Foreign currency - other	$2.5	$(1.0)	$25.8	$(2.0)
Dairy	0.4	0.8	(2.9)	12.7
Diesel fuel	1.1	0.6	(7.5)	0.6

Notional amounts of outstanding derivative contracts (in millions):

	Jun 28, 2015	Sep 28, 2014
Cross-currency swaps	698	—
Foreign currency - other	515	542
Coffee	49	45
Dairy	19	24
Diesel fuel	13	17

The fair values of our derivative assets and liabilities are included in Note 4, Fair Value Measurements, and additional disclosures related to cash flow and net investment hedge gains and losses included in accumulated other comprehensive income, as well as subsequent reclassifications to earnings, are included in Note 8, Equity.

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

		Fair Value Measurements at Reporting Date Using		
	Balance at Jun 28, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash and cash equivalents	$2,080.5	$ 2,080.5	$ —	$ —
Short-term investments:				
Available-for-sale securities				
Corporate debt securities	15.0	—	15.0	—
Foreign government obligations	1.2	—	1.2	—
State and local government obligations	3.4	—	3.4	—
Total available-for-sale securities	19.6	—	19.6	—
Trading securities	75.1	75.1	—	—
Total short-term investments	94.7	75.1	19.6	—
Prepaid expenses and other current assets:				
Derivative assets	46.7	0.2	46.5	—
Long-term investments:				
Available-for-sale securities				
Agency obligations	16.2	—	16.2	—
Corporate debt securities	161.6	—	161.6	—
Auction rate securities	5.9	—	—	5.9
Foreign government obligations	21.9	—	21.9	—
U.S. government treasury securities	116.7	116.7	—	—
State and local government obligations	16.4	—	16.4	—
Mortgage and other asset-backed securities	51.4	—	51.4	—
Total long-term investments	390.1	116.7	267.5	5.9
Other long-term assets:				
Derivative assets	104.4	0.3	104.1	—
Total assets	$2,716.4	$ 2,272.8	$ 437.7	$ 5.9
Liabilities:				
Accrued liabilities:				
Derivative liabilities	$13.2	$ 1.0	$ 12.2	$ —
Other long-term liabilities:				
Derivative liabilities	10.5	—	10.5	—
Total liabilities	$23.7	$ 1.0	$ 22.7	$ —

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	Balance at Sep 28, 2014	Fair Value Measurements at Reporting Date Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash and cash equivalents	$1,708.4	$ 1,708.4	$ —	$ —
Short-term investments:				
Available-for-sale securities				
Corporate debt securities	4.9	—	4.9	—
Foreign government obligations	33.7	—	33.7	—
U.S. government treasury securities	10.9	10.9	—	—
State and local government obligations	12.7	—	12.7	—
Certificates of deposit	1.0	—	1.0	—
Total available-for-sale securities	63.2	10.9	52.3	—
Trading securities	72.2	72.2	—	—
Total short-term investments	135.4	83.1	52.3	—
Prepaid expenses and other current assets:				
Derivative assets	28.7	0.9	27.8	—
Long-term investments:				
Available-for-sale securities				
Agency obligations	8.9	—	8.9	—
Corporate debt securities	130.9	—	130.9	—
Auction rate securities	13.8	—	—	13.8
Foreign government obligations	17.4	—	17.4	—
U.S. government treasury securities	94.8	94.8	—	—
State and local government obligations	6.7	—	6.7	—
Mortgage and other asset-backed securities	45.9	—	45.9	—
Total long-term investments	318.4	94.8	209.8	13.8
Other long-term assets:				
Derivative assets	18.0	—	18.0	—
Total assets	$2,208.9	$ 1,887.2	$ 307.9	$ 13.8
Liabilities:				
Accrued liabilities:				
Derivative liabilities	$2.4	$ 0.4	$ 2.0	$ —

There were no 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 investments were not material as of June 28, 2015 and September 28, 2014.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

Assets and liabilities recognized or disclosed at fair value on the consolidated financial statements on a nonrecurring basis include items such as property, plant and equipment, goodwill and other intangible assets, equity and cost method investments, and other assets. These assets are measured at fair value if determined to be impaired. During the quarter and three quarters ended June 28, 2015 and June 29, 2014, there were no material fair value adjustments.

The estimated fair value of our long-term debt based on the quoted market price (Level 2) is included at Note 7, Debt.

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Note 5: Inventories

(in millions)	Jun 28, 2015	Sep 28, 2014	Jun 29, 2014
Coffee:			
Unroasted	$529.5	$432.3	$442.3
Roasted	240.6	238.9	215.1
Other merchandise held for sale	226.2	265.7	213.8
Packaging and other supplies	169.7	154.0	154.6
Total	$1,166.0	$1,090.9	$1,025.8

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

As of June 28, 2015, we had committed to purchasing green coffee totaling $914 million under fixed-price contracts and an estimated $267 million under price-to-be-fixed contracts. As of June 28, 2015, approximately $35 million of our price-to-be-fixed contracts were effectively fixed through the use of futures contracts and approximately $14 million were price-protected through the use of collar instruments. Price-to-be-fixed contracts are purchase commitments whereby the quality, quantity, delivery period, and other negotiated terms are agreed upon, but the date, and therefore the price, at which the base “C” coffee commodity price component will be fixed has not yet been established. For these types of contracts, either Starbucks or the seller has the option to “fix” the base “C” coffee commodity price prior to the delivery date. Until prices are fixed, we estimate the total cost of these purchase commitments. We believe, based on relationships established with our suppliers in the past, the risk of non-delivery on these purchase commitments is remote.

Note 6: Supplemental Balance Sheet Information (in millions)

Property, Plant and Equipment, net

	Jun 28, 2015	Sep 28, 2014
Land	$46.6	$46.7
Buildings	404.4	278.1
Leasehold improvements	5,277.6	4,858.4
Store equipment	1,645.9	1,493.3
Roasting equipment	534.2	410.9
Furniture, fixtures and other	1,233.5	1,078.1
Work in progress	289.6	415.6
Property, plant and equipment, gross	9,431.8	8,581.1
Accumulated depreciation	(5,454.1)	(5,062.1)
Property, plant and equipment, net	$3,977.7	$3,519.0

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Accrued Liabilities

	Jun 28, 2015	Sep 28, 2014
Accrued compensation and related costs	$512.9	$437.9
Accrued occupancy costs	129.7	119.8
Accrued taxes	170.1	272.0
Accrued dividends payable	238.5	239.8
Other	605.7	444.9
Total accrued liabilities	$1,656.9	$1,514.4

Note 7: Debt

In June 2015, we issued additional long-term debt in an underwritten registered public offering, which consisted of $500 million of 7-year 2.700% Senior Notes (the "2022 notes") due June 2022, and $350 million of 30-year 4.300% Senior Notes (the "2045 notes") due June 2045. Interest on the 2022 and 2045 notes is payable semi-annually on June 15 and December 15 of each year, commencing on December 15, 2015. We used a portion of the proceeds from the 2022 and 2045 notes to redeem our $550 million of 6.250% Senior Notes (the "2017 notes") that were originally scheduled to mature in August 2017. The redemption process commenced in the third quarter of fiscal 2015 and settled in the fourth quarter of fiscal 2015 (see further discussion at Note 12, Subsequent Event). As of June 28, 2015, the $550 million of 2017 notes are presented as current portion of long-term debt on our consolidated balance sheets.

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

	Jun 28, 2015		Sep 28, 2014			
Issuance	Face Value	Estimated Fair Value	Face Value	Estimated Fair Value	Stated Interest Rate	Effective Interest Rate (1)
2016 notes	$400.0	$400	$400.0	$400	0.875 %	0.941 %
2017 notes	550.0	609	550.0	625	6.250 %	6.292 %
2018 notes	350.0	354	350.0	353	2.000 %	2.012 %
2022 notes	500.0	495	—	—	2.700 %	2.819 %
2023 notes	750.0	789	750.0	786	3.850 %	2.860 %
2045 notes	350.0	345	—	—	4.300 %	4.348 %
Total	2,900.0	2,992	2,050.0	2,164		
Aggregate unamortized discount	2.8		1.7			
Total	$2,897.2		$2,048.3			

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

The indentures under which the above notes were issued 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 28, 2015, we were in compliance with all applicable covenants.

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Note 8: Equity

Changes in total equity (in millions):

	Three Quarters Ended					
	Jun 28, 2015			Jun 29, 2014		
	Attributable to Starbucks	Noncontrolling interest	Total Equity	Attributable to Starbucks	Noncontrolling interest	Total Equity
Beginning balance of total equity	$5,272.0	$ 1.7	$5,273.7	$4,480.2	$ 2.1	$4,482.3
Net earnings including noncontrolling interests	2,104.9	1.9	2,106.8	1,480.3	(0.1)	1,480.2
Translation adjustment, net of reclassifications and tax	(121.3)	(31.1)	(152.4)	(8.5)	—	(8.5)
Unrealized gains/(losses), net of reclassifications and tax	(4.0)	—	(4.0)	12.4	—	12.4
Other comprehensive income/(loss)	(125.3)	(31.1)	(156.4)	3.9	—	3.9
Stock-based compensation expense	157.6	—	157.6	144.0	—	144.0
Exercise of stock options/vesting of RSUs	153.2	—	153.2	126.3	—	126.3
Sale of common stock	17.5	—	17.5	16.5	—	16.5
Repurchase of common stock	(975.9)	—	(975.9)	(595.2)	—	(595.2)
Cash dividends declared	(718.2)	—	(718.2)	(587.2)	—	(587.2)
Noncontrolling interest resulting from acquisition	—	411.1	411.1	—	—	—
Purchase of noncontrolling interests	(29.3)	(381.8)	(411.1)	—	—	—
Ending balance of total equity	$5,856.5	$ 1.8	$5,858.3	$5,068.8	$ 2.0	$5,070.8

Changes in accumulated other comprehensive income ("AOCI") by component, net of tax (in millions):

Quarter Ended

	Available-for-Sale Securities	Cash Flow Hedges	Net Investment Hedges	Translation Adjustment	Total
June 28, 2015					
Net gains/(losses) in AOCI, beginning of period	$ 0.4	$46.6	$1.3	$(165.2)	$(116.9)
Net gains/(losses) recognized in OCI before reclassifications	(1.1)	25.1	—	(11.0)	13.0
Net (gains)/losses reclassified from AOCI to earnings	(0.5)	(26.7)	—	—	(27.2)
Other comprehensive income/(loss) attributable to Starbucks	(1.6)	(1.6)	—	(11.0)	(14.2)
Net gains/(losses) in AOCI, end of period	$ (1.2)	$45.0	$1.3	$(176.2)	$(131.1)
June 29, 2014					
Net gains/(losses) in AOCI, beginning of period	$ (0.8)	$46.8	$(9.2)	$27.5	$64.3
Net gains/(losses) recognized in OCI before reclassifications	1.1	(10.2)	(0.4)	17.6	8.1
Net (gains)/losses reclassified from AOCI to earnings	—	(1.5)	—	—	(1.5)
	1.1	(11.7)	(0.4)	17.6	6.6

Other comprehensive income/(loss) attributable to Starbucks					
Net gains/(losses) in AOCI, end of period	$ 0.3	$35.1	$(9.6)	$45.1	$70.9

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Three Quarters Ended

	Available-for-Sale Securities	Cash Flow Hedges	Net Investment Hedges	Translation Adjustment	Total
June 28, 2015					
Net gains/(losses) in AOCI, beginning of period	$ (0.4)	$46.3	$3.2	$(23.8)	$25.3
Net gains/(losses) recognized in OCI before reclassifications	0.2	73.6	2.7	(135.6)	(59.1)
Net (gains)/losses reclassified from AOCI to earnings	(1.0)	(74.9)	(4.6)	14.3	(66.2)
Other comprehensive income/(loss) attributable to Starbucks	(0.8)	(1.3)	(1.9)	(121.3)	(125.3)
Purchase of noncontrolling interests	—	—	—	(31.1)	(31.1)
Net gains/(losses) in AOCI, end of period	$ (1.2)	$45.0	$1.3	$(176.2)	$(131.1)
June 29, 2014					
Net gains/(losses) in AOCI, beginning of period	$ (0.5)	$26.8	$(12.9)	$53.6	$67.0
Net gains/(losses) recognized in OCI before reclassifications	0.6	3.7	3.3	(8.5)	(0.9)
Net (gains)/losses reclassified from AOCI to earnings	0.2	4.6	—	—	4.8
Other comprehensive income/(loss) attributable to Starbucks	0.8	8.3	3.3	(8.5)	3.9
Net gains/(losses) in AOCI, end of period	$ 0.3	$35.1	$(9.6)	$45.1	$70.9

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

Quarter Ended

AOCI Components	Amounts Reclassified from AOCI Jun 28, 2015	Jun 29, 2014	Affected Line Item in the Statements of Earnings
Gains/(losses) on cash flow hedges			
Interest rate hedges	$1.2	$1.3	Interest expense
Cross-currency swaps	29.5	—	Interest income and other, net
Foreign currency hedges	3.7	0.9	Revenues
Foreign currency/coffee hedges	3.0	0.4	Cost of sales including occupancy costs
	37.4	2.6	Total before tax
	(10.7)	(1.1)	Tax (expense)/benefit
	$26.7	$1.5	Net of tax

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Three Quarters Ended

AOCI Components	Amounts Reclassified from AOCI Jun 28, 2015	Jun 29, 2014	Affected Line Item in the Statements of Earnings
Gains/(losses) on cash flow hedges			
Interest rate hedges	$3.8	$3.8	Interest expense
Cross-currency swaps	82.0	—	Interest income and other, net
Foreign currency hedges	9.6	3.2	Revenues
Foreign currency/coffee hedges	4.1	(9.5)	Cost of sales including occupancy costs
Gains/(losses) on net investment hedges[(1)]	7.2	—	Gain resulting from acquisition of joint venture
Translation adjustment[(2)]			
Starbucks Japan	(7.2)	—	Gain resulting from acquisition of joint venture
Other	(7.1)	—	Interest income and other, net
	92.4	(2.5)	Total before tax
	(27.2)	(2.1)	Tax (expense)/benefit
	$65.2	$(4.6)	Net of tax

(1) Release of pretax cumulative net gains in AOCI related to our net investment derivative instruments used to hedge our preexisting 39.5% equity method investment in Starbucks Japan.

(2) Release of cumulative translation adjustments to earnings upon sale or liquidation of foreign business.

As discussed in Note 1, Summary of Significant Accounting Policies, on April 9, 2015, we effected a two-for-one stock split of our $0.001 par value common stock for shareholders of record as of March 30, 2015. All share data presented in this note has been retroactively adjusted to reflect this stock split.

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 28, 2015.

We repurchased 20.7 million shares of common stock at a total cost of $975.9 million, and 16.5 million shares at a total cost of $595.2 million for the three quarters ended June 28, 2015 and June 29, 2014, respectively. As of June 28, 2015, 11.0 million shares remained available for repurchase under the authorization publicly announced on November 15, 2012. On July 23, 2015, we announced that our Board of Directors approved an increase of 50 million shares to our ongoing share repurchase program.

During the third quarter of fiscal 2015, our Board of Directors declared a quarterly cash dividend to shareholders of $0.16 per share to be paid on August 21, 2015 to shareholders of record as of the close of business on August 6, 2015.

Note 9: Employee Stock Plans

As discussed in Note 1, Summary of Significant Accounting Policies, on April 9, 2015, we effected a two-for-one stock split of our $0.001 par value common stock for shareholders of record as of March 30, 2015. All share and per-share data presented in this note has been retroactively adjusted to reflect this stock split.

As of June 28, 2015, there were 96.0 million shares of common stock available for issuance pursuant to future equity-based compensation awards and 14.4 million shares available for issuance under our employee stock purchase plan.

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

	Quarter Ended		Three Quarters Ended	
	Jun 28, 2015	Jun 29, 2014	Jun 28, 2015	Jun 29, 2014
Options	$8.3	$9.9	$28.9	$32.4
Restricted Stock Units (“RSUs”)	43.7	41.1	127.3	110.2
Total stock-based compensation	$52.0	$51.0	$156.2	$142.6

Stock option and RSU transactions from September 28, 2014 through June 28, 2015 (in millions):

	Stock Options	RSUs
Options outstanding/Nonvested RSUs, September 28, 2014	39.6	10.8
Granted	6.3	6.4
Options exercised/RSUs vested	(8.8)	(5.0)
Forfeited/expired	(1.0)	(1.3)
Options outstanding/Nonvested RSUs, June 28, 2015	36.1	10.9
Total unrecognized stock-based compensation expense, net of estimated forfeitures, as of June 28, 2015	$39.2	$156.1

Note 10: Earnings per Share

As discussed in Note 1, Summary of Significant Accounting Policies, on April 9, 2015, we effected a two-for-one stock split of our $0.001 par value common stock for shareholders of record as of March 30, 2015. All share and per-share data presented in this note has been retroactively adjusted to reflect this stock split.

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

	Quarter Ended		Three Quarters Ended	
	Jun 28, 2015	Jun 29, 2014	Jun 28, 2015	Jun 29, 2014
Net earnings attributable to Starbucks	$626.7	$512.6	$2,104.9	$1,480.3
Weighted average common shares outstanding (for basic calculation)	1,498.5	1,503.5	1,499.3	1,507.9
Dilutive effect of outstanding common stock options and RSUs	17.2	18.5	17.0	19.9
Weighted average common and common equivalent shares outstanding (for diluted calculation)	1,515.7	1,522.0	1,516.3	1,527.8
EPS — basic	$0.42	$0.34	$1.40	$0.98
EPS — diluted	$0.41	$0.34	$1.39	$0.97

Potential dilutive shares consist of the incremental common shares issuable upon the exercise of outstanding stock options (both vested and non-vested) and unvested RSUs, calculated using the treasury stock method. The calculation of dilutive shares outstanding excludes out-of-the-money stock options (i.e., such options’ exercise prices were greater than the average market price of our common shares for the period) because their inclusion would have been antidilutive. There were no out-of-the money stock options as of June 28, 2015. We had 5.9 million out-of-the-money stock options as of June 29, 2014.

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Note 11: Segment Reporting

Our chief executive officer and chief operating officer comprise the Company's Chief Operating Decision Maker function ("CODM"). Segment information is prepared on the same basis that our CODM manages the segments, evaluates financial results, and makes key operating decisions.

The table below presents financial information for our reportable operating segments and All Other Segments (in millions):

Quarter Ended

	Americas	EMEA	China / Asia Pacific	Channel Development	All Other Segments	Segment Total
June 28, 2015						
Total net revenues	$3,414.6	$294.7	$652.7	$ 403.6	$115.6	$4,881.2
Depreciation and amortization expenses	130.8	12.4	41.2	0.7	4.3	189.4
Income from equity investees	—	0.9	27.6	31.8	—	60.3
Operating income/(loss)	855.3	36.0	150.0	143.4	(13.1)	1,171.6
June 29, 2014						
Total net revenues	$3,057.7	$323.5	$287.6	$ 375.3	$109.6	$4,153.7
Depreciation and amortization expenses	119.5	15.1	11.3	0.4	3.9	150.2
Income from equity investees	—	1.1	46.3	25.5	—	72.9
Operating income/(loss)	728.5	29.2	100.8	139.3	(18.9)	978.9

Three Quarters Ended

	Americas	EMEA	China / Asia Pacific	Channel Development	All Other Segments	Segment Total
June 28, 2015						
Total net revenues	$9,909.5	$908.4	$1,743.6	$ 1,274.2	$412.2	$14,247.9
Depreciation and amortization expenses	386.5	38.9	106.3	2.0	12.2	545.9
Income from equity investees	—	2.1	85.8	80.1	—	168.0
Operating income/(loss)	2,382.5	115.2	370.5	456.7	(6.8)	3,318.1
June 29, 2014						
Total net revenues	$8,939.4	$973.0	$819.8	$ 1,146.8	$388.1	$12,267.1
Depreciation and amortization expenses	346.6	44.5	33.4	1.2	11.3	437.0
Income from equity investees	—	3.0	116.8	64.1	—	183.9
Operating income/(loss)	2,066.0	80.5	268.8	385.5	(13.0)	2,787.8

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

	Quarter Ended		Three Quarters Ended	
	Jun 28, 2015	Jun 29, 2014	Jun 28, 2015	Jun 29, 2014
Total segment operating income	$1,171.6	$978.9	$3,318.1	$2,787.8
Unallocated corporate operating expenses	(233.0)	(210.4)	(686.5)	(561.5)
Consolidated operating income	938.6	768.5	2,631.6	2,226.3
Gain resulting from acquisition of joint venture	—	—	390.6	—
Interest income and other, net	25.5	19.4	36.6	57.0
Interest expense	(19.1)	(16.4)	(52.3)	(47.7)
Earnings before income taxes	$945.0	$771.5	$3,006.5	$2,235.6

Note 12: Subsequent Event

In July 2015, we redeemed our $550 million of 6.250% Senior Notes (the "2017 notes") originally scheduled to mature in August 2017. The redemption resulted in a charge of $61.1 million, which will be presented separately as loss on extinguishment of debt within other income on the consolidated statements of earnings in the fourth quarter of fiscal 2015. This loss primarily relates to the optional redemption payment as outlined in the 2017 notes indenture, as well as non-cash expenses related to the previously capitalized original issuance costs and accelerated amortization of the unamortized discount. In connection with the redemption, in the fourth quarter of fiscal 2015, we will also reclassify $2.0 million from accumulated other comprehensive income to interest expense related to remaining unrecognized losses from interest rate contracts entered into in conjunction with the 2017 notes and designated as cash flow hedges.

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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, including statements regarding trends in or expectations relating to the expected effects of our initiatives and plans, as well as trends in or expectations regarding earnings per share, revenues, operating margins, comparable store sales, sales leverage, sales growth, profitability, expenses, dividends, share repurchases, other financial results, the integration of Starbucks Japan and the anticipated gains and costs related to the acquisition of Starbucks Japan, capital expenditures, investments in our store partners, product innovation, offerings and distribution, including elevation of our food program and expansion of our beverage platforms and of customer occasions outside our stores, scaling and expansion of international operations, shifts in our store portfolio to more licensed stores in EMEA, foreign currency translation, growth of China into one of our largest markets outside the U.S., profitable growth models and opportunities, emerging businesses, strategic acquisitions, commodity costs and our mitigation strategies, liquidity, cash flow from operations, use of cash and cash requirements, repatriation of cash to the U.S., the potential issuance of debt and applicable interest rate, anticipated store openings and closings, net new stores, the health and growth of our business overall and of specific businesses or markets, benefits of recent initiatives, increased traffic to our stores, operational efficiencies, tax rates, and economic conditions in the U.S. and international markets, constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are based on currently available operating, financial and competitive information and are subject to various risks and uncertainties. Actual future results and trends may differ materially depending on a variety of factors, including, but not limited to, fluctuations in U.S. and international economies and currencies, our ability to preserve, grow and leverage our brands, potential negative effects of material breaches of our information technology systems if any were to occur, costs associated with, and the successful execution of, the company's initiatives and plans, including the acquisition of Starbucks Japan, the acceptance of the company's products by our customers, the impact of competition, coffee, dairy and other raw materials prices and availability, the effect of legal proceedings, and other risks detailed in our filings with the SEC, including in Part I Item IA “Risk Factors” in the 10-K.

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

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

General

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

Overview

Starbucks third quarter results reflect strong contributions from all reportable segments. Consolidated total net revenues increased 18% to $4.9 billion, primarily driven by $309 million of incremental revenues from the acquisition of Starbucks Japan, global comparable store sales growth of 7% and incremental revenue from 1,592 net new store openings over the last 12 months. These increases were partially offset by $81 million of net unfavorable foreign currency translation, which resulted in an unfavorable impact of nearly 2% on revenue growth over the prior year third quarter. Consolidated operating income increased $170 million, or 22%, to $939 million. Operating margin expanded 70 basis points to 19.2%, primarily due to sales leverage, partially offset by the 90 basis point impact of our ownership change in Starbucks Japan, reflecting the change in accounting from a joint venture to a consolidated market and the acquisition-related transaction and integration costs. Earnings per share of $0.41 increased 21% over the prior year quarter earnings per share of $0.34.

The Americas segment continued to perform well in the third quarter, growing revenues by 12% to $3.4 billion, primarily driven by comparable store sales growth of 8%, comprised of a 4% increase in average ticket and a 4%

increase in number of transactions, as well as revenue from 658 net new store openings over the past 12 months. Growth in our core beverage offerings, mainly blended and espresso platforms, growth in food sales, attributed to both new and existing products, successful limited time offering beverages and increased Teavana® tea sales in our Starbucks® retail stores contributed to the growth in comparable store sales. Operating margin expanded 120 basis points to 25.0%, primarily due to sales leverage, partially offset by increased salaries and benefits driven by investments in our store partners (employees). Looking forward, we expect to continue to drive revenue growth and margin expansion through net new stores and continued product innovation, targeted at driving growth across all regions and dayparts, while continuing to make investments in our store partners, through enhancements to wages and benefits, and our digital technologies. We plan to continue to expand our beverage platforms and elevate our food program, in part by expanding our Teavana-branded beverage offerings and with ongoing enhancements to our lunch options, innovative new snack offerings, and the continued rollout of our Evenings program.

The transformation of our EMEA segment continued into the third quarter. Revenues declined $29 million, or 9%, primarily due to $37 million of unfavorable foreign currency translation, which resulted in an unfavorable impact of approximately 11% on revenue growth over the prior year third quarter. This was partially offset by growth in revenue of $8 million that was primarily driven by comparable store sales growth of 3%. Incremental revenues from 209 net new licensed store openings over the past year also contributed. Sales leverage, driven by our ongoing portfolio shift to higher-margin licensed stores was the primary driver of the 320 basis points of margin expansion over the prior year quarter, to 12.2%. We expect our continued disciplined licensed store expansion and focus on the customer experience, including introducing new food and beverage offerings in our retail stores, as well as new strategic partnerships, in this region will result in improved operating performance and contribute towards sustained mid-teens operating margin.

Our China/Asia Pacific segment results reflect the impact of fully consolidating Starbucks Japan. Incremental revenues from Starbucks Japan were the primary driver of the 127% increase in segment revenues, to $653 million. Also contributing were increased sales from opening 253 company-operated and 497 licensed net new stores over the past year, along with an 11% increase in comparable store sales, primarily driven by a 10% increase in transactions. Operating income grew 49%, to $150 million, while operating margin declined 1,200 basis points to 23%. The overall operating margin decline was due to the 1,570 basis point impact of the ownership change in Starbucks Japan, which was partially offset by expansion of 370 basis points that was primarily due to sales and operating leverage. We expect that continued new store openings and the integration of Starbucks Japan, including growth in other channels in the Japan market, will enable this segment to continue as a meaningful growth driver for our business. We also expect China will continue to grow toward being one of our largest markets outside of the U.S., primarily through expanding our retail store presence.

Channel Development segment revenues grew 8% for the quarter to $404 million, primarily due to increased sales of premium single-serve products, driven by sales of Starbucks- and Tazo-branded K-Cup® portion packs, and higher foodservice sales. Operating income grew $4 million, or 3%, to $143 million. Operating margin decreased 160 basis points to 35.5% in the third quarter of fiscal 2015, driven by increased marketing to support premium single-serve product launches and higher coffee costs, partially offset by leverage on cost of sales and increased income from strong performance by our North American Coffee Partnership. We continue to expand customer occasions outside of our retail stores, including growing our presence in the premium single-serve category with innovative new beverage offerings and internationally, particularly in the ready to drink market.

Fiscal 2015 — Financial Outlook for the Year

For fiscal year 2015, we expect increased revenues driven by incremental growth from the acquisition of Starbucks Japan, the opening of 1,650 net new stores, and mid-single-digit global comparable store sales, partially offset by the impact of unfavorable foreign currency translation. Approximately one-half of new store openings will be in China/Asia Pacific, with the remaining half coming primarily from the Americas.

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For fiscal 2015, we expect consolidated operating margin to be flat compared to fiscal 2014. We also expect strong EPS growth over fiscal 2014, reflecting the strength of our global business and multiple layers of profitable growth initiatives.

Comparable Store Sales

Starbucks comparable store sales for the third quarter and the first three quarters of fiscal 2015:

	Quarter Ended Jun 28, 2015			Three Quarters Ended Jun 28, 2015		
	Sales Growth	Change in Transactions	Change in Ticket	Sales Growth	Change in Transactions	Change in Ticket
Consolidated	7%	4%	3%	7%	3%	4%
Americas	8%	4%	4%	7%	3%	4%
EMEA	3%	2%	1%	3%	2%	1%
China/Asia Pacific	11%	10%	1%	10%	9%	1%

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

Results of Operations (in millions)

Revenues

	Quarter Ended			Three Quarters Ended		
	Jun 28, 2015	Jun 29, 2014	% Change	Jun 28, 2015	Jun 29, 2014	% Change
Company-operated stores	$3,915.0	$3,290.5	19.0 %	$11,310.7	$9,702.3	16.6 %
Licensed stores	475.2	408.1	16.4	1,380.5	1,166.1	18.4
CPG, foodservice and other	491.0	455.1	7.9	1,556.7	1,398.7	11.3
Total net revenues	$4,881.2	$4,153.7	17.5 %	$14,247.9	$12,267.1	16.1 %

Total net revenues for the third quarter and first three quarters of fiscal 2015 increased $728 million and $2.0 billion, respectively, primarily due to increased revenues from company-operated stores (contributing $625 million and $1.6 billion, respectively). The increase in company-operated store revenues was driven by incremental revenues from the acquisition of Starbucks Japan (approximately $322 million and $782 million, respectively), an increase in comparable store sales (approximately 7% growth, or $234 million, for the third quarter and 7% growth, or $601 million, for the first three quarters), and incremental revenues from 583 net new Starbucks® company-operated store openings over the past 12 months (approximately $156 million and $441 million, respectively). Partially offsetting these increases was the impact of unfavorable foreign currency translation (approximately $68 million for the third quarter and $164 million for the first three quarters).

Licensed store revenue growth also contributed to the increase in total net revenues for the third quarter and first three quarters of fiscal 2015 (contributing $67 million and $214 million, respectively). These increases were primarily a result of increased product sales to and royalty revenues from our licensees, primarily resulting from the opening of 1,015 net new Starbucks® licensed stores over the past 12 months and improved comparable store sales, as well as increased La Boulange™ food sales to our licensees in the Americas segment. These increases were partially offset by a decrease in licensed store revenues resulting from the impact of our ownership change in Starbucks Japan (approximately $14 million and $34 million, respectively).

CPG, foodservice and other revenues increased $36 million and $158 million for the third quarter and the first three quarters of fiscal 2015, respectively. These increases were primarily due to increased sales of premium single-serve products (approximately $20 million for the third quarter and $80 million for the first three quarters) and foodservice sales (approximately $14 million for the third quarter and $31 million for the first three quarters). Increased sales of Seattle's Best Coffee® (approximately $25 million) and U.S. packaged coffee (approximately $20 million) also contributed for the first three quarters.

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Operating Expenses

	Quarter Ended				Three Quarters Ended			
	Jun 28, 2015	Jun 29, 2014	Jun 28, 2015	Jun 29, 2014	Jun 28, 2015	Jun 29, 2014	Jun 28, 2015	Jun 29, 2014
			% of Total Net Revenues				% of Total Net Revenues	
Cost of sales including occupancy costs	$1,953.9	$1,711.5	40.0 %	41.2 %	$5,804.9	$5,135.7	40.7 %	41.9 %
Store operating expenses	1,392.4	1,176.5	28.5	28.3	4,032.5	3,486.1	28.3	28.4
Other operating expenses	131.6	120.6	2.7	2.9	394.5	346.3	2.8	2.8
Depreciation and amortization expenses	236.5	180.1	4.8	4.3	659.6	524.2	4.6	4.3
General and administrative expenses	288.5	269.4	5.9	6.5	892.8	752.6	6.3	6.1
Litigation credit	—	—	—	—	—	(20.2)	—	(0.2)
Total operating expenses	4,002.9	3,458.1	82.0	83.3	11,784.3	10,224.7	82.7	83.4
Income from equity investees	60.3	72.9	1.2	1.8	168.0	183.9	1.2	1.5
Operating income	$938.6	$768.5	19.2 %	18.5 %	$2,631.6	$2,226.3	18.5 %	18.1 %
Store operating expenses as a % of related revenues			35.6 %	35.8 %			35.7 %	35.9 %

Cost of sales including occupancy costs as a percentage of total net revenues decreased 120 basis points for both the third quarter and for the first three quarters of fiscal 2015, primarily due to sales and operating leverage on cost of sales (approximately 60 basis points for the third quarter and 90 basis points for the first three quarters of fiscal 2015) and sales leverage on occupancy costs (approximately 30 basis points for both periods).

Store operating expenses as a percentage of total net revenues increased 20 basis points for the third quarter and decreased 10 basis points for the first three quarters of fiscal 2015. Store operating expenses as a percentage of company-operated store revenues decreased 20 basis points for both the third quarter and for the first three quarters, primarily driven by sales leverage (approximately 100 basis points in both periods), partially offset by increased salaries and benefits driven by increased store partner (employee) investments (approximately 90 basis points and 70 basis points, respectively).

Other operating expenses as a percentage of total net revenues decreased 20 basis points for the third quarter and was flat for the first three quarters of fiscal 2015. Excluding the impact of company-operated store revenues, other operating expenses decreased 40 basis points for the quarter and 10 basis points for the first three quarters of fiscal 2015, primarily driven by sales leverage (approximately 110 basis points for the third quarter and 70 basis points for the first three quarters). The decrease for the third quarter was partially offset by increased marketing (approximately 60 basis points). The decrease for the first three quarters was partially offset by the impairment of certain assets in the Americas segment (approximately 30 basis points) and the impact of our ownership change in Starbucks Japan (approximately 20 basis points).

Depreciation and amortization expenses increased 50 basis points for the third quarter and 30 basis points for the first three quarters of fiscal 2015, primarily due to the impact of our ownership change in Starbucks Japan (approximately 30 basis points for the third quarter and 20 basis points for the first three quarters).

General and administrative expenses as a percentage of total net revenues decreased 60 basis points for the third quarter and increased 20 basis points for the first three quarters of fiscal 2015. The third quarter decrease was primarily due to sales leverage (approximately 40 basis points). The increase for the first three quarters was primarily driven by the impact of our ownership change in Starbucks Japan (approximately 20 basis points).

The $20.2 million decrease in litigation credit for the first three quarters of fiscal 2015 was due to lapping of a prior year credit related to a reduction of our estimated prejudgment interest payable associated with the Kraft arbitration, as a result of paying our obligation earlier than anticipated.

The overall increase in operating margin of 70 basis points for the third quarter and 40 basis points for the first three quarters of fiscal 2015 were driven by the changes discussed above, including the impact of our ownership change in Starbucks Japan and the acquisition-related transaction and integration costs, which contributed unfavorably to operating margin 90 basis points for the third quarter and 80 basis points for the first three quarters.

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Other Income and Expenses

	Quarter Ended				Three Quarters Ended			
	Jun 28, 2015	Jun 29, 2014	Jun 28, 2015	Jun 29, 2014	Jun 28, 2015	Jun 29, 2014	Jun 28, 2015	Jun 29, 2014
			% of Total Net Revenues				% of Total Net Revenues	
Operating income	$938.6	$768.5	19.2 %	18.5 %	$2,631.6	$2,226.3	18.5 %	18.1 %
Gain resulting from acquisition of joint venture	—	—	—	—	390.6	—	2.7	—
Interest income and other, net	25.5	19.4	0.5	0.5	36.6	57.0	0.3	0.5
Interest expense	(19.1)	(16.4)	(0.4)	(0.4)	(52.3)	(47.7)	(0.4)	(0.4)
Earnings before income taxes	945.0	771.5	19.4	18.6	3,006.5	2,235.6	21.1	18.2
Income taxes	318.5	259.0	6.5	6.2	899.7	755.4	6.3	6.2
Net earnings including noncontrolling interests	626.5	512.5	12.8	12.3	2,106.8	1,480.2	14.8	12.1
Net earnings/(loss) attributable to noncontrolling interests	(0.2)	(0.1)	—	—	1.9	(0.1)	—	—
Net earnings attributable to Starbucks	$626.7	$512.6	12.8 %	12.3 %	$2,104.9	$1,480.3	14.8 %	12.1 %
Effective tax rate including noncontrolling interests			33.7 %	33.6 %			29.9 %	33.8 %

During the first quarter of fiscal 2015, we recorded a gain of $391 million as a result of remeasuring our preexisting 39.5% ownership interest in Starbucks Japan to fair value upon acquisition.

Net interest income and other increased $6 million for the third quarter and decreased $20 million for the first three quarters of fiscal 2015. The increase for the third quarter was primarily the result of increased income associated with unredeemed stored value cards (approximately $12 million), primarily due to growth in the Starbucks Card program, partially offset by net unfavorable foreign currency exchange and foreign currency-related derivatives (approximately $7 million). The decrease for the first three quarters was primarily due to net unfavorable fair value adjustments from derivative instruments used to manage our risk of commodity price fluctuations (approximately $24 million).

Interest expense increased $3 million for the third quarter and $5 million for the first three quarters of fiscal 2015. Incremental interest expense incurred related to the additional long-term debt we issued in June of fiscal 2015 contributed to the increase for both periods. The increase for the first three quarters was also due to incurring a full quarter of interest in the first quarter of fiscal 2015 on the long-term debt we issued in December of fiscal 2014.

The effective tax rate for the quarter ended June 28, 2015 was 33.7% compared to 33.6% for the same quarter in fiscal 2014. The increase was primarily due to slightly higher international taxes, including the impact of consolidating Starbucks Japan. The effective tax rate for the three quarters ended June 28, 2015 was 29.9% compared to 33.8% for the same period in fiscal 2014. The decrease was primarily due to the 4.8% impact of the gain associated with the remeasurement of our preexisting 39.5% ownership interest in Starbucks Japan upon acquisition, which was almost entirely non-taxable.

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Segment Information
Results of operations by segment (in millions):
Americas

	Quarter Ended						Three Quarters Ended					
	Jun 28, 2015	Jun 29, 2014	Jun 28, 2015		Jun 29, 2014		Jun 28, 2015	Jun 29, 2014	Jun 28, 2015		Jun 29, 2014	
			% of Americas Net Revenues						% of Americas Net Revenues			
Net revenues:												
Company-operated stores	$3,061.3	$2,772.3	89.7	%	90.7	%	$8,890.5	$8,120.6	89.7	%	90.8	%
Licensed stores	344.9	275.6	10.1		9.0		993.0	787.6	10.0		8.8	
Foodservice and other	8.4	9.8	0.2		0.3		26.0	31.2	0.3		0.3	
Total net revenues	3,414.6	3,057.7	100.0		100.0		9,909.5	8,939.4	100.0		100.0	
Cost of sales including occupancy costs	1,227.7	1,130.0	36.0		37.0		3,624.4	3,353.8	36.6		37.5	
Store operating expenses	1,126.7	1,002.4	33.0		32.8		3,276.1	2,965.9	33.1		33.2	
Other operating expenses	26.9	26.2	0.8		0.9		93.4	75.2	0.9		0.8	
Depreciation and amortization expenses	130.8	119.5	3.8		3.9		386.5	346.6	3.9		3.9	
General and administrative expenses	47.2	51.1	1.4		1.7							