

STARBUCKS CORP
Form 10-Q
April 30, 2013
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-Q

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

For the Quarterly Period Ended March 31, 2013

OR

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

For the transition period from _____ to _____.

Commission File Number: 0-20322

Starbucks Corporation

(Exact Name of Registrant as Specified in its Charter)

Washington

91-1325671

(State or Other Jurisdiction of

(IRS Employer

Incorporation or Organization)

Identification No.)

2401 Utah Avenue South, Seattle, Washington 98134

(Address of principal executive offices)

(206) 447-1575

(Registrant's Telephone Number, including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Title

Shares Outstanding as of April 24, 2013

Common Stock, par value \$0.001 per share

748.7 million

Table of Contents

STARBUCKS CORPORATION

FORM 10-Q

For the Quarterly Period Ended March 31, 2013

Table of Contents

	Page
PART I. FINANCIAL INFORMATION	
Item 1 <u>Financial Statements (Unaudited):</u>	<u>3</u>
<u>Condensed Consolidated Statements of Earnings</u>	<u>3</u>
<u>Condensed Consolidated Statements of Comprehensive Income</u>	<u>4</u>
<u>Condensed Consolidated Balance Sheets</u>	<u>5</u>
<u>Condensed Consolidated Statements of Cash Flows</u>	<u>6</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>7</u>
Item 2 <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>18</u>
Item 3 <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>29</u>
Item 4 <u>Controls and Procedures</u>	<u>29</u>
PART II. OTHER INFORMATION	
Item 1 <u>Legal Proceedings</u>	<u>30</u>
Item 1A <u>Risk Factors</u>	<u>31</u>
Item 2 <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>31</u>
Item 6 <u>Exhibits</u>	<u>32</u>
<u>Signatures</u>	<u>33</u>
Index to Exhibits	

Table of Contents

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

STARBUCKS CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(in millions, except per share data)

(unaudited)

	Quarter Ended		Two Quarters Ended	
	Mar 31, 2013	Apr 1, 2012	Mar 31, 2013	Apr 1, 2012
Net revenues:				
Company-operated stores	\$2,807.7	\$2,521.2	\$5,797.3	\$5,253.0
Licensed stores	322.1	290.3	672.2	596.9
CPG, foodservice and other	426.1	384.4	885.9	781.9
Total net revenues	3,555.9	3,195.9	7,355.4	6,631.8
Cost of sales including occupancy costs	1,530.4	1,411.9	3,151.1	2,908.0
Store operating expenses	1,038.4	956.5	2,127.9	1,952.2
Other operating expenses	112.1	105.3	244.6	212.0
Depreciation and amortization expenses	153.1	137.1	302.0	271.9
General and administrative expenses	230.3	206.9	462.2	398.4
Total operating expenses	3,064.3	2,817.7	6,287.8	5,742.5
Income from equity investees	52.5	52.2	107.0	97.1
Operating income	544.1	430.4	1,174.6	986.4
Interest income and other, net	50.8	35.3	48.0	58.5
Interest expense	(6.1)	) (8.8)	) (12.7)	) (17.4)
Earnings before income taxes	588.8	456.9	1,209.9	1,027.5
Income taxes	198.1	146.8	386.8	335.2
Net earnings including noncontrolling interests	390.7	310.1	823.1	692.3
Net earnings attributable to noncontrolling interests	0.3	0.2	0.6	0.4
Net earnings attributable to Starbucks	\$390.4	\$309.9	\$822.5	\$691.9
Earnings per share - basic	\$0.52	\$0.41	\$1.10	\$0.92
Earnings per share - diluted	\$0.51	\$0.40	\$1.08	\$0.90
Weighted average shares outstanding:				
Basic	749.1	754.6	747.6	751.3
Diluted	761.3	773.3	761.3	770.9
Cash dividends declared per share	\$0.21	\$0.17	\$0.42	\$0.34

See Notes to Condensed Consolidated Financial Statements

Table of Contents

STARBUCKS CORPORATION
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (in millions, unaudited)

	Quarter Ended		Two Quarters Ended	
	Mar 31, 2013	Apr 1, 2012	Mar 31, 2013	Apr 1, 2012
Net earnings including noncontrolling interests	\$390.7	\$310.1	\$823.1	\$692.3
Other comprehensive loss, net of tax:				
Unrealized holding gains (losses)	3.5	(8.6	) (3.7	) (9.3
Reclassification adjustment for net losses realized in net earnings for cash flow hedges	9.5	1.8	14.7	3.8
Translation adjustment	(42.2	) 6.4	(51.0	) 0.9
Other comprehensive loss	(29.2	) (0.4	) (40.0	) (4.6
Comprehensive income including noncontrolling interests	361.5	309.7	783.1	687.7
Comprehensive income attributable to noncontrolling interests	0.3	0.2	0.6	0.4
Comprehensive income attributable to Starbucks	\$361.2	\$309.5	\$782.5	\$687.3

See Notes to Condensed Consolidated Financial Statements

Table of Contents

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

	Mar 31, 2013	Sep 30, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	\$1,223.2	\$1,188.6
Short-term investments	474.5	848.4
Accounts receivable, net	520.0	485.9
Inventories	1,124.5	1,241.5
Prepaid expenses and other current assets	256.7	196.5
Deferred income taxes, net	211.3	238.7
Total current assets	3,810.2	4,199.6
Long-term investments	44.4	116.0
Equity and cost investments	424.5	459.9
Property, plant and equipment, net	2,845.3	2,658.9
Other assets	514.8	385.7
Goodwill	863.6	399.1
TOTAL ASSETS	\$8,502.8	\$8,219.2
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$355.7	\$398.1
Accrued liabilities	1,075.4	1,133.8
Insurance reserves	170.7	167.7
Deferred revenue	667.9	510.2
Total current liabilities	2,269.7	2,209.8
Long-term debt	549.6	549.6
Other long-term liabilities	356.0	345.3
Total liabilities	3,175.3	3,104.7
Shareholders' equity:		
Common stock (\$0.001 par value) — authorized, 1,200.0 shares; issued and outstanding, 748.3 shares and 749.3 shares (includes 3.4 common stock units), respectively	0.7	0.7
Additional paid-in capital	39.4	39.4
Retained earnings	5,298.6	5,046.2
Accumulated other comprehensive income (loss)	(17.3	) 22.7
Total shareholders' equity	5,321.4	5,109.0
Noncontrolling interests	6.1	5.5
Total equity	5,327.5	5,114.5
TOTAL LIABILITIES AND EQUITY	\$8,502.8	\$8,219.2
See Notes to Condensed Consolidated Financial Statements		

Table of Contents

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

	Two Quarters Ended	
	Mar 31, 2013	Apr 1, 2012
OPERATING ACTIVITIES:		
Net earnings including noncontrolling interests	\$823.1	\$692.3
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	318.1	287.9
Deferred income taxes, net	(6.9)	) 44.6
Income earned from equity method investees, net of distributions	(15.9)	) (18.2)
Gain resulting from sale of equity in joint venture	(35.2)) —
Stock-based compensation	70.9	76.0
Other	11.2	(0.8)
Cash provided/(used) by changes in operating assets and liabilities:		
Accounts receivable	(25.2)	) (46.0)
Inventories	138.6	(236.5)
Accounts payable	(37.2)	) (159.3)
Accrued liabilities and insurance reserves	(36.9)	) (34.2)
Deferred revenue	154.0	81.6
Prepaid expenses, other current assets and other assets	13.9	(111.8)
Net cash provided by operating activities	1,372.5	575.6
INVESTING ACTIVITIES:		
Purchase of investments	(119.9)	) (1,240.9)
Sales, maturities and calls of investments	569.9	1,306.9
Acquisitions, net of cash acquired	(568.8)	) (29.7)
Additions to property, plant and equipment	(484.9)	) (313.8)
Other	(9.3)	) (9.5)
Net cash used by investing activities	(613.0)	) (287.0)
FINANCING ACTIVITIES:		
Proceeds from issuance of common stock	141.0	178.1
Excess tax benefit from exercise of stock options	193.2	135.2
Principal payments on long-term debt	(35.2)) —
Cash dividends paid	(313.5)	) (255.0)
Repurchase of common stock	(588.1)	) (15.7)
Minimum tax withholdings on share-based awards	(119.9)	) (54.3)
Other	4.0	(0.2)
Net cash used by financing activities	(718.5)	) (11.9)
Effect of exchange rate changes on cash and cash equivalents	(6.4)	) 7.4
Net increase in cash and cash equivalents	34.6	284.1
CASH AND CASH EQUIVALENTS:		
Beginning of period	1,188.6	1,148.1
End of period	\$1,223.2	\$1,432.2
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest, net of capitalized interest	\$17.2	\$17.2
Income taxes	\$238.1	\$271.2

See Notes to Condensed Consolidated Financial Statements

6

Table of Contents

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 March 31, 2013, and for the quarter and two quarters ended March 31, 2013 and April 1, 2012, 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 two quarters ended March 31, 2013 and April 1, 2012 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 30, 2012 is derived from our audited consolidated financial statements and notes for the fiscal year ended September 30, 2012 ("fiscal 2012") included in Item 8 in the Fiscal 2012 Annual Report on Form 10-K (the "10-K"). The information included in this 10-Q should be read in conjunction with the footnotes and management's discussion and analysis of the financial statements in the 10-K. Effective at the beginning of the fiscal year ending September 29, 2013 ("fiscal 2013"), we decentralized certain leadership functions. General and administrative expenses and depreciation and amortization expenses associated with these functions, which were previously reported as unallocated corporate expenses within "Other," are now reported within the respective reportable operating segments to align with the regions which they support. On January 29, 2013, we filed a Current Report on Form 8-K to recast operating results for all periods covered in the 10-K to reflect this change. See further discussion and the impact of these changes in Note 11 of this 10-Q.

Beginning in the second quarter of fiscal 2013, we removed unallocated corporate expenses from Other in our segment reporting. Other is now referred to as All Other Segments and includes Teavana, Seattle's Best Coffee, Evolution Fresh and Tazo retail, as well as our Digital Ventures business. Unallocated corporate expenses are now a reconciling item between our segment results and our consolidated results, which are unchanged. Our historical segment financial information has been revised to be consistent with the current period presentation.

The results of operations for the quarter and two quarters ended March 31, 2013 are not necessarily indicative of the results of operations that may be achieved for the entire fiscal 2013.

Recent Accounting Pronouncements

In February 2013, the FASB issued guidance that adds additional disclosure requirements for items reclassified out of accumulated other comprehensive income. This guidance requires the disclosure of significant amounts reclassified from each component of accumulated other comprehensive income and the income statement line items affected by the reclassification. The guidance will become effective for us at the beginning of our first quarter of fiscal 2014. The adoption of this guidance will result in the disclosure of reclassifications from accumulated other comprehensive income by component in the consolidated statements of comprehensive income.

In January 2013, the FASB issued guidance clarifying the scope of disclosure requirements for offsetting assets and liabilities. The amended guidance limits the scope of balance sheet offsetting disclosures to derivatives, repurchase agreements, and securities lending transactions to the extent that they are offset in the financial statements or subject to an enforceable master netting arrangement or similar agreement. The guidance will become effective for us at the beginning of our first quarter of fiscal 2014. The adoption of this new guidance will not have a material impact on our financial statements.

In July 2012, the FASB issued guidance that revises the requirements around how entities test indefinite-lived intangible assets, other than goodwill, for impairment. The guidance allows companies to perform a qualitative assessment before calculating the fair value of the indefinite-lived intangible asset. If entities determine, on the basis of qualitative factors, that the fair value of the indefinite-lived intangible asset is more likely than not greater than the carrying amount, a quantitative calculation would not be needed. The guidance became effective for us at the beginning of our first quarter of fiscal 2013. The adoption of this guidance did not have a material impact on our financial statements.

In June 2011, the FASB issued guidance that revises the manner in which entities present comprehensive income in their financial statements. The guidance requires entities to report the components of comprehensive income in either a single, continuous statement or two separate but consecutive statements. The guidance became effective for us at the beginning of our first quarter of fiscal 2013. In adopting this guidance, we added the consolidated statements of comprehensive income following our consolidated statements of earnings.

Table of Contents

Note 2: Acquisition

On December 31, 2012, we acquired 100% of the outstanding shares of Teavana Holdings, Inc. (“Teavana”), a specialty retailer of premium loose-leaf teas, authentic artisanal teawares and other tea-related merchandise, to elevate our tea offerings as well as expand our domestic and global tea footprint. We acquired Teavana for \$615.8 million in cash. Of the total cash paid, \$13.3 million was excluded from the purchase price allocation below as it represents contingent consideration receivable. At closing, we also paid \$35.2 million for long term debt outstanding on Teavana's balance sheet, which was recognized separately from the business combination. The following table summarizes the allocation of the purchase price to the fair values of the assets acquired and liabilities assumed on the closing date (in millions):

	Fair Value at Dec 31, 2012	
Cash and cash equivalents	\$47.0	
Inventories	21.3	
Property, plant and equipment	59.7	
Intangible assets	120.8	
Goodwill	466.4	
Other current and noncurrent assets	19.8	
Current liabilities	(36.0)
Long-term deferred tax liability	(54.3)
Long-term debt	(35.2)
Other long-term liabilities	(7.0)
Total purchase price	\$602.5	

The assets acquired and liabilities assumed are reported within All Other Segments. Other current and noncurrent assets acquired primarily include prepaid expenses, trade receivables, and deferred tax assets. In addition, we assumed various current liabilities primarily consisting of accounts payable, accrued payroll related liabilities and other accrued operating expenses. The intangible assets acquired as part of the transaction include the Teavana trade name, tea blends and non-compete agreements. The Teavana trade name was valued at \$105.5 million and determined to have an indefinite life, based on our expectation that the brand will be used indefinitely and has no contractual limitations. The intangible asset related to the tea blends was valued at \$13.0 million and will be amortized on a straight-line basis over a period of 10 years, and the intangible asset related to the non-compete agreements was valued at \$2.3 million and will be amortized on a straight-line basis over a period of 3 years. The \$466.4 million of goodwill represents the intangible assets that do not qualify for separate recognition, primarily including Teavana's established global store presence in high traffic mall locations and other high-sales-volume retail venues, Teavana's global customer base, and Teavana's "Heaven of tea" retail experience in which store employees engage and educate customers about the ritual and enjoyment of tea. The goodwill was allocated to All Other Segments and is not deductible for income tax purposes.

Note 3: Derivative Financial Instruments

Foreign Currency

We enter into forward and swap contracts to hedge portions of cash flows of anticipated revenue streams and inventory purchases in currencies other than the entity's functional currency. Net derivative gains from these cash flow hedges of \$1.0 million and net derivative losses of \$2.9 million, net of taxes, were included in accumulated other comprehensive income as of March 31, 2013 and September 30, 2012, respectively. Of the net derivative gains accumulated as of March 31, 2013, \$1.0 million pertains to derivative instruments that will be dedesignated as cash flow hedges within 12 months and will also continue to experience fair value changes before affecting earnings. Outstanding contracts will expire within 11 months.

We also enter into net investment derivative instruments to hedge our equity method investment in Starbucks Coffee Japan, Ltd., to minimize foreign currency exposure. Net derivative losses from net investment hedges of \$16.9 million and \$33.6 million, net of taxes, were included in accumulated other comprehensive income as of March 31, 2013 and

September 30, 2012, respectively. Outstanding contracts will expire within 35 months.

8

Table of Contents

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

Coffee

Depending on market conditions, we also enter into futures contracts to hedge a portion of anticipated cash flows under our price-to-be-fixed green coffee contracts, which are described further in Note 5. Net derivative losses of \$42.6 million and \$32.9 million, net of taxes, were included in accumulated other comprehensive income as of March 31, 2013 and September 30, 2012, respectively, related to coffee hedges. Of the net derivative losses accumulated as of March 31, 2013, \$41.9 million pertains to derivative instruments that will be dedesignated as cash flow hedges within 12 months and will also continue to experience fair value changes before affecting earnings. Outstanding contracts will expire within 12 months.

Dairy

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

Diesel Fuel

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

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

Quarter Ended	Foreign Currency		Coffee	
	Mar 31, 2013	Apr 1, 2012	Mar 31, 2013	Apr 1, 2012
Cash Flow Hedges:				
Gain/(Loss) recognized in earnings	\$1.2	\$(2.8)	\$(11.1)	\$—
Gain/(Loss) recognized in OCI	\$1.8	\$5.0	\$(5.6)	\$(20.2)
Net Investment Hedges:				
Gain/(Loss) recognized in earnings	\$—	\$—		
Gain/(Loss) recognized in OCI	\$11.7	\$10.3		
Two Quarters Ended	Foreign Currency		Coffee	
	Mar 31, 2013	Apr 1, 2012	Mar 31, 2013	Apr 1, 2012
Cash Flow Hedges:				
Gain/(Loss) recognized in earnings	\$0.6	\$(5.9)	\$(16.3)	\$—
Gain/(Loss) recognized in OCI	\$6.4	\$2.9	\$(27.1)	\$(19.4)
Net Investment Hedges:				
Gain/(Loss) recognized in earnings	\$—	\$—		
Gain/(Loss) recognized in OCI	\$26.4	\$10.3		

Table of Contents

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

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

	Foreign Currency		Coffee		Dairy		Diesel Fuel	
	Mar 31, 2013	Apr 1, 2012	Mar 31, 2013	Apr 1, 2012	Mar 31, 2013	Apr 1, 2012	Mar 31, 2013	Apr 1, 2012
Gain/(Loss) recognized in earnings for the quarter ended	\$3.3	\$(5.4)	) \$0.6	\$(0.4)	) \$(1.1)	\$(1.6)	) \$0.1	\$1.7
Gain/(Loss) recognized in earnings for the two quarters ended	\$2.2	\$(4.3)	) \$(2.1)	) \$5.9	\$(2.6)	) \$0.8	\$0.1	\$1.6

Notional amounts of outstanding derivative contracts (in millions):

	Mar 31, 2013	Sep 30, 2012
Foreign currency	\$365	\$383
Coffee	74	125
Dairy	48	72
Diesel fuel	6	24

Table of Contents

Note 4: Fair Value Measurements

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

	Balance at March 31, 2013	Fair Value Measurements at Reporting Date Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash and cash equivalents	\$1,223.2	\$ 1,223.2	\$ —	\$ —
Short-term investments:				
Available-for-sale securities				
Agency obligations	20.0	—	20.0	—
Commercial paper	59.0	—	59.0	—
Corporate debt securities	89.6	—	89.6	—
Government treasury securities	205.0	205.0	—	—
Certificates of deposit	37.6	—	37.6	—
Total available-for-sale securities	411.2	205.0	206.2	—
Trading securities	63.3	63.3	—	—
Total short-term investments	474.5	268.3	206.2	—
Short-term derivatives	14.4	—	14.4	—
Long-term investments:				
Available-for-sale securities				
Agency obligations	4.0	—	4.0	—
Corporate debt securities	24.0	—	24.0	—
Auction rate securities	13.9	—	—	13.9
Certificates of deposit	2.5	—	2.5	—
Total long-term investments	44.4	—	30.5	13.9
Long-term derivatives	7.5	—	7.5	—
Total	\$1,764.0	\$ 1,491.5	\$ 258.6	\$ 13.9
Liabilities:				
Short-term derivatives	\$23.7	\$ —	\$ 23.7	\$ —
Long-term derivatives	1.1	—	1.1	—
Total	\$24.8	\$ —	\$ 24.8	\$ —

Table of Contents

	Balance at September 30, 2012	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	\$1,188.6	\$ 1,188.6	\$ —	\$ —
Short-term investments:				
Available-for-sale securities				
Agency obligations	80.0	—	80.0	—
Commercial paper	103.9	—	103.9	—
Corporate debt securities	84.3	—	84.3	—
Government treasury securities	459.7	459.7	—	—
Certificates of deposit	62.9	—	62.9	—
Total available-for-sale securities	790.8	459.7	331.1	—
Trading securities	57.6	57.6	—	—
Total short-term investments	848.4	517.3	331.1	—
Short-term derivatives	9.5	—	9.5	—
Long-term investments:				
Available-for-sale securities				
Agency Obligations	14.0	—	14.0	—
Corporate debt securities	61.3	—	61.3	—
Auction rate securities	18.6	—	—	18.6
Certificates of deposit	22.1	—	22.1	—
Total long-term investments	116.0	—	97.4	18.6
Total	\$2,162.5	\$ 1,705.9	\$ 438.0	\$ 18.6
Liabilities:				
Short-term derivatives	\$18.9	\$ —	\$ 18.9	\$ —
Long-term derivatives	3.0	—	3.0	—
Total	\$21.9	\$ —	\$ 21.9	\$ —

Short-term and long-term derivative assets are included in prepaid expenses and other current assets and other assets, respectively. Short-term and long-term derivative liabilities are included in other accrued liabilities and other long-term liabilities, respectively.

Gross unrealized holding gains and losses were not material as of March 31, 2013 and September 30, 2012.

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

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

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

Assets and liabilities recognized or disclosed at fair value in the financial statements on a nonrecurring basis include items such as property, plant and equipment, goodwill and other intangible assets, equity and cost method investments, and other assets. These assets are measured at fair value if determined to be impaired. During the quarter and two quarters ended March 31, 2013 and April 1, 2012, there were no material fair market value adjustments.

Fair Value of Other Financial Instruments

The estimated fair value of the \$550 million of 6.25% Senior Notes based on the quoted market price (Level 2) was approximately \$659 million and \$674 million as of March 31, 2013 and September 30, 2012, respectively.

Table of Contents

Note 5: Inventories

(in millions)	Mar 31, 2013	Sep 30, 2012	Apr 1, 2012
Coffee:			
Unroasted	\$590.4	\$711.3	\$708.1
Roasted	214.3	222.2	234.7
Other merchandise held for sale	200.7	181.6	131.3
Packaging and other supplies	119.1	126.4	130.9
Total	\$1,124.5	\$1,241.5	\$1,205.0

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 March 31, 2013, we had committed to purchasing green coffee totaling \$352 million under fixed-price contracts and an estimated \$460 million under price-to-be-fixed contracts. As of March 31, 2013, approximately \$74 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 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	Mar 31, 2013	Sep 30, 2012
Land	\$43.9	\$46.2
Buildings	246.2	225.2
Leasehold improvements	4,136.7	3,957.6
Store equipment	1,261.3	1,251.0
Roasting equipment	349.0	322.8
Furniture, fixtures and other	878.5	836.2
Work in progress	362.9	264.1
Property, plant and equipment, gross	7,278.5	6,903.1
Less accumulated depreciation	(4,433.2)	(4,244.2)
Property, plant and equipment, net	\$2,845.3	\$2,658.9
Other Assets	Mar 31, 2013	Sep 30, 2012
Long-term deferred tax asset	\$68.2	\$97.3
Other intangible assets	267.4	143.7
Other	179.2	144.7
Total other assets	\$514.8	\$385.7

Table of Contents

Accrued Liabilities	Mar 31, 2013	Sep 30, 2012
Accrued compensation and related costs	\$354.5	\$381.6
Accrued occupancy costs	116.9	126.9
Accrued taxes	81.7	138.3
Accrued dividend payable	157.2	157.4
Other	365.1	329.6
Total accrued liabilities	\$1,075.4	\$1,133.8

Other Long-Term Liabilities	Mar 31, 2013	Sep 30, 2012
Deferred rent	\$206.0	\$201.9
Unrecognized tax benefits	90.1	78.4
Asset retirement obligations	33.5	42.6
Other	26.4	22.4
Total other long-term liabilities	\$356.0	\$345.3

Cost Method Investments

In March 2013, we sold our 18% interest in Cafe Sirena S. de R.L. de CV (a Mexican limited liability company), to our controlling joint venture partner, SC de Mexico, S.A. de CV, owned by Alsea, S.A.B. de C.V. This transaction resulted in a gain of \$35.2 million which was included in net interest income and other in the consolidated statements of earnings for the quarter and two quarters ended March 31, 2013. Cash proceeds from the sale of \$50.3 million were received in April 2013.

Note 7: Equity

Changes in total equity (in millions):

	Two Quarters Ended	
	Mar 31, 2013	Apr 1, 2012
Beginning balance of total equity	\$5,114.5	\$4,387.3
Net earnings including noncontrolling interest	823.1	692.3
Other comprehensive loss	(40.0)	(4.6)
Stock-based compensation expense	71.9	77.1
Exercise of stock options/vesting of RSUs	205.2	248.1
Sale of common stock	10.2	9.4
Repurchase of common stock	(544.1)	(15.7)
Cash dividends declared	(313.3)	(257.2)
Ending balance of total equity	\$5,327.5	\$5,136.7

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

	Mar 31, 2013	Sep 30, 2012
Net unrealized losses on available-for-sale securities	\$(0.1)	\$(0.1)
Net unrealized losses on hedging instruments	(61.1)	(72.1)
Translation adjustment	43.9	94.9
Accumulated other comprehensive (loss)/income	\$(17.3)	\$22.7

In addition to 1.2 billion shares of authorized common stock with \$0.001 par value per share, the Company has authorized 7.5 million shares of preferred stock, none of which was outstanding as of March 31, 2013.

Table of Contents

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

	Two Quarters Ended	
	Mar 31, 2013	Apr 1, 2012
Number of shares acquired	10.8	0.4
Average price per share of acquired shares	\$50.52	\$36.49
Total cost of acquired shares	\$544.1	\$15.7

As of March 31, 2013, 26.4 million shares remained available for repurchase under current authorizations.

During the second quarter of fiscal 2013, Starbucks Board of Directors declared a quarterly cash dividend to shareholders of \$0.21 per share to be paid on May 24, 2013 to shareholders of record as of the close of business on May 9, 2013.

Note 8: Employee Stock Plans

As of March 31, 2013, there were 17.1 million shares of common stock available for issuance pursuant to future equity-based compensation awards and 7.9 million shares available for issuance under our employee stock purchase plans.

Pursuant to the 1997 Deferred Stock Plan, in September 1997 our chairman, president and ceo elected to defer receipt of approximately 3.4 million shares of common stock (as adjusted for stock splits since 1997). In November 2006, he re-deferred receipt of the shares until December 21, 2012 (or earlier if his employment with Starbucks terminated before such date). On December 21, 2012, the deferral period ended and pursuant to the terms of the 1997 Deferred Stock Plan, we issued approximately 2.2 million shares of common stock to him and withheld approximately 1.2 million shares to satisfy tax withholdings.

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

	Quarter Ended		Two Quarters Ended	
	Mar 31, 2013	Apr 1, 2012	Mar 31, 2013	Apr 1, 2012
Options	\$7.9	\$10.1	\$19.8	\$24.2
Restricted Stock Units ("RSUs")	25.6	26.1	51.1	51.8
Total stock-based compensation	\$33.5	\$36.2	\$70.9	\$76.0

Value of awards granted and exercised during the period:

	Quarter Ended		Two Quarters Ended	
	Mar 31, 2013	Apr 1, 2012	Mar 31, 2013	Apr 1, 2012
Estimated fair value per option granted	\$13.13	\$13.15	\$12.74	\$12.75
Weighted average option grant price	\$55.75	\$49.94	\$50.13	\$43.81
Weighted average price per option exercised	\$17.73	\$15.36	\$15.35	\$15.69
Weighted average RSU grant price	\$55.76	\$50.34	\$49.77	\$43.83

Stock option and RSU transactions from September 30, 2012 through March 31, 2013 (in millions):

	Stock Options	RSUs
Options outstanding/Nonvested RSUs, September 30, 2012	33.1	7.3
Granted	3.3	3.0
Options exercised/RSUs vested	(8.5	) (3.4
Forfeited/expired	(0.9	) (0.6
Options outstanding/Nonvested RSUs, March 31, 2013	27.0	6.3
Total unrecognized stock-based compensation expense, net of estimated forfeitures, as of March 31, 2013	\$46.7	\$128.6

Table of Contents

Note 9: Earnings Per Share

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

	Quarter Ended		Two Quarters Ended	
	Mar 31, 2013	Apr 1, 2012	Mar 31, 2013	Apr 1, 2012
Net earnings attributable to Starbucks	\$390.4	\$309.9	\$822.5	\$691.9
Weighted average common shares and common stock units outstanding (for basic calculation)	749.1	754.6	747.6	751.3
Dilutive effect of outstanding common stock options and RSUs	12.2	18.7	13.7	19.6
Weighted average common and common equivalent shares outstanding (for diluted calculation)	761.3	773.3	761.3	770.9
EPS — basic	\$0.52	\$0.41	\$1.10	\$0.92
EPS — diluted	\$0.51	\$0.40	\$1.08	\$0.90

Potential dilutive shares consist of the incremental common shares issuable upon the exercise of outstanding stock options (both vested and non-vested) and unvested RSUs, calculated using the treasury stock method. The calculation of dilutive shares outstanding excludes out-of-the-money stock options (i.e., such options’ exercise prices were greater than the average market price of our common shares for the period) because their inclusion would have been antidilutive. Out-of-the-money stock options totaled less than 0.1 million as of March 31, 2013 and April 1, 2012.

Note 10: Commitments and Contingencies

Legal Proceedings

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

Kraft denies it has materially breached the Agreement. On November 29, 2010, Starbucks received a notice of arbitration from Kraft putting the commercial dispute between the parties into binding arbitration pursuant to the terms of the Agreement. In addition to denying it materially breached the Agreement, Kraft further alleges that if Starbucks wished to terminate the Agreement it must compensate Kraft as provided in the Agreement in an amount equal to the fair value of the Agreement, with an additional premium of up to 35% under certain circumstances. On December 6, 2010, Kraft commenced a federal court action against Starbucks, entitled Kraft Foods Global, Inc. v. Starbucks Corporation, in the U.S. District Court for the Southern District of New York (the “District Court”) seeking injunctive relief to prevent Starbucks from terminating the distribution arrangement until the parties’ dispute is resolved through the arbitration proceeding. On January 28, 2011, the District Court denied Kraft’s request for injunctive relief. Kraft appealed the District Court’s decision to the Second Circuit Court of Appeals. On February 25, 2011, the Second Circuit Court of Appeals affirmed the District Court’s decision. As a result, Starbucks has been in full control of our packaged coffee business since March 1, 2011.

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

On April 2, 2012, Starbucks and Kraft exchanged expert reports regarding alleged damages on their affirmative claims. Starbucks claimed damages of up to \$62.9 million from the loss of sales resulting from Kraft's failure to use commercially reasonable efforts to market Starbucks® coffee, plus attorney fees. Kraft's expert opined that the fair market value of the Agreement was \$1.9 billion. After applying a 35% premium and 9% interest, Kraft claimed damages

Table of Contents

of up to \$2.9 billion, plus attorney fees. The arbitration hearing commenced on July 11, 2012 and was completed on August 3. Starbucks presented evidence of material breaches on Kraft's part and sought nominal damages from Kraft for those breaches. Kraft presented evidence denying it had breached the parties' Agreement and sought damages of \$2.9 billion plus attorney fees. We were expecting a decision from the Arbitrator in the first half of fiscal 2013 but now expect a decision in the second half of fiscal 2013.

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

Starbucks is party to various other legal proceedings arising in the ordinary course of business, including certain employment litigation cases that have been certified as class or collective actions, but, except as noted above, is not currently a party to any legal proceeding that management believes could have a material adverse effect on our consolidated financial position, results of operations or cash flows.

Note 11: Segment Reporting

Segment information is prepared on the same basis that our ceo, who is our chief operating decision maker, manages the segments, evaluates financial results, and makes key operating decisions. Effective at the beginning of fiscal 2013, we decentralized certain leadership functions in the areas of retail marketing and category management, global store development and partner resources, to support and align with the respective operating segment presidents. In conjunction with these moves, certain general and administrative and depreciation and amortization expenses associated with these functions, which were previously reported as unallocated corporate expenses within "Other," are now reported within the respective reportable operating segments to align with the regions which they support. Concurrent with the change in reportable operating segments and realignment of certain operating expenses noted above, we revised our prior period financial information to reflect comparable financial information for the new segment structure and reporting changes. Historical financial information presented herein reflects these changes. There was no impact on consolidated net revenues, total operating expenses, operating income, or net earnings as a result of these changes.

Beginning in the second quarter of fiscal 2013, we removed unallocated corporate expenses from Other. Other is now referred to as All Other Segments and includes Teavana, Seattle's Best Coffee, Evolution Fresh and Tazo retail, as well as our Digital Ventures business. Unallocated corporate operating expenses, which pertain primarily to corporate administrative functions that support the operating segments but are not specifically attributable to or managed by any segment, are now presented as a reconciling item between total segment operating results and consolidated financial results. While our consolidated results are not impacted, our historical segment financial information has been revised to be consistent with the current period presentation.

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
March 31, 2013						
Total net revenues	\$2,604.1	\$273.2	\$213.6	\$ 343.5	\$121.5	\$3,555.9
Depreciation and amortization expenses	105.6	13.7	8.5	0.3	3.4	131.5
Income from equity investees	2.4	—	30.8	19.3	—	52.5
Operating income/(loss)	549.7	5.2	68.3	94.1	(4.1)	713.2
April 1, 2012						
Total net revenues	\$2,374.7	\$272.4	\$174.6	\$ 321.5	\$52.7	\$3,195.9

Edgar Filing: STARBUCKS CORP - Form 10-Q

Depreciation and amortization expenses	97.2	14.3	5.6	0.3	0.6	118.0
Income from equity investees	2.1	—	32.9	17.2	—	52.2
Operating income/(loss)	449.5	(7.0	) 68.2	79.5	(6.7	) 583.5

17

Table of Contents

Two Quarters Ended

	Americas	EMEA	China / Asia Pacific	Channel Development	All Other Segments	Segment Total
March 31, 2013						
Total net revenues	\$5,444.7	\$579.3	\$427.7	\$ 723.4	\$180.3	\$7,355.4
Depreciation and amortization expenses	211.0	27.9	15.9	0.6	4.3	259.7
Income from equity investees	2.4	—	64.9	39.7	—	107.0
Operating income/(loss)	1,139.8	27.5	140.4	191.0	(8.2)	1,490.5
April 1, 2012						
Total net revenues	\$4,953.2	\$575.6	\$341.5	\$ 657.3	\$104.2	\$6,631.8
Depreciation and amortization expenses	194.3	28.5	10.6	0.7	1.0	235.1
Income from equity investees	2.1	0.3	60.5	34.2	—	97.1
Operating income/(loss)	998.3	11.9	125.6	157.3	(9.5)	1,283.6

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

	Quarter Ended		Two Quarters Ended	
	Mar 31, 2013	Apr 1, 2012	Mar 31, 2013	Apr 1, 2012
Total segment operating income	\$713.2	\$583.5	\$1,490.5	\$1,283.6
Unallocated corporate operating expenses	(169.1)	(153.1)	(315.9)	(297.2)
Consolidated operating income	544.1	430.4	1,174.6	986.4
Interest income and other, net	50.8	35.3	48.0	58.5
Interest expense	(6.1)	(8.8)	(12.7)	(17.4)
Earnings before income taxes	\$588.8	\$456.9	\$1,209.9	\$1,027.5

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

CAUTIONARY STATEMENT PURSUANT TO THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

Certain statements herein, including statements regarding trends in or expectations relating to the expected effects of our initiatives and plans, as well as trends in or expectations regarding earnings per share, revenues, operating income, operating margins, comparable store sales, sales leverage, sales growth, expenses, dividends, share repurchases, other financial results, capital expenditures, scaling and expansion of international operations, shifts in our store portfolio to more licensed stores in EMEA and to more company-operated stores in CAP, profitable growth models and opportunities, strategic acquisitions, changes to organizational structures, commodity costs and our mitigation strategies, the transition from our distribution arrangement with Kraft to a direct distribution model, liquidity, cash flow from operations, use of cash, anticipated store openings, closings and renovations, the health and growth of our business overall and of specific businesses or markets, benefits of recent initiatives, increased traffic to our stores, operational efficiencies, product innovation and distribution, tax rates, and economic conditions in the US and international markets, constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are based on currently available operating, financial and competitive information and are subject to various risks and uncertainties. Actual future results and trends may differ materially depending on a variety of factors, including, but not limited to, coffee, dairy and other raw materials prices and availability, successful execution of our initiatives, successful execution of internal plans, fluctuations in US and international economies and currencies, the impact of competitors' initiatives, the effect of legal proceedings, and other risks detailed in our filings with the SEC, including in Part I Item IA "Risk Factors" in the 10-K.

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

Table of Contents

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 second quarter results demonstrate our continued focus on execution in our existing business portfolio while investing in future growth opportunities. Total net revenues increased 11% to \$3.6 billion, driven by global comparable store sales growth of 6%. Consolidated operating income increased 26% and operating margin expanded 180 basis points to 15.3%. Earnings per share of \$0.51, which includes \$0.03 per share from the gain on the sale of our equity interest in our Mexico joint venture operations, represents growth of 28% over the prior year.

The Americas segment continued its strong performance in the second quarter with a 10% increase in revenues over the prior year, primarily driven by comparable store sales growth of 6%, comprised of a 5% increase in the number of transactions and a 2% increase in average ticket. Featured beverages and growth in afternoon food offerings contributed to the increase in comparable store sales. Operating margin expanded 220 basis points to 21.1%, driven by sales leverage due in part to a continued focus on store productivity, with lower coffee prices also contributing.

Looking forward, we expect to continue to drive sales growth and profitability through new stores and the expansion of our pipeline of product offerings, including the roll out of La Boulange™ products in our retail stores, to increase revenues throughout all dayparts.

Our work to turn around the EMEA segment continues and we are making progress despite the economic uncertainty in the region. Revenues for the region were flat compared to the prior year and reflect the shift in our ownership structure, as we continue our focus on closing underperforming company-operated stores and growing our licensed store base in profitable locations. A continued focus on cost management and the shift in our store portfolio to more licensed stores contributed to an increase in operating margin of 450 basis points over the prior year. We expect the investments we are making in the region today will result in improved operating performance as we progress on our plan towards mid-teens operating margin in the future.

Our CAP segment results reflect a combination of rapid new store growth and solid performance from our existing store base. New store growth, paired with an 8% increase in comparable store sales, drove total net revenue growth of 22% over the prior year. Operating income was flat compared to the same quarter in the prior year, while operating margin contracted this quarter. The margin contraction was primarily a result of our continued investment spending to support growth in China and a shift in the composition of our store portfolio from licensed to company-operated stores. We expect this segment to continue to grow rapidly and become a more meaningful contributor to overall company profitability, with growth coming from a mix of net new store openings and comparable store sales growth. Channel Development segment revenues grew 7% for the quarter, driven by sales of Starbucks- and Tazo-branded K-Cup® portion packs. Lower commodity costs, primarily coffee, were the primary contributor to the increase in operating margin for the second quarter of fiscal 2013. We expect our investments in continued innovation and new product offerings in fiscal 2013 will drive further growth and profitability within this segment over time.

Comparable Store Sales

Starbucks comparable store sales for the second quarter of fiscal 2013 are as follows:

	Quarter Ended Mar 31, 2013			Two Quarters Ended Mar 31, 2013			
	Sales Growth	Change in Transactions	Change in Ticket	Sales Growth	Change in Transactions	Change in Ticket	
Consolidated	6	% 4	% 2	% 6	% 4	% 2	%
Americas	6	% 5	% 2	% 6	% 4	% 2	%
EMEA	(2)	)% (1	)% —	% (1	)% —	% (2)%
China / Asia Pacific	8	% 4	% 3	% 9	% 6	% 3	%

Table of Contents

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 fluctuations in foreign currency exchange rates.

Fiscal 2013 — Financial Outlook for the Year

For fiscal year 2013, we expect revenue growth driven by mid single-digit increased comparable store sales, new store openings and continued growth in the Channel Development business. Licensed stores will comprise between one-half and two-thirds of new store openings.

We expect continued robust consolidated operating margin and EPS improvement compared to fiscal 2012, reflecting the strength of our global business and the pipeline of profitable growth initiatives.

We expect increased capital expenditures in fiscal 2013 compared to fiscal 2012, reflecting new store growth, a continued focus on store renovations and additional investments in manufacturing capacity.

Results of Operations (in millions)

Revenues

	Quarter Ended			Two Quarters Ended			
	Mar 31, 2013	Apr 1, 2012	% Change	Mar 31, 2013	Apr 1, 2012	% Change	
Company-operated stores	\$2,807.7	\$2,521.2	11.4	% \$5,797.3	\$5,253.0	10.4	%
Licensed stores	322.1	290.3	11.0	672.2	596.9	12.6	
CPG, foodservice and other	426.1	384.4	10.8	885.9	781.9	13.3	
Total net revenues	\$3,555.9	\$3,195.9	11.3	% \$7,355.4	\$6,631.8	10.9	%

Total net revenues for the second quarter and the first two quarters of fiscal 2013 increased \$360 million and \$724 million, respectively, primarily driven by increased revenues from company-operated stores (contributing \$287 million and \$544 million, respectively). An increase in comparable store sales was the primary driver of the increase in company-operated store revenues for both periods (approximately 6%, or \$145 million, for the second quarter and approximately 6%, or \$308 million, for the first two quarters). Also contributing for both periods were incremental revenues from 412 net new company-operated store openings over the past 12 months (approximately \$82 million for the second quarter and \$165 million for the first two quarters).

Licensed store revenue growth also contributed to the increase in total net revenues for the second quarter and the first two quarters of fiscal 2013 (approximately \$32 million and \$75 million, respectively). These increases were driven by increased product sales to and royalty revenues from our licensees, resulting from improved comparable store sales and the opening of 679 net new licensed stores over the last 12 months.

CPG, foodservice and other revenues increased \$42 million and \$104 million for the second quarter and the first two quarters of fiscal 2013, respectively. These increases were primarily due to increased sales of single serve products (approximately \$25 million and \$61 million, respectively).

Table of Contents

Operating Expenses

	Quarter Ended				Two Quarters Ended			
	Mar 31, 2013	Apr 1, 2012	Mar 31, 2013	Apr 1, 2012	Mar 31, 2013	Apr 1, 2012	Mar 31, 2013	Apr 1, 2012
			% of Total Net Revenues				% of Total Net Revenues	
Cost of sales including occupancy costs	\$ 1,530.4	\$ 1,411.9	43.0 %	44.2 %	\$ 3,151.1	\$ 2,908.0	42.8 %	43.8 %
Store operating expenses	1,038.4	956.5	29.2	29.9	2,127.9	1,952.2	28.9	29.4
Other operating expenses	112.1	105.3	3.2	3.3	244.6	212.0	3.3	3.2
Depreciation and amortization expenses	153.1	137.1	4.3	4.3	302.0	271.9	4.1	4.1
General and administrative expenses	230.3	206.9	6.5	6.5	462.2	398.4	6.3	6.0
Total operating expenses	3,064.3	2,817.7	86.2	88.2	6,287.8	5,742.5	85.5	86.6
Income from equity investees	52.5	52.2	1.5	1.6	107.0	97.1	1.5	1.5
Operating income	\$544.1	\$430.4	15.3 %	13.5 %	\$ 1,174.6	\$986.4	16.0 %	14.9 %
Store operating expenses as a % of related revenues			37.0 %	37.9 %			36.7 %	37.2 %

Cost of sales including occupancy costs as a percentage of total net revenues decreased 120 basis points and 100 basis points for the second quarter and the first two quarters of fiscal 2013, respectively, primarily driven by lower coffee costs (approximately 50 basis points for both periods).

Store operating expenses as a percentage of total net revenues decreased 70 basis points for the second quarter and 50 basis points for the first two quarters of fiscal 2013. As a percentage of company-operated store revenues, store operating expenses decreased 90 basis points for the second quarter and 50 basis points for the first two quarters of fiscal 2013, primarily driven by sales leverage (approximately 90 basis points for the second quarter and 100 basis points for the first two quarters).

Other operating expenses as a percentage of total net revenues decreased 10 basis points for the second quarter and increased 10 basis points for the first two quarters of fiscal 2013. Excluding the impact of company-operated store revenues, other operating expenses decreased 60 basis points for the second quarter and increased 30 basis points for the first two quarters of fiscal 2013. The second quarter decrease was primarily driven by sales leverage from licensed store revenue growth (approximately 80 basis points). The increase for the first two quarters was primarily due to increased marketing related to the launch of the Verismo® system by Starbucks in Channel Development (approximately 90 basis points), partially offset by sales leverage.

General and administrative expenses as a percentage of total net revenues were flat for the second quarter and increased 30 basis points for the first two quarters of fiscal 2013. The increase for the first two quarters of fiscal 2013 was driven by the company's October Global Leadership Conference (approximately 40 basis points).

Income from equity investees was flat for the second quarter and increased \$10 million for the first two quarters of fiscal 2013, primarily due to increased income from our joint venture operations in Japan and China, as well as improved performance from our North American Coffee Partnership joint venture which produces, bottles and distributes our ready to drink beverages. The improved performance from these joint ventures was partially offset by the absence this year of \$6.7 million of non-routine income included in income from equity investees in the second quarter of the prior year.

The combination of these changes resulted in an increase in operating margin of 180 basis points for the second quarter and 110 basis points for the first two quarters of fiscal 2013.

Table of Contents

Other Income and Expenses

	Quarter Ended				Two Quarters Ended					
	Mar 31, 2013	Apr 1, 2012	Mar 31, 2013	Apr 1, 2012	Mar 31, 2013	Apr 1, 2012	Mar 31, 2013	Apr 1, 2012	Mar 31, 2013	Apr 1, 2012
	% of Total Net Revenues				% of Total Net Revenues					
Operating income	\$544.1	\$430.4	15.3	% 13.5	% \$1,174.6	\$986.4	16.0	% 14.9	%	
Interest income and other, net	50.8	35.3	1.4	1.1	48.0	58.5	0.7	0.9		
Interest expense	(6.1)	(8.8)	(0.2)	(0.3)	(12.7)	(17.4)	(0.2)	(0.3)		
Earnings before income taxes	588.8	456.9	16.6	14.3	1,209.9	1,027.5	16.4	15.5		
Income taxes	198.1	146.8	5.6	4.6	386.8	335.2	5.3	5.1		
Net earnings including noncontrolling interests	390.7	310.1	11.0	9.7	823.1	692.3	11.2	10.4		
Net earnings (loss) attributable to noncontrolling interest	0.3	0.2	—	—	0.6	0.4	—	—		
Net earnings attributable to Starbucks	\$390.4	\$309.9	11.0	% 9.7	% \$822.5	\$691.9	11.2	% 10.4	%	
Effective tax rate including noncontrolling interest			33.6	% 32.1	%		32.0	% 32.6	%	

For the second quarter and the first two quarters of fiscal 2013, net interest income and other increased \$16 million and decreased \$11 million, respectively. The increase for the second quarter was primarily due to a gain on the sale of our equity in the joint venture that operates Starbucks® stores in Mexico (approximately \$35 million). Also contributing to the increase for the second quarter was net favorable foreign exchange fluctuations (approximately \$4 million). These increases were partially offset by the absence of additional income recognized in the prior year period associated with unredeemed gifts cards due to a court ruling related to state unclaimed property laws (approximately \$29 million).

The decrease for the first two quarters was primarily due to the absence of additional income recognized in the prior year period associated with unredeemed gifts cards due to a court ruling related to state unclaimed property laws (approximately \$29 million) and mark-to-market adjustments from derivatives used to manage our risk of commodity price fluctuations (approximately \$13 million). These decreases were partially offset by a gain on the sale of our equity in the joint venture that operates Starbucks® stores in Mexico (approximately \$35 million).

The effective tax rate for the quarter ended March 31, 2013 was 33.6% compared to 32.1% for the same quarter in fiscal 2012. The increase in the rate for the second quarter of fiscal 2013 was primarily due to an increase in taxable income in the US relative to foreign jurisdictions with lower tax rates. The effective tax rate for the two quarters ended March 31, 2013 was 32.0% compared to 32.6% for the same period in fiscal 2012. The decrease in the rate for the first two quarters of fiscal 2013 was primarily due to the recognition of a net tax benefit in the first quarter of fiscal 2013 primarily from state income tax expense adjustments for returns filed in prior years.

Segment Information

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

Table of Contents

Americas

	Quarter Ended				Two Quarters Ended				
	Mar 31, 2013	Apr 1, 2012	Mar 31, 2013 % of Americas Net Revenues	Apr 1, 2012	Mar 31, 2013	Apr 1, 2012	Mar 31, 2013 % of Americas Net Revenues	Apr 1, 2012	
Total net revenues	\$2,604.1	\$2,374.7			\$5,444.7	\$4,953.2			
Cost of sales including occupancy costs	1,000.0	941.6	38.4	% 39.7	% 2,092.5	1,948.3	38.4	% 39.3	%
Store operating expenses	891.9	837.4	34.2	35.3	1,851.7	1,712.2	34.0	34.6	
Other operating expenses	21.2	18.7	0.8	0.8	51.2	39.2	0.9	0.8	
Depreciation and amortization expenses	105.6	97.2	4.1	4.1	211.0	194.3	3.9	3.9	
General and administrative expenses	38.1	32.4	1.5	1.4	100.9	63.0	1.9	1.3	
Total operating expenses	2,056.8	1,927.3	79.0	81.2	4,307.3	3,957.0	79.1	79.9	
Income from equity investees	2.4	2.1	0.1	0.1	2.4	2.1	0.0	0.0	
Operating income	\$549.7	\$449.5	21.1	% 18.9	% \$1,139.8	\$998.3	20.9	% 20.2	%
Store operating expenses as a % of related revenues			37.5	% 38.6	%		37.3	% 37.8	%

Revenues

Americas total net revenues for the second quarter and the first two quarters of fiscal 2013 increased \$229 million, or 10%, and \$492 million, or 10%, respectively. These increases were primarily driven by increased revenues from company-operated stores (contributing \$206 million and \$436 million, respectively) and licensed stores (contributing \$18 million and \$41 million, respectively).

An increase in comparable store sales was the primary driver of the increase in company-operated store revenues for both periods (approximately 6%, or \$140 million, for the second quarter and approximately 6%, or \$293 million, for the first two quarters). The increases in licensed store revenues were primarily due to increased product sales to and higher royalty revenues from our licensees (approximately \$19 million for the second quarter and approximately \$45 million for the first two quarters), primarily resulting from improved comparable store sales and the opening of 270 net new licensed stores over the past 12 months.

Operating Expenses

Cost of sales including occupancy costs as a percentage of total net revenues decreased 130 basis points and 90 basis points for the second quarter and the first two quarters of fiscal 2013, respectively. These decreases were primarily driven by lower coffee costs (approximately 40 basis points for the second quarter and approximately 30 basis points for the first two quarters). Also contributing to the decrease for both periods was sales leverage on occupancy costs. Store operating expenses as a percentage of total net revenues decreased 110 basis points for the second quarter and 60 basis points for the first two quarters of fiscal 2013, primarily driven by sales leverage (approximately 100 basis points for both periods).

Other operating expenses as a percentage of total net revenues was flat for the second quarter and increased 10 basis points for the first two quarters of fiscal 2013. Other operating expenses as a percentage of non-company-operated store revenues increased 20 basis points for the second quarter and 140 basis points for the first two quarters of fiscal 2013. The increase for the first two quarters was primarily due to incremental costs related to our acquisition of Bay

Bread LLC (doing business as La Boulange), which was completed in the fourth quarter of fiscal 2012.

General and administrative expenses as a percentage of total net revenues increased 10 basis points and 60 basis points for the second quarter and the first two quarters of fiscal 2013, respectively. The increase for the second quarter was largely due to investments in deepening certain capabilities across the organization to support future growth. The increase for the first two quarters was driven by the company's October Global Leadership Conference (approximately 50 basis points).

The combination of these changes resulted in an overall increase in operating margin of 220 basis points for the second quarter and 70 basis points for the first two quarters of fiscal 2013.

Table of Contents

EMEA

	Quarter Ended				Two Quarters Ended			
	Mar 31, 2013	Apr 1, 2012	Mar 31, 2013	Apr 1, 2012	Mar 31, 2013	Apr 1, 2012	Mar 31, 2013	Apr 1, 2012
			% of EMEA Net Revenues				% of EMEA Net Revenues	
Total net revenues	\$273.2	\$272.4			\$579.3	\$575.6		
Cost of sales including occupancy costs	140.8	143.9	51.5	% 52.8	% 293.3	294.4	50.6	% 51.1
Store operating expenses	83.2	91.9	30.5	33.7	173.5	185.7	29.9	32.3
Other operating expenses	10.7	8.9	3.9	3.3	19.1	17.6	3.3	3.1
Depreciation and amortization expenses	13.7	14.3	5.0	5.2	27.9	28.5	4.8	5.0
General and administrative expenses	19.6	20.4	7.2	7.5	38.0	37.8	6.6	6.6
Total operating expenses	268.0	279.4	98.1	102.6	551.8	564.0	95.3	98.0
Income from equity investees	—	—	—	—	—	0.3	—	0.1
Operating income (loss)	\$5.2	\$(7.0)	1.9	% (2.6)	% \$27.5	\$11.9	4.7	% 2.1
Store operating expenses as a % of related revenues			38.0	% 39.4	%		36.8	% 37.3

Revenues

EMEA total net revenues increased \$1 million for the second quarter of fiscal 2013 and increased \$4 million, or 1%, for the first two quarters of fiscal 2013. Licensed store revenues grew (approximately \$15 million, or 48%, for the second quarter and \$27 million, or 44%, for the first two quarters), due to increased product sales to and higher royalty revenues from our licensees, primarily resulting from the opening of 117 net new licensed stores over the past 12 months and improved comparable store sales. The licensed store revenue increases were nearly offset by a decline in company-operated store revenues (approximately \$15 million for the second quarter and approximately \$26 million for the first two quarters), primarily resulting from our prior store portfolio optimization activities.

Operating Expenses

Cost of sales including occupancy costs as a percentage of total net revenues decreased 130 basis points for the second quarter and 50 basis points for the first two quarters of fiscal 2013. These decreases were primarily driven by a reduction to the estimated asset retirement obligations of our store leases in the region (approximately 220 basis points for the second quarter and approximately 100 basis points for the first two quarters), partially offset by the impact of a shift in the composition of our store portfolio in the region to more licensed stores.

Store operating expenses as a percentage of total net revenues decreased 320 basis points for the second quarter and 240 basis points for the first two quarters of fiscal 2013. As a percentage of company-operated store revenues, store operating expenses decreased 140 basis points for the second quarter and 50 basis points for the first two quarters of fiscal 2013, primarily driven by operational efficiencies.

Other operating expenses as a percentage of total net revenues increased 60 basis points for the second quarter and 20 basis points for the first two quarters of fiscal 2013. Excluding the impact of company-operated store revenues, other operating expenses decreased 320 basis points for the second quarter and 490 basis points for the first two quarters, primarily driven by sales leverage from licensed store revenue growth and operational efficiencies.

The combination of these changes resulted in an overall increase in operating margin of 450 basis points for the second quarter and 260 basis points for the first two quarters of fiscal 2013.

Table of Contents

China / Asia Pacific

Quarter Ended				Two Quarters Ended			
Mar 31,	Apr 1,	Mar 31,	Apr 1,	Mar 31,	Apr 1,	Mar 31,	Apr 1,
2013	2012	2013	2012	2013	2012	2013	2012