STARBUCKS CORP
Form 10-Q
July 27, 2016
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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 26, 2016
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 20, 2016
Common Stock, par value $0.001 per share	1,466.6 million

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For the Quarterly Period Ended June 26, 2016
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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 26, 2016	Jun 28, 2015	Jun 26, 2016	Jun 28, 2015
Net revenues:				
Company-operated stores	$4,181.6	$3,915.0	$12,336.3	$11,310.7
Licensed stores	527.2	475.2	1,561.0	1,380.5
CPG, foodservice and other	529.2	491.0	1,707.4	1,556.7
Total net revenues	5,238.0	4,881.2	15,604.7	14,247.9
Cost of sales including occupancy costs	2,060.3	1,953.9	6,256.9	5,804.9
Store operating expenses	1,529.4	1,392.4	4,502.0	4,032.5
Other operating expenses	137.5	131.6	423.3	394.5
Depreciation and amortization expenses	247.6	236.5	730.9	659.6
General and administrative expenses	323.4	288.5	959.4	892.8
Total operating expenses	4,298.2	4,002.9	12,872.5	11,784.3
Income from equity investees	82.5	60.3	212.3	168.0
Operating income	1,022.3	938.6	2,944.5	2,631.6
Gain resulting from acquisition of joint venture	—	—	—	390.6
Interest income and other, net	72.9	25.5	95.5	36.6
Interest expense	(21.8)	(19.1)	(56.6)	(52.3)
Earnings before income taxes	1,073.4	945.0	2,983.4	3,006.5
Income tax expense	318.9	318.5	966.2	899.7
Net earnings including noncontrolling interests	754.5	626.5	2,017.2	2,106.8
Net earnings/(loss) attributable to noncontrolling interests	0.4	(0.2)	0.4	1.9
Net earnings attributable to Starbucks	$754.1	$626.7	$2,016.8	$2,104.9
Earnings per share - basic	$0.51	$0.42	$1.37	$1.40
Earnings per share - diluted	$0.51	$0.41	$1.35	$1.39
Weighted average shares outstanding:				
Basic	1,465.3	1,498.5	1,474.4	1,499.3
Diluted	1,479.3	1,515.7	1,489.7	1,516.3
Cash dividends declared per share	$0.20	$0.16	$0.60	$0.48

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 26, 2016	Jun 28, 2015	Jun 26, 2016	Jun 28, 2015
Net earnings including noncontrolling interests	$754.5	$626.5	$2,017.2	$2,106.8
Other comprehensive income/(loss), net of tax:				
Unrealized holding gains/(losses) on available-for-sale securities	(4.1)	(1.8)	0.7	0.3
Tax (expense)/benefit	1.5	0.7	(0.3)	(0.1)
Unrealized gains/(losses) on cash flow hedging instruments	(48.4)	33.9	(110.7)	97.8
Tax (expense)/benefit	12.8	(8.8)	27.5	(24.2)
Unrealized gains/(losses) on net investment hedging instruments	—	—	—	4.3
Tax (expense)/benefit	—	—	—	(1.6)
Translation adjustment and other	49.8	(6.0)	79.8	(169.3)
Tax (expense)/benefit	4.9	(5.0)	11.5	2.6
Reclassification adjustment for net (gains)/losses realized in net earnings for available-for-sale securities, hedging instruments, and translation adjustment	53.8	(38.2)	73.3	(94.0)
Tax expense/(benefit)	(9.7)	11.0	(11.0)	27.8
Other comprehensive income/(loss)	60.6	(14.2)	70.8	(156.4)
Comprehensive income including noncontrolling interests	815.1	612.3	2,088.0	1,950.4
Comprehensive income/(loss) attributable to noncontrolling interests	0.4	(0.2)	0.4	(29.2)
Comprehensive income attributable to Starbucks	$814.7	$612.5	$2,087.6	$1,979.6

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

	Jun 26, 2016	Sep 27, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$2,141.8	$1,530.1
Short-term investments	174.5	81.3
Accounts receivable, net	747.3	719.0
Inventories	1,325.1	1,306.4
Prepaid expenses and other current assets	467.5	334.2
Total current assets	4,856.2	3,971.0
Long-term investments	819.5	312.5
Equity and cost investments	352.6	352.0
Property, plant and equipment, net	4,359.2	4,088.3
Deferred income taxes, net	822.8	1,180.8
Other long-term assets	391.1	415.9
Other intangible assets	526.7	520.4
Goodwill	1,705.1	1,575.4
TOTAL ASSETS	$13,833.2	$12,416.3
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$675.7	$684.2
Accrued liabilities	1,714.5	1,755.3
Insurance reserves	238.6	224.8
Stored value card liability	1,216.6	983.8
Current portion of long-term debt	399.8	—
Total current liabilities	4,245.2	3,648.1
Long-term debt	3,202.4	2,347.5
Other long-term liabilities	661.6	600.9
Total liabilities	8,109.2	6,596.5
Shareholders’ equity:		
Common stock ($0.001 par value) — authorized, 2,400.0 shares; issued and outstanding, 1,466.4 shares and 1,485.1 shares, respectively	1.5	1.5
Additional paid-in capital	146.9	41.1
Retained earnings	5,702.0	5,974.8
Accumulated other comprehensive loss	(128.6)	(199.4)
Total shareholders’ equity	5,721.8	5,818.0
Noncontrolling interest	2.2	1.8
Total equity	5,724.0	5,819.8
TOTAL LIABILITIES AND EQUITY	$13,833.2	$12,416.3

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 26, 2016	Jun 28, 2015
OPERATING ACTIVITIES:		
Net earnings including noncontrolling interests	$2,017.2	$2,106.8
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	768.2	693.3
Deferred income taxes, net	344.7	44.1
Income earned from equity method investees	(165.5)	(123.3)
Distributions received from equity method investees	139.4	84.3
Gain resulting from acquisition/sale of equity in joint ventures and certain retail operations	(30.7)	(390.6)
Stock-based compensation	158.4	156.2
Excess tax benefit on share-based awards	(110.9)	(97.9)
Other	40.8	41.8
Cash provided by changes in operating assets and liabilities:		
Accounts receivable	(39.5)	(31.4)
Inventories	(15.7)	(64.3)
Accounts payable	(3.7)	53.7
Stored value card liability	223.5	206.6
Other operating assets and liabilities	(59.3)	99.9
Net cash provided by operating activities	3,266.9	2,779.2
INVESTING ACTIVITIES:		
Purchases of investments	(1,022.7)	(466.8)
Sales of investments	409.6	420.1
Maturities and calls of investments	11.8	16.0
Acquisitions, net of cash acquired	—	(284.3)
Additions to property, plant and equipment	(1,029.7)	(943.5)
Net proceeds from sale of equity in joint venture and certain retail operations	69.6	—
Other	3.3	(33.9)
Net cash used by investing activities	(1,558.1)	(1,292.4)
FINANCING ACTIVITIES:		
Proceeds from issuance of long-term debt	1,254.5	848.5
Cash used or restricted for purchase of noncontrolling interest	—	(366.3)
Proceeds from issuance of common stock	120.9	146.9
Excess tax benefit on share-based awards	110.9	97.9
Cash dividends paid	(884.8)	(719.7)
Repurchase of common stock	(1,590.4)	(921.1)
Minimum tax withholdings on share-based awards	(105.3)	(74.5)
Other	0.1	(8.5)
Net cash used by financing activities	(1,094.1)	(996.8)
Effect of exchange rate changes on cash and cash equivalents	(3.0)	(117.9)
Net increase in cash and cash equivalents	611.7	372.1
CASH AND CASH EQUIVALENTS:		
Beginning of period	1,530.1	1,708.4
End of period	$2,141.8	$2,080.5

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest, net of capitalized interest	$68.3	$56.6
Income taxes, net of refunds	$669.8	$936.5

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 26, 2016, and for the quarter and three quarters ended June 26, 2016 and June 28, 2015, 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 26, 2016 and June 28, 2015 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 27, 2015 is derived from our audited consolidated financial statements and notes for the fiscal year ended September 27, 2015 (“fiscal 2015”) included in Item 8 in the Fiscal 2015 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 26, 2016 are not necessarily indicative of the results of operations that may be achieved for the entire fiscal year ending October 2, 2016 ("fiscal 2016"). Additionally, our 2016 fiscal year will include 53 weeks, with the 53rd week falling in our fourth fiscal quarter.

Recent Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board (“FASB”) issued guidance on the measurement and recognition of credit losses on most financial assets. For trade receivables, loans, and held-to-maturity debt securities, the current probable loss recognition methodology is being replaced by an expected credit loss model. For available-for-sale debt securities, the recognition model on credit losses is generally unchanged, except the losses will be presented as an adjustable allowance. The guidance will be applied retrospectively with the cumulative effect recognized as of the date of adoption. The guidance will become effective at the beginning of our first quarter of fiscal 2021 but can be adopted as early as the beginning of our first quarter of fiscal 2020. We are currently evaluating the impact this guidance will have on our consolidated financial statements and the timing of adoption.

In March 2016, the FASB issued guidance related to stock-based compensation, which changes the accounting and classification of excess tax benefits and minimum tax withholdings on share-based awards. The guidance becomes effective on a prospective basis 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.

Additionally, in March 2016, the FASB issued guidance for financial liabilities resulting from selling prepaid stored value products that are redeemable at third-party merchants. Under the new guidance, expected breakage amounts associated with these products must be recognized proportionately in earnings as redemption occurs. Our current accounting policy of applying the remote method to all of our stored value cards, including cards redeemable at the third-party licensed locations, will no longer be allowed. The guidance will become effective at the beginning of our first quarter of fiscal 2019, with the option to adopt in an earlier period. As the guidance and timing of transition are consistent with the new revenue recognition standard issued by the FASB in May 2014 and discussed below, we expect to implement the provisions of both sets of guidance in the same period.

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, and 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. The guidance will require modified retrospective application at the beginning of our first quarter of fiscal 2020, with optional practical expedients, but permits adoption in an earlier period. We are currently evaluating the impact this guidance will have on our consolidated financial statements but expect this adoption will result in a significant increase in the assets and liabilities on our consolidated balance sheet.

In January 2016, the FASB issued guidance on the recognition and measurement of financial instruments. This guidance retains the current accounting for classifying and measuring investments in debt securities and loans, but requires equity investments to be measured at fair value with subsequent changes recognized in net income, except for those accounted for under the equity method or requiring consolidation. The guidance also changes the accounting for investments without a readily determinable

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fair value and that do not qualify for the practical expedient to estimate fair value. A policy election can be made for these investments whereby estimated fair value may be measured at cost and adjusted in subsequent periods for any impairment or changes in observable prices of identical or similar investments. The new guidance will result in a cumulative effect adjustment recognized in our balance sheet and will become effective for us at the beginning of our first quarter of fiscal 2019. We are currently evaluating the impact of this guidance.

In November 2015, the FASB issued guidance on the presentation of deferred income taxes that requires deferred tax assets and liabilities, along with related valuation allowances, to be classified as noncurrent on the balance sheet. As a result, each tax jurisdiction will now only have one net noncurrent deferred tax asset or liability. The new guidance does not change the existing requirement that prohibits offsetting deferred tax liabilities from one jurisdiction against deferred tax assets of another jurisdiction. During the first quarter of fiscal 2016, we elected to early-adopt this guidance retrospectively. The following table summarizes the adjustments made to conform prior period classifications to the new guidance (in millions):

	September 27, 2015		
	As Filed	Reclass	As Adjusted
Current deferred income tax assets	$381.7	$(381.7)	$—
Long-term deferred income tax assets	828.9	351.9	1,180.8
Current deferred income tax liabilities (included in Accrued liabilities)	5.4	(5.4)	—
Long-term deferred income tax liabilities (included in Other long-term liabilities)	67.8	(24.4)	43.4
Net deferred tax asset	$1,137.4	$—	$1,137.4

In July 2015, the FASB issued guidance on the subsequent measurement of inventory, which changes the measurement from lower of cost or market to lower of cost or 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 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. The original effective date of the guidance would have required us to adopt at the beginning of our first quarter of fiscal 2018; however, the FASB approved an optional one-year deferral of the effective date. The new guidance may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of adoption. We are currently evaluating the overall impact this guidance will have on our consolidated financial statements, as well as the expected timing and method of adoption. Based on our preliminary assessment, we determined the adoption will change the timing of recognition and classification of our stored value card breakage income, which is currently recognized using the remote method and recorded in net interest income and other. The new guidance will require application of the proportional method and classification within total net revenues on our consolidated statements of earnings. Additionally, the new guidance requires enhanced disclosures, including revenue recognition policies to identify performance obligations to customers and significant judgments in measurement and recognition. We are continuing our assessment, which may identify other impacts.

Note 2: Acquisitions and Divestitures

Fiscal 2016

During the third quarter of fiscal 2016, we sold our Germany company-operated retail store assets and operations to AmRest Holdings SE, converting these operations to a fully licensed market for a total of $47.3 million. This transaction resulted in a pre-tax gain of $30.1 million, which was included in net interest income and other on our condensed consolidated statements of earnings.

In the first quarter of fiscal 2016, we sold our 49% ownership interest in our Spanish joint venture, Starbucks Coffee España, S.L. ("Starbucks Spain"), to our joint venture partner, Sigla S.A. (Grupo Vips), for a total purchase price of $30.2 million. This transaction resulted in a gain of $0.6 million, which was included in net interest income and other

on our consolidated statements of earnings.
Fiscal 2015
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 former joint venture partner, Sazaby League, Ltd. ("Sazaby"), to acquire the remaining 60.5% ownership interest in Starbucks Japan for approximately $876 million, through a two-step tender

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offer. On October 31, 2014, we acquired a controlling interest in Starbucks Japan by funding the first tender offer step with $509 million in offshore cash. We assumed full ownership in the second quarter of fiscal 2015 by completing the second tender offer step, and completed the related cash-out procedure during the remainder of fiscal 2015, which utilized a combined total of $362 million in offshore cash. The remaining amount of the cash-out procedure is immaterial to our consolidated financial statements and represents cash that was unclaimed by minority shareholders, which was recorded in accrued liabilities on our consolidated balance sheets. There are no legal restrictions on the remaining unclaimed balance.

The balance of goodwill and the gross carrying value of acquired intangible assets expanded $46.0 million and $18.2 million to $861.6 million and $341.2 million, respectively, from the acquisition date to June 26, 2016, due to foreign currency translation. Accumulated amortization related to the acquired intangible assets was $87.4 million as of June 26, 2016.

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 recorded in the first quarter of fiscal 2015 and was presented separately as gain resulting from acquisition of joint venture within other income on our consolidated statements of earnings.

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.

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 effective portion of the derivative's gain or loss is recorded in AOCI and is subsequently reclassified to revenue, cost of sales including occupancy costs, or net interest income and other, respectively, when the hedged exposure affects net earnings.

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

To mitigate the foreign exchange risk of certain balance sheet items, we enter into foreign currency forward and swap 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 may 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 including occupancy costs 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 swap contracts, futures and collars 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 on our consolidated statements of earnings.

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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	Outstanding Contract Remaining Maturity (Months)
	Jun 26, 2016	Sep 27, 2015		
Cash Flow Hedges:				
Interest rates	$21.3	$30.1	$ 2.9	0
Cross-currency swaps	(9.8)	(27.8)	—	102
Foreign currency - other	(1.8)	29.0	2.2	34
Coffee	(4.3)	(5.7)	(3.9)	6
Net Investment Hedges:				
Foreign currency	1.3	1.3	—	0

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 26, 2016	Jun 28, 2015	Jun 26, 2016	Jun 28, 2015	Jun 26, 2016	Jun 28, 2015	Jun 26, 2016	Jun 28, 2015
Cash Flow Hedges:								
Interest rates	$(2.0)	$(0.7)	$ 1.2	$ 1.2	$(10.3)	$(7.0)	$ 4.0	$ 3.8
Cross-currency swaps	(28.0)	44.0	(57.6)	29.5	(72.9)	80.3	(95.8)	82.0
Foreign currency - other	(19.1)	(7.5)	2.2	7.3	(27.9)	29.9	18.5	16.9
Coffee	0.8	(1.9)	(0.5)	(0.7)	0.4	(5.4)	(1.1)	(3.3)
Net Investment Hedges:								
Foreign currency	—	—	—	—	—	4.3	—	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 26, 2016	Jun 28, 2015	Jun 26, 2016	Jun 28, 2015
Foreign currency - other	$(7.1)	$ 2.5	$(9.0)	$25.8
Dairy	2.9	0.4	(4.1)	(2.9)
Diesel fuel	3.8	1.1	(0.4)	(7.5)

Notional amounts of outstanding derivative contracts (in millions):

	Jun 26, 2016	Sep 27, 2015

Interest rates	$ —	$ 125
Cross-currency swaps	718	717
Foreign currency - other	737	577
Coffee	13	38
Dairy	56	43
Diesel fuel	28	14

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 AOCI, 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 26, 2016	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	$2,141.8	$ 2,141.8	$ —	$ —
Short-term investments:				
Available-for-sale securities				
Corporate debt securities	31.5	—	31.5	—
Equity securities	19.9	—	19.9	—
Foreign government obligations	5.0	—	5.0	—
U.S. government treasury securities	51.9	51.9	—	—
State and local government obligations	0.5	—	0.5	—
Mortgage and other asset-backed securities	0.2	—	0.2	—
Total available-for-sale securities	109.0	51.9	57.1	—
Trading securities	65.5	65.5	—	—
Total short-term investments	174.5	117.4	57.1	—
Prepaid expenses and other current assets:				
Derivative assets	27.4	3.8	23.6	—
Long-term investments:				
Available-for-sale securities				
Agency obligations	22.0	—	22.0	—
Corporate debt securities	312.4	—	312.4	—
Auction rate securities	5.7	—	—	5.7
Foreign government obligations	36.3	—	36.3	—
U.S. government treasury securities	307.6	307.6	—	—
State and local government obligations	16.0	—	16.0	—
Mortgage and other asset-backed securities	119.5	—	119.5	—
Total long-term investments	819.5	307.6	506.2	5.7
Other long-term assets:				
Derivative assets	10.3	—	10.3	—
Total assets	$3,173.5	$ 2,570.6	$ 597.2	$ 5.7
Liabilities:				
Accrued liabilities:				
Derivative liabilities	$32.5	$ 0.9	$ 31.6	$ —
Other long-term liabilities:				
Derivative liabilities	67.7	—	67.7	—
Total liabilities	$100.2	$ 0.9	$ 99.3	$ —

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	Balance at Sep 27, 2015	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	$1,530.1	$ 1,530.1	$ —	$ —
Short-term investments:				
Available-for-sale securities				
Corporate debt securities	10.2	—	10.2	—
Foreign government obligations	2.0	—	2.0	—
State and local government obligations	3.3	—	3.3	—
Total available-for-sale securities	15.5	—	15.5	—
Trading securities	65.8	65.8	—	—
Total short-term investments	81.3	65.8	15.5	—
Prepaid expenses and other current assets:				
Derivative assets	50.8	—	50.8	—
Long-term investments:				
Available-for-sale securities				
Agency obligations	8.6	—	8.6	—
Corporate debt securities	121.8	—	121.8	—
Auction rate securities	5.9	—	—	5.9
Foreign government obligations	18.5	—	18.5	—
U.S. government treasury securities	104.8	104.8	—	—
State and local government obligations	9.7	—	9.7	—
Mortgage and other asset-backed securities	43.2	—	43.2	—
Total long-term investments	312.5	104.8	201.8	5.9
Other long-term assets:				
Derivative assets	54.7	—	54.7	—
Total assets	$2,029.4	$ 1,700.7	$ 322.8	$ 5.9
Liabilities:				
Accrued liabilities:				
Derivative liabilities	$19.2	$ 3.6	$ 15.6	$ —
Other long-term liabilities:				
Derivative liabilities	14.5	—	14.5	—
Total	$33.7	$ 3.6	$ 30.1	$ —

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 26, 2016 and September 27, 2015.

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 26, 2016 and June 28, 2015, 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 26, 2016	Sep 27, 2015	Jun 28, 2015
Coffee:			
Unroasted	$625.2	$529.4	$529.5
Roasted	269.8	279.7	240.6
Other merchandise held for sale	243.7	318.3	226.2
Packaging and other supplies	186.4	179.0	169.7
Total	$1,325.1	$1,306.4	$1,166.0

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 26, 2016, we had committed to purchasing green coffee totaling $567 million under fixed-price contracts and an estimated $433 million under price-to-be-fixed contracts. As of June 26, 2016, approximately $13 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 6: Supplemental Balance Sheet Information (in millions)

Property, Plant and Equipment, net

	Jun 26, 2016	Sep 27, 2015
Land	$46.6	$46.6
Buildings	443.7	411.5
Leasehold improvements	5,697.9	5,409.6
Store equipment	1,851.3	1,707.5
Roasting equipment	593.1	542.4
Furniture, fixtures and other	1,376.4	1,281.7
Work in progress	292.8	242.5
Property, plant and equipment, gross	10,301.8	9,641.8
Accumulated depreciation	(5,942.6)	(5,553.5)
Property, plant and equipment, net	$4,359.2	$4,088.3

Accrued Liabilities

	Jun 26, 2016	Sep 27, 2015
Accrued compensation and related costs	$544.3	$522.3
Accrued occupancy costs	142.9	137.2
Accrued taxes	185.6	259.0
Accrued dividends payable	293.3	297.0
Other	548.4	539.8
Total accrued liabilities	$1,714.5	$1,755.3

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Note 7: 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 $1 billion, with individual maturities that may vary but not exceed 397 days from the date of issue. Amounts outstanding under the commercial paper program are required to be backstopped by available commitments under our credit facility. We issue commercial paper from time to time, and the proceeds from borrowings are used for working capital needs, capital expenditures and other corporate purposes, including business expansion, payment of cash dividends on our common stock and share repurchases. As of June 26, 2016, we had no borrowings outstanding under the program.

Long-term Debt

In May 2016, we issued additional long-term debt in an underwritten registered public offering, which consisted of $500 million of 10-year 2.450% Senior Notes (the "2026 notes") due June 2026. Interest on the 2026 notes is payable semi-annually on June 15 and December 15 of each year, commencing on December 15, 2016.

In February 2016, we issued long-term debt in an underwritten registered public offering, which consisted of $500 million of 5-year 2.100% Senior Notes (the "2021 notes") due February 2021. In May 2016, we reopened this offering with the same terms and issued an additional $250 million of Senior Notes for an aggregate amount outstanding of $750 million. Interest on the 2021 notes is payable semi-annually on February 4 and August 4 of each year, commencing on August 4, 2016.

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

Issuance	Jun 26, 2016 Face Value	Jun 26, 2016 Estimated Fair Value	Sep 27, 2015 Face Value	Sep 27, 2015 Estimated Fair Value	Stated Interest Rate	Effective Interest Rate [(1)]
2016 notes	$400.0	$ 400	$400.0	$ 400	0.875 %	0.941 %
2018 notes	350.0	358	350.0	354	2.000 %	2.012 %
2021 notes	500.0	512	—	—	2.100 %	2.293 %
2021 notes	250.0	256	—	—	2.100 %	1.600 %
2022 notes	500.0	527	500.0	503	2.700 %	2.819 %
2023 notes	750.0	845	750.0	790	3.850 %	2.860 %
2026 notes	500.0	504	—	—	2.450 %	2.511 %
2045 notes	350.0	406	350.0	355	4.300 %	4.348 %
Total	3,600.0	3,808	2,350.0	2,402		
Aggregate unamortized premium/(discount)	2.2		(2.5)			
Total	$3,602.2		$2,347.5			

(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 26, 2016, we were in compliance with all applicable covenants.

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The following table summarizes our long-term debt maturities as of June 26, 2016 by fiscal year (in millions):

Maturities	Total
2016	$—
2017	400.0
2018	—
2019	350.0
2020	—
Thereafter	2,850.0
Total	$3,600.0

Note 8: Equity

Changes in total equity (in millions):

	Three Quarters Ended					
	Jun 26, 2016			Jun 28, 2015		
	Attributable to Starbucks	Noncontrolling interest	Total Equity	Attributable to Starbucks	Noncontrolling interest	Total Equity
Beginning balance of total equity	$5,818.0	$ 1.8	$5,819.8	$5,272.0	$ 1.7	$5,273.7
Net earnings including noncontrolling interests	2,016.8	0.4	2,017.2	2,104.9	1.9	2,106.8
Translation adjustment and other, net of reclassifications and tax	91.3	—	91.3	(121.3)	(31.1)	(152.4)
Unrealized gains/(losses), net of reclassifications and tax	(20.5)	—	(20.5)	(4.0)	—	(4.0)
Other comprehensive income/(loss)	70.8	—	70.8	(125.3)	(31.1)	(156.4)
Stock-based compensation expense	159.6	—	159.6	157.6	—	157.6
Exercise of stock options/vesting of RSUs	115.4	—	115.4	153.2	—	153.2
Sale of common stock	12.7	—	12.7	17.5	—	17.5
Repurchase of common stock	(1,590.4)	—	(1,590.4)	(975.9)	—	(975.9)
Cash dividends declared	(881.1)	—	(881.1)	(718.2)	—	(718.2)
Noncontrolling interest resulting from acquisition	—	—	—	—	411.1	411.1
Purchase of noncontrolling interests	—	—	—	(29.3)	(381.8)	(411.1)
Ending balance of total equity	$5,721.8	$ 2.2	$5,724.0	$5,856.5	$ 1.8	$5,858.3

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

Quarter Ended

	Available-for-Sale Securities	Cash Flow Hedges	Net Investment Hedges	Translation Adjustment and Other	Total
June 26, 2016					
Net gains/(losses) in AOCI, beginning of period	$ 2.9	$ (3.8)	$ 1.3	$ (189.6)	$ (189.2)
Net gains/(losses) recognized in OCI before reclassifications	(2.6)	(35.6)	—	54.7	16.5
Net (gains)/losses reclassified from AOCI to earnings	(0.6)	44.7	—	—	44.1
Other comprehensive income/(loss) attributable to Starbucks	(3.2)	9.1	—	54.7	60.6
Net gains/(losses) in AOCI, end of period	$ (0.3)	$ 5.3	$ 1.3	$ (134.9)	$ (128.6)
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)

Three Quarters Ended

	Available-for-Sale Securities	Cash Flow Hedges	Net Investment Hedges	Translation Adjustment and Other	Total
June 26, 2016					
Net gains/(losses) in AOCI, beginning of period	$ (0.1)	$ 25.6	$ 1.3	$ (226.2)	$ (199.4)
Net gains/(losses) recognized in OCI before reclassifications	0.4	(83.2)	—	91.3	8.5
Net (gains)/losses reclassified from AOCI to earnings	(0.6)	62.9	—	—	62.3
Other comprehensive income/(loss) attributable to Starbucks	(0.2)	(20.3)	—	91.3	70.8
Net gains/(losses) in AOCI, end of period	$ (0.3)	$ 5.3	$ 1.3	$ (134.9)	$ (128.6)
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)

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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 Jun 26, 2016	Jun 28, 2015	Affected Line Item in the Statements of Earnings
Gains/(losses) on cash flow hedges			
Interest rate hedges	$1.2	$1.2	Interest expense
Cross-currency swaps	(57.6)	29.5	Interest income and other, net
Foreign currency hedges	0.1	3.7	Revenues
Foreign currency/coffee hedges	1.6	3.0	Cost of sales including occupancy costs
	(54.7)	37.4	Total before tax
	10.0	(10.7)	Tax (expense)/benefit
	$(44.7)	$26.7	Net of tax

Three Quarters Ended

AOCI Components	Amounts Reclassified from AOCI Jun 26, 2016	Jun 28, 2015	Affected Line Item in the Statements of Earnings
Gains/(losses) on cash flow hedges			
Interest rate hedges	$4.0	$3.8	Interest expense
Cross-currency swaps	(95.8)	82.0	Interest income and other, net
Foreign currency hedges	5.5	9.6	Revenues
Foreign currency/coffee hedges	11.9	4.1	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
	(74.4)	92.4	Total before tax
	11.5	(27.2)	Tax (expense)/benefit
	$(62.9)	$65.2	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.

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 26, 2016.

We repurchased 27.6 million shares of common stock at a total cost of $1.6 billion, and 20.7 million shares at a total cost of $975.9 million for three quarters ended June 26, 2016 and June 28, 2015, respectively. On April 21, 2016, we announced that our Board of Directors approved an increase of 100 million shares to our ongoing share repurchase program. As of June 26, 2016, 125.1 million shares remained available for repurchase under our ongoing share repurchase program.

During the third quarter of fiscal 2016, our Board of Directors declared a quarterly cash dividend to shareholders of $0.20 per share to be paid on August 19, 2016 to shareholders of record as of the close of business on August 4, 2016.

Note 9: Employee Stock Plans

As of June 26, 2016, there were 86.2 million shares of common stock available for issuance pursuant to future equity-based compensation awards and 14.1 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 26, 2016	Jun 28, 2015	Jun 26, 2016	Jun 28, 2015
Options	$9.2	$ 8.3	$32.2	$28.9
Restricted Stock Units ("RSUs")	40.6	43.7	126.2	127.3
Total stock-based compensation expense	$49.8	$ 52.0	$158.4	$156.2

Stock option and RSU transactions from September 27, 2015 through June 26, 2016 (in millions):

	Stock Options	RSUs
Options outstanding/Nonvested RSUs, September 27, 2015	33.6	10.7
Granted	5.9	4.0
Options exercised/RSUs vested	(5.5)	(4.9)
Forfeited/expired	(1.5)	(1.3)
Options outstanding/Nonvested RSUs, June 26, 2016	32.5	8.5
Total unrecognized stock-based compensation expense, net of estimated forfeitures, as of June 26, 2016	$ 46.5	$157.3

Note 10: Earnings per Share

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

	Quarter Ended		Three Quarters Ended	
	Jun 26, 2016	Jun 28, 2015	Jun 26, 2016	Jun 28, 2015
Net earnings attributable to Starbucks	$754.1	$626.7	$2,016.8	$2,104.9
Weighted average common shares outstanding (for basic calculation)	1,465.3	1,498.5	1,474.4	1,499.3
Dilutive effect of outstanding common stock options and RSUs	14.0	17.2	15.3	17.0
Weighted average common and common equivalent shares outstanding (for diluted calculation)	1,479.3	1,515.7	1,489.7	1,516.3
EPS — basic	$0.51	$0.42	$1.37	$1.40
EPS — diluted	$0.51	$0.41	$1.35	$1.39

Potential dilutive shares consist of the incremental common shares issuable upon the exercise of outstanding stock options (both vested and nonvested) and nonvested RSUs, calculated using the treasury stock method. The calculation of dilutive shares outstanding excludes out-of-the-money stock options (i.e., such options' exercise prices were greater than the average market price of our common shares for the period) because their inclusion would have been antidilutive. Out-of-the-money stock options totaled approximately 5.3 million as of June 26, 2016. There were no out-of-the money stock options as of June 28, 2015.

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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	China/ Asia Pacific	EMEA	Channel Development	All Other Segments	Segment Total
June 26, 2016						
Total net revenues	$3,645.5	$ 768.2	$273.4	$ 440.8	$ 110.1	$5,238.0
Depreciation and amortization expenses	149.2	45.7	10.3	0.7	3.1	209.0
Income from equity investees	—	40.2	—	42.3	—	82.5
Operating income/(loss)	898.5	182.8	29.9	187.8	(14.9)	1,284.1
June 28, 2015						
Total net revenues	$3,414.6	$ 652.7	$294.7	$ 403.6	$ 115.6	$4,881.2
Depreciation and amortization expenses	130.8	41.2	12.4	0.7	4.3	189.4
Income from equity investees	—	27.6	0.9	31.8	—	60.3
Operating income/(loss)	855.3	150.0	36.0	143.4	(13.1)	1,171.6

Three Quarters Ended

	Americas	China/ Asia Pacific	EMEA	Channel Development	All Other Segments	Segment Total
June 26, 2016						
Total net revenues						