

**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 30, 2014

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
(State or Other Jurisdiction of
Incorporation or Organization)

91-1325671
(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 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.

<u>Title</u>	<u>Shares Outstanding as of April 23, 2014</u>
Common Stock, par value \$0.001 per share	752.8 million

STARBUCKS CORPORATION
FORM 10-Q
For the Quarterly Period Ended March 30, 2014
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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		Two Quarters Ended	
	Mar 30, 2014	Mar 31, 2013	Mar 30, 2014	Mar 31, 2013
Net revenues:				
Company-operated stores	\$ 3,068.0	\$ 2,807.7	\$ 6,411.8	\$ 5,797.3
Licensed stores	356.2	322.1	758.0	672.2
CPG, foodservice and other	449.6	419.8	943.6	873.2
Total net revenues	3,873.8	3,549.6	8,113.4	7,342.7
Cost of sales including occupancy costs	1,629.2	1,530.4	3,424.2	3,151.1
Store operating expenses	1,134.5	1,038.4	2,309.6	2,127.9
Other operating expenses	110.9	105.8	225.8	231.9
Depreciation and amortization expenses	174.4	153.1	344.1	302.0
General and administrative expenses	240.6	230.3	483.2	462.2
Litigation charge/(credit)	—	—	(20.2)	—
Total operating expenses	3,289.6	3,058.0	6,766.7	6,275.1
Income from equity investees	59.9	52.5	111.0	107.0
Operating income	644.1	544.1	1,457.7	1,174.6
Interest income and other, net	17.8	50.8	37.6	48.0
Interest expense	(16.7)	(6.1)	(31.3)	(12.7)
Earnings before income taxes	645.2	588.8	1,464.0	1,209.9
Income taxes	218.3	198.1	496.4	386.8
Net earnings including noncontrolling interests	426.9	390.7	967.6	823.1
Net earnings/(loss) attributable to noncontrolling interests	(0.1)	0.3	—	0.6
Net earnings attributable to Starbucks	\$ 427.0	\$ 390.4	\$ 967.6	\$ 822.5
Earnings per share - basic	\$ 0.57	\$ 0.52	\$ 1.28	\$ 1.10
Earnings per share - diluted	\$ 0.56	\$ 0.51	\$ 1.26	\$ 1.08
Weighted average shares outstanding:				
Basic	755.2	749.1	755.0	747.6
Diluted	764.6	761.3	765.4	761.3
Cash dividends declared per share	\$ 0.26	\$ 0.21	\$ 0.52	\$ 0.42

See Notes to Condensed Consolidated Financial Statements

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

	Quarter Ended		Two Quarters Ended	
	Mar 30, 2014	Mar 31, 2013	Mar 30, 2014	Mar 31, 2013
Net earnings including noncontrolling interests	\$ 426.9	\$ 390.7	\$ 967.6	\$ 823.1
Other comprehensive income/(loss), net of tax:				
Unrealized holding gains/(losses) on available-for-sale securities	1.1	—	(0.9)	—
Tax (expense)/benefit	(0.4)	—	0.4	—
Unrealized gains/(losses) on cash flow hedging instruments	8.1	(3.8)	19.9	(20.7)
Tax (expense)/benefit	(2.1)	(0.1)	(6.0)	0.3
Unrealized gains/(losses) on net investment hedging instruments	(3.9)	11.7	5.9	26.4
Tax (expense)/benefit	1.4	(4.3)	(2.2)	(9.7)
Reclassification adjustment for net (gains)/losses realized in net earnings for cash flow hedges and available-for-sale securities	(2.2)	10.3	5.4	16.1
Tax expense/(benefit)	1.0	(0.8)	0.9	(1.4)
Translation adjustment	7.7	(35.7)	(22.7)	(49.7)
Tax (expense)/benefit	(15.1)	(6.5)	(3.4)	(1.3)
Other comprehensive income/(loss)	(4.4)	(29.2)	(2.7)	(40.0)
Comprehensive income including noncontrolling interests	422.5	361.5	964.9	783.1
Comprehensive income/(loss) attributable to noncontrolling interests	(0.1)	0.3	—	0.6
Comprehensive income attributable to Starbucks	<u>\$ 422.6</u>	<u>\$ 361.2</u>	<u>\$ 964.9</u>	<u>\$ 782.5</u>

See Notes to Condensed Consolidated Financial Statements

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

	Mar 30, 2014	Sep 29, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,190.3	\$ 2,575.7
Short-term investments	299.2	658.1
Accounts receivable, net	590.0	561.4
Inventories	954.7	1,111.2
Prepaid expenses and other current assets	286.1	287.7
Deferred income taxes, net	258.7	277.3
Total current assets	3,579.0	5,471.4
Long-term investments	449.8	58.3
Equity and cost investments	512.8	496.5
Property, plant and equipment, net	3,278.1	3,200.5
Deferred income taxes, net	943.4	967.0
Other assets	195.9	185.3
Other intangible assets	277.2	274.8
Goodwill	860.8	862.9
TOTAL ASSETS	\$ 10,097.0	\$ 11,516.7
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 472.6	\$ 491.7
Accrued litigation charge	—	2,784.1
Accrued liabilities	1,260.1	1,269.3
Insurance reserves	184.5	178.5
Deferred revenue	816.3	653.7
Total current liabilities	2,733.5	5,377.3
Long-term debt	2,048.0	1,299.4
Other long-term liabilities	368.4	357.7
Total liabilities	5,149.9	7,034.4
Shareholders' equity:		
Common stock (\$0.001 par value) — authorized, 1,200.0 shares; issued and outstanding, 754.1 shares and 753.2 shares, respectively	0.8	0.8
Additional paid-in capital	174.6	282.1
Retained earnings	4,705.4	4,130.3
Accumulated other comprehensive income	64.3	67.0
Total shareholders' equity	4,945.1	4,480.2
Noncontrolling interest	2.0	2.1
Total equity	4,947.1	4,482.3
TOTAL LIABILITIES AND EQUITY	\$ 10,097.0	\$ 11,516.7

See Notes to Condensed Consolidated Financial Statements

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

	Two Quarters Ended	
	Mar 30, 2014	Mar 31, 2013
OPERATING ACTIVITIES:		
Net earnings including noncontrolling interests	\$ 967.6	\$ 823.1
Adjustments to reconcile net earnings to net cash (used)/provided by operating activities:		
Depreciation and amortization	364.2	318.1
Deferred income taxes, net	36.1	(6.9)
Income earned from equity method investees, net of distributions	(20.8)	(15.9)
Gain resulting from sale of equity in joint venture	—	(35.2)
Stock-based compensation	91.6	70.9
Other	11.4	11.2
Cash (used)/provided by changes in operating assets and liabilities:		
Accounts receivable	(28.6)	(25.2)
Inventories	156.2	138.6
Accounts payable	(9.6)	(37.2)
Accrued litigation charge	(2,763.9)	—
Accrued liabilities and insurance reserves	54.2	(36.9)
Deferred revenue	162.5	154.0
Prepaid expenses, other current assets and other assets	(4.4)	13.9
Net cash (used)/provided by operating activities	(983.5)	1,372.5
INVESTING ACTIVITIES:		
Purchase of investments	(974.9)	(119.9)
Sales, maturities and calls of investments	943.9	569.9
Acquisitions, net of cash acquired	—	(568.8)
Additions to property, plant and equipment	(503.6)	(484.9)
Other	(14.4)	(9.3)
Net cash used by investing activities	(549.0)	(613.0)
FINANCING ACTIVITIES:		
Proceeds from issuance of long-term debt	748.5	—
Principal payments on long-term debt	—	(35.2)
Proceeds from issuance of common stock	89.5	141.0
Excess tax benefit on share-based awards	87.3	193.2
Cash dividends paid	(392.3)	(313.5)
Repurchase of common stock	(290.1)	(588.1)
Minimum tax withholdings on share-based awards	(76.0)	(119.9)
Other	(9.5)	4.0
Net cash provided/(used) by financing activities	157.4	(718.5)
Effect of exchange rate changes on cash and cash equivalents	(10.3)	(6.4)
Net (decrease)/increase in cash and cash equivalents	(1,385.4)	34.6
CASH AND CASH EQUIVALENTS:		
Beginning of period	2,575.7	1,188.6
End of period	\$ 1,190.3	\$ 1,223.2
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest, net of capitalized interest	\$ 17.4	\$ 17.2
Income taxes	\$ 314.8	\$ 238.1

See Notes to Condensed Consolidated Financial Statements

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 30, 2014, and for the quarter and two quarters ended March 30, 2014 and March 31, 2013, 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 30, 2014 and March 31, 2013 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 29, 2013 is derived from our audited consolidated financial statements and notes for the fiscal year ended September 29, 2013 ("fiscal 2013") included in Item 8 in the Fiscal 2013 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.

The results of operations for the quarter and two quarters ended March 30, 2014 are not necessarily indicative of the results of operations that may be achieved for the entire fiscal year ending September 28, 2014 ("fiscal 2014").

Recent Accounting Pronouncements

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

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

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 became effective for us at the beginning of our first quarter of fiscal 2014 and the additional disclosures are provided in Note 7 of this 10-Q.

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 became effective for us at the beginning of our first quarter of fiscal 2014 and did not have a material impact on our financial statements.

Correction of an Immaterial Error

Effective at the beginning of fiscal 2014, we reclassified certain fees related to our US and Seattle's Best Coffee foodservice operations in our Channel Development segment and All Other Segments, respectively, from other operating expenses to foodservice revenues included in CPG, foodservice and other net revenues in our consolidated statements of earnings. This reclassification results from a correction of an error in our prior period financial statements which we have determined to be immaterial. In order to align prior period classifications with the current period presentation, the historical consolidated financial statements have been corrected, resulting in reclassifications of \$25.4 million and \$22.7 million for fiscal years 2013 and 2012, respectively. The reclassifications for the quarter and two quarters ended March 31, 2013 were \$6.3 million and \$12.7 million, respectively. The consolidated statements of earnings as corrected are presented below (*in millions*):

	Fiscal 2013					Fiscal 2012
	Q1	Q2	Q3	Q4	Full Year	Full Year
Net revenues						
Company-operated stores	\$ 2,989.6	\$ 2,807.7	\$ 2,986.3	\$ 3,009.6	\$ 11,793.2	\$ 10,534.5
Licensed stores	350.2	322.1	342.0	346.3	1,360.5	1,210.3
CPG, foodservice and other	453.4	419.8	407.0	432.9	1,713.1	1,532.0
Total net revenues	3,793.2	3,549.6	3,735.3	3,788.8	14,866.8	13,276.8
Cost of sales including occupancy costs	1,620.7	1,530.4	1,597.6	1,633.7	6,382.3	5,813.3
Store operating expenses	1,089.5	1,038.4	1,084.1	1,073.9	4,286.1	3,918.1
Other operating expenses	126.1	105.8	98.9	101.1	431.8	407.2
Depreciation and amortization expenses	148.9	153.1	153.3	166.1	621.4	550.3
General and administrative expenses	231.9	230.3	249.6	226.1	937.9	801.2
Litigation charge	—	—	—	2,784.1	2,784.1	—
Total operating expenses	3,217.1	3,058.0	3,183.5	5,985.0	15,443.6	11,490.1
Income from equity investees	54.5	52.5	63.4	81.0	251.4	210.7
Operating income/(loss)	630.6	544.1	615.2	(2,115.2)	(325.4)	1,997.4
Interest income and other, net	(2.9)	50.8	3.5	72.1	123.6	94.4
Interest expense	(6.6)	(6.1)	(6.3)	(9.1)	(28.1)	(32.7)
Earnings/(loss) before income taxes	621.1	588.8	612.4	(2,052.2)	(229.9)	2,059.1
Income taxes	188.7	198.1	194.6	(820.1)	(238.7)	674.4
Net earnings including noncontrolling interests	432.4	390.7	417.8	(1,232.1)	8.8	1,384.7
Net earnings attributable to noncontrolling interests	0.2	0.3	—	(0.1)	0.5	0.9
Net earnings attributable to Starbucks	\$ 432.2	\$ 390.4	\$ 417.8	\$ (1,232.0)	\$ 8.3	\$ 1,383.8

There was no impact on operating income or net earnings as a result of the error correction, nor any impact on our consolidated statements of comprehensive income, consolidated balance sheets or consolidated statements of cash flows. Additional disclosure regarding this change as it relates to our segment results is included at Note 11, Segment Reporting.

Note 2: 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 the benchmark interest rate 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 revenue streams and inventory purchases in currencies other than the entity's functional currency. The effective portion of the derivative's gain or loss is recorded in AOCI and is subsequently reclassified to revenue or cost of sales 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 of our equity method investees. The effective portion of the derivative's gain or loss is recorded in AOCI and will be subsequently reclassified to net earnings when the hedged net investment is either sold or substantially liquidated.

To mitigate the translation risk of certain balance sheet items, we enter into foreign currency 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 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 4, Inventories. The effective portion of the derivative's gain or loss is recorded in AOCI and is subsequently reclassified to cost of sales when the hedged exposure affects net earnings.

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

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

	Net Gains/(Losses) Included in AOCI		Net Gains/(Losses) Expected to be Reclassified from AOCI into Earnings within 12 Months	Contract Remaining Maturity (Months)
	Mar 30, 2014	Sep 29, 2013		
Cash Flow Hedges:				
Interest rates	\$ 38.0	\$ 41.4	\$ 3.2	
Foreign currency	10.3	(0.3)	6.0	34
Coffee	(1.5)	(12.2)	(1.9)	17
Net Investment Hedges:				
Foreign currency	(9.2)	(12.9)		36

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				Two 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	
	Mar 30, 2014	Mar 31, 2013	Mar 30, 2014	Mar 31, 2013	Mar 30, 2014	Mar 31, 2013	Mar 30, 2014	Mar 31, 2013
Cash Flow Hedges:								
Interest rates	\$ —	\$ —	\$ 1.3	\$ —	\$ 0.5	\$ —	\$ 2.5	\$ —
Foreign currency	7.0	1.8	2.1	1.2	18.6	6.4	3.3	0.6
Coffee	1.1	(5.6)	(0.9)	(11.1)	0.8	(27.1)	(10.9)	(16.3)
Net Investment Hedges:								
Foreign currency	(3.9)	11.7	—	—	5.9	26.4	—	—

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

	Gains/(Losses) Recognized in Earnings			
	Quarter Ended		Two Quarters Ended	
	Mar 30, 2014	Mar 31, 2013	Mar 30, 2014	Mar 31, 2013
Foreign currency	\$ (0.1)	\$ 3.3	\$ (1.0)	\$ 2.2
Coffee	—	0.6	—	(2.1)
Dairy	7.4	(1.1)	11.9	(2.6)
Diesel fuel	—	0.1	—	0.1

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

	Mar 30, 2014	Sep 29, 2013
Foreign currency	\$ 512	\$ 452
Coffee	37	—
Dairy	21	38
Diesel fuel	18	17

Note 3: Fair Value Measurements

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

	Balance at Mar 30, 2014	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash and cash equivalents	\$ 1,190.3	\$ 1,190.3	\$ —	\$ —
Short-term investments:				
Available-for-sale securities				
Commercial paper	4.0	—	4.0	—
Corporate debt securities	16.3	—	16.3	—
Foreign government obligations	6.4	—	6.4	—
US government treasury securities	44.0	44.0	—	—
State and local government obligations	14.4	—	14.4	—
Short-term bond funds	80.1	80.1	—	—
Certificates of deposit	63.8	—	63.8	—
Total available-for-sale securities	229.0	124.1	104.9	—
Trading securities	70.2	70.2	—	—
Total short-term investments	299.2	194.3	104.9	—
Prepaid expenses and other current assets:				
Derivative assets	27.7	5.2	22.5	—
Long-term investments:				
Available-for-sale securities				
Agency obligations	9.2	—	9.2	—
Corporate debt securities	196.8	—	196.8	—
Auction rate securities	13.5	—	—	13.5
Foreign government obligations	4.0	—	4.0	—
US government treasury securities	148.9	148.9	—	—
State and local government obligations	6.9	—	6.9	—
Mortgage and asset-backed securities	70.5	—	70.5	—
Total long-term investments	449.8	148.9	287.4	13.5
Other assets:				
Derivative assets	11.8	—	11.8	—
Total	\$ 1,978.8	\$ 1,538.7	\$ 426.6	\$ 13.5
Liabilities:				
Accrued liabilities:				
Derivative liabilities	\$ 0.4	\$ 0.2	\$ 0.2	\$ —
Other long-term liabilities:				
Derivative liabilities	0.2	—	0.2	—
Total	\$ 0.6	\$ 0.2	\$ 0.4	\$ —

	Balance at Sep 29, 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	\$ 2,575.7	\$ 2,575.7	\$ —	\$ —
Short-term investments:				
Available-for-sale securities				
Agency obligations	20.0	—	20.0	—
Commercial paper	127.0	—	127.0	—
Corporate debt securities	57.5	—	57.5	—
Government treasury securities	352.9	352.9	—	—
Certificates of deposit	34.1	—	34.1	—
Total available-for-sale securities	591.5	352.9	238.6	—
Trading securities	66.6	66.6	—	—
Total short-term investments	658.1	419.5	238.6	—
Prepaid expenses and other current assets:				
Derivative assets	12.5	—	12.5	—
Long-term investments:				
Available-for-sale securities				
Agency obligations	8.1	—	8.1	—
Corporate debt securities	36.8	—	36.8	—
Auction rate securities	13.4	—	—	13.4
Total long-term investments	58.3	—	44.9	13.4
Other assets:				
Derivative assets	11.4	—	11.4	—
Total	\$ 3,316.0	\$ 2,995.2	\$ 307.4	\$ 13.4
Liabilities:				
Accrued liabilities:				
Derivative liabilities	\$ 3.5	\$ —	\$ 3.5	\$ —
Other long-term liabilities:				
Derivative liabilities	0.5	—	0.5	—
Total	\$ 4.0	\$ —	\$ 4.0	\$ —

There were no material transfers between levels and there was no significant activity within Level 3 instruments during the periods presented. In the second quarter of fiscal 2014, we revised the classification of coffee and dairy futures from Level 2 to Level 1, as we use quoted prices in active markets for identical assets to determine fair value. 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 March 30, 2014 and September 29, 2013 .

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 the quarter and two quarters ended March 30, 2014 and March 31, 2013 , 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 6, Debt.

Note 4: Inventories

<i>(in millions)</i>	Mar 30, 2014	Sep 29, 2013	Mar 31, 2013
Coffee:			
Unroasted	\$ 400.0	\$ 493.0	\$ 590.4
Roasted	189.5	235.4	214.3
Other merchandise held for sale	210.1	243.3	200.7
Packaging and other supplies	155.1	139.5	119.1
Total	<u>\$ 954.7</u>	<u>\$ 1,111.2</u>	<u>\$ 1,124.5</u>

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

As of March 30, 2014, we had committed to purchasing green coffee totaling \$534 million under fixed-price contracts and an estimated \$560 million under price-to-be-fixed contracts. As of March 30, 2014, approximately \$33 million of our price-to-be-fixed contracts were effectively fixed through the use of futures contracts and approximately \$4 million were price-protected through the use of collar instruments. Price-to-be-fixed contracts are purchase commitments whereby the quality, quantity, delivery period, and other negotiated terms are agreed upon, but the date, and therefore the price, at which the base "C" coffee commodity price component will be fixed has not yet been established. For these types of contracts, either Starbucks or the seller has the option to "fix" the base "C" coffee commodity price prior to the delivery date. Until prices are fixed, we estimate the total cost of these purchase commitments. We believe, based on relationships established with our suppliers in the past, the risk of non-delivery on these purchase commitments is remote.

Note 5: Supplemental Balance Sheet Information (in millions)

Property, Plant and Equipment, net	Mar 30, 2014	Sep 29, 2013
Land	\$ 46.9	\$ 47.0
Buildings	277.9	259.6
Leasehold improvements	4,611.1	4,431.6
Store equipment	1,412.3	1,353.9
Roasting equipment	415.4	397.9
Furniture, fixtures and other	1,007.8	949.7
Work in progress	347.3	342.4
Property, plant and equipment, gross	8,118.7	7,782.1
Less accumulated depreciation	(4,840.6)	(4,581.6)
Property, plant and equipment, net	<u>\$ 3,278.1</u>	<u>\$ 3,200.5</u>

Accrued Liabilities	Mar 30, 2014	Sep 29, 2013
Accrued compensation and related costs	\$ 379.1	\$ 420.2
Accrued occupancy costs	114.6	120.7
Accrued taxes	133.6	125.0
Accrued dividend payable	196.1	195.8
Other	436.7	407.6
Total accrued liabilities	<u>\$ 1,260.1</u>	<u>\$ 1,269.3</u>

Note 6: Debt

In December 2013, we issued \$400 million of 3-year 0.875% Senior Notes ("the 2014 3-year notes") due December 2016, and \$350 million of 5-year 2.000% Senior Notes ("the 2014 5-year notes") due December 2018, in an underwritten registered public offering. Interest on both of these notes is payable semi-annually on June 5 and December 5 of each year, commencing on June 5, 2014.

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

Issuance	Due Date	Mar 30, 2014		Sep 29, 2013		Stated Interest Rate	Effective Interest Rate ⁽¹⁾
		Face Value	Estimated Fair Value	Face Value	Estimated Fair Value		
2014 3-year notes	December 2016	\$ 400.0	\$ 400.0	\$ —	\$ —	0.875%	0.941%
2007 notes	August 2017	550.0	636.0	550.0	644.0	6.250%	6.292%
2014 5-year notes	December 2018	350.0	349.0	—	—	2.000%	2.012%
2013 notes	October 2023	750.0	770.0	750.0	762.0	3.850%	2.860%
Total		2,050.0	2,155.0	1,300.0	1,406.0		
Aggregate unamortized discount		2.0		0.6			
Total		\$ 2,048.0		\$ 1,299.4			

⁽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 also require us to maintain compliance with certain covenants, including limits on future liens and sale and leaseback transactions on certain material properties. As of March 30, 2014, we were in compliance with all applicable covenants.

Note 7: Equity

Changes in total equity (*in millions*) :

	Two Quarters Ended	
	Mar 30, 2014	Mar 31, 2013
Beginning balance of total equity	\$ 4,482.3	\$ 5,114.5
Net earnings including noncontrolling interests	967.6	823.1
Other comprehensive income/(loss)	(2.7)	(40.0)
Stock-based compensation expense	92.6	71.9
Exercise of stock options/vesting of RSUs	90.0	205.2
Sale of common stock	11.0	10.2
Repurchase of common stock	(301.2)	(544.1)
Cash dividends declared	(392.5)	(313.3)
Ending balance of total equity	\$ 4,947.1	\$ 5,327.5

Changes in accumulated other comprehensive income ("AOCI") by component, for the quarter and two quarters ended March 30, 2014, net of tax:

Quarter Ended

<i>(in millions)</i>	Available-for-Sale Securities	Cash Flow Hedges	Net Investment Hedges	Translation Adjustment	Total
Net gains/(losses) in AOCI at December 29, 2013	\$ (1.7)	\$ 42.2	\$ (6.7)	\$ 34.9	\$ 68.7
Net gains/(losses) recognized in OCI before reclassifications	0.7	6.0	(2.5)	(7.4)	(3.2)
Net (gains)/losses reclassified from AOCI to earnings	0.2	(1.4)	—	—	(1.2)
Other comprehensive income/(loss)	0.9	4.6	(2.5)	(7.4)	(4.4)
Net gains/(losses) in AOCI at March 30, 2014	<u>\$ (0.8)</u>	<u>\$ 46.8</u>	<u>\$ (9.2)</u>	<u>\$ 27.5</u>	<u>\$ 64.3</u>

Two Quarters Ended

<i>(in millions)</i>	Available-for-Sale Securities	Cash Flow Hedges	Net Investment Hedges	Translation Adjustment	Total
Net gains/(losses) in AOCI at September 29, 2013	\$ (0.5)	\$ 26.8	\$ (12.9)	\$ 53.6	\$ 67.0
Net gains/(losses) recognized in OCI before reclassifications	(0.5)	13.9	3.7	(26.1)	(9.0)
Net (gains)/losses reclassified from AOCI to earnings	0.2	6.1	—	—	6.3
Other comprehensive income/(loss)	(0.3)	20.0	3.7	(26.1)	(2.7)
Net gains/(losses) in AOCI at March 30, 2014	<u>\$ (0.8)</u>	<u>\$ 46.8</u>	<u>\$ (9.2)</u>	<u>\$ 27.5</u>	<u>\$ 64.3</u>

Impact of reclassifications from AOCI on the consolidated statements of earnings related to cash flow hedges for the quarter and two quarters ended March 30, 2014 :

Quarter Ended

AOCI Components	Amounts Reclassified from AOCI <i>(in millions)</i>	Affected Line Item in the Statements of Earnings
Gains/(losses) on cash flow hedges		
Interest rate hedges	\$ 1.3	Interest expense
Foreign currency hedges	1.3	Revenue
Foreign currency/coffee hedges	(0.1)	Cost of sales including occupancy costs
	2.5	Total before tax
	(1.1)	Tax (expense)/benefit
	<u>\$ 1.4</u>	Net of tax

Two Quarters Ended

AOCI Components	Amounts Reclassified from AOCI (in millions)	Affected Line Item in the Statements of Earnings
Gains/(losses) on cash flow hedges		
Interest rate hedges	\$ 2.5	Interest expense
Foreign currency hedges	2.3	Revenue
Foreign currency / coffee hedges	(9.9)	Cost of sales including occupancy costs
	(5.1)	Total before tax
	(1.0)	Tax (expense)/benefit
	\$ (6.1)	Net of tax

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 30, 2014 .

We repurchased 4.1 million shares of common stock at a total cost of \$301.2 million , and 10.8 million shares at a total cost of \$544.1 million for the two quarters ended March 30, 2014 and March 31, 2013 , respectively. As of March 30, 2014 , 22.3 million shares remained available for repurchase under current authorizations.

During the second quarter of fiscal 2014 , our Board of Directors declared a quarterly cash dividend to shareholders of \$0.26 per share to be paid on May 23, 2014 to shareholders of record as of the close of business on May 8, 2014 .

Note 8: Employee Stock Plans

As of March 30, 2014 , there were 56.2 million shares of common stock available for issuance pursuant to future equity-based compensation awards and 7.6 million shares available for issuance under our employee stock purchase plan.

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

	Quarter Ended		Two Quarters Ended	
	Mar 30, 2014	Mar 31, 2013	Mar 30, 2014	Mar 31, 2013
Options	\$ 9.7	\$ 7.9	\$ 22.5	\$ 19.8
Restricted Stock Units ("RSUs")	34.1	25.6	69.1	51.1
Total stock-based compensation	\$ 43.8	\$ 33.5	\$ 91.6	\$ 70.9

Stock option and RSU transactions from September 29, 2013 through March 30, 2014 (in millions):

	Stock Options	RSUs
Options outstanding/Nonvested RSUs, September 29, 2013	22.0	5.8
Granted	3.0	2.4
Options exercised/RSUs vested	(3.2)	(2.5)
Forfeited/expired	(0.3)	(0.4)
Options outstanding/Nonvested RSUs, March 30, 2014	21.5	5.3
Total unrecognized stock-based compensation expense, net of estimated forfeitures, as of March 30, 2014	\$ 51.9	\$ 153.0

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 30, 2014	Mar 31, 2013	Mar 30, 2014	Mar 31, 2013
Net earnings attributable to Starbucks	\$ 427.0	\$ 390.4	\$ 967.6	\$ 822.5
Weighted average common shares outstanding (for basic calculation)	755.2	749.1	755.0	747.6
Dilutive effect of outstanding common stock options and RSUs	9.4	12.2	10.4	13.7
Weighted average common and common equivalent shares outstanding (for diluted calculation)	764.6	761.3	765.4	761.3
EPS — basic	\$ 0.57	\$ 0.52	\$ 1.28	\$ 1.10
EPS — diluted	\$ 0.56	\$ 0.51	\$ 1.26	\$ 1.08

Potential dilutive shares consist of the incremental common shares issuable upon the exercise of outstanding stock options (both vested and non-vested) and unvested RSUs, calculated using the treasury stock method. The calculation of dilutive shares outstanding excludes out-of-the-money stock options (i.e., such options’ exercise prices were greater than the average market price of our common shares for the period) because their inclusion would have been antidilutive. Out-of-the-money stock options totaled approximately 2.8 million and less than 0.1 million as of March 30, 2014 and March 31, 2013, respectively.

Note 10: Commitments and Contingencies**Legal Proceedings**

On November 12, 2013, the arbitrator in our arbitration with Kraft Foods Global, Inc. (now known as Kraft Foods Group, Inc.) (“Kraft”) ordered Starbucks to pay Kraft \$2,227.5 million in damages plus prejudgment interest and attorneys’ fees. We estimated prejudgment interest, which included an accrual through the estimated payment date, and attorneys’ fees to be approximately \$556.6 million. As a result, we recorded a litigation charge of \$2,784.1 million in our fiscal 2013 operating results.

In the first quarter of fiscal 2014, Starbucks paid all amounts due to Kraft under the arbitration, including prejudgment interest and attorneys’ fees, and fully extinguished the litigation charge liability. Of the \$2,784.1 million litigation charge accrued in the fourth quarter of fiscal 2013, \$2,763.9 million was paid and the remainder was released as a litigation credit to reflect a reduction to our estimated prejudgment interest payable as a result of paying our obligation earlier than anticipated.

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

The table below presents financial information for our reportable operating segments and All Other Segments for the quarter and two quarters ended March 30, 2014 and March 31, 2013, including reclassifications resulting from the correction of the immaterial error discussed in Note 1. The reclassifications for fiscal years 2013 and 2012 were \$21.8 million and \$19.2 million for the Channel Development segment, respectively, and \$3.6 million and \$3.5 million for All Other Segments, respectively. The reclassifications for the quarter and two quarters ended March 31, 2013 were \$5.4 million and \$10.9 million for the Channel Development segment, respectively, and \$0.9 million and \$1.8 million for All Other Segments, respectively.

Quarter Ended

<i>(in millions)</i>	Americas	EMEA	China / Asia Pacific	Channel Development	All Other Segments	Segment Total
<i>March 30, 2014</i>						
Total net revenues	\$ 2,808.8	\$ 309.9	\$ 265.3	\$ 370.4	\$ 119.4	\$ 3,873.8
Depreciation and amortization expenses	114.8	14.8	11.8	0.4	3.7	145.5
Income from equity investees	—	1.1	37.4	21.4	—	59.9
Operating income/(loss)	605.6	17.7	87.0	127.3	(7.8)	829.8
<i>March 31, 2013</i>						
Total net revenues	\$ 2,604.1	\$ 273.2	\$ 213.6	\$ 338.1	\$ 120.6	\$ 3,549.6
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

Two Quarters Ended

<i>(in millions)</i>	Americas	EMEA	China / Asia Pacific	Channel Development	All Other Segments	Segment Total
<i>March 30, 2014</i>						
Total net revenues	\$ 5,881.7	\$ 649.5	\$ 532.2	\$ 771.5	\$ 278.5	\$ 8,113.4
Depreciation and amortization expenses	227.1	29.4	22.0	0.8	7.3	286.6
Income from equity investees	—	1.9	70.5	38.6	—	111.0
Operating income	1,337.6	51.2	168.0	246.2	6.1	1,809.1
<i>March 31, 2013</i>						
Total net revenues	\$ 5,444.7	\$ 579.3	\$ 427.7	\$ 712.5	\$ 178.5	\$ 7,342.7
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

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

	Quarter Ended		Two Quarters Ended	
	Mar 30, 2014	Mar 31, 2013	Mar 30, 2014	Mar 31, 2013
Total segment operating income	\$ 829.8	\$ 713.2	\$ 1,809.1	\$ 1,490.5
Unallocated corporate operating expenses	(185.7)	(169.1)	(351.4)	(315.9)
Consolidated operating income	644.1	544.1	1,457.7	1,174.6
Interest income and other, net	17.8	50.8	37.6	48.0
Interest expense	(16.7)	(6.1)	(31.3)	(12.7)
Earnings before income taxes	\$ 645.2	\$ 588.8	\$ 1,464.0	\$ 1,209.9

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, profitability, 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, 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, the potential issuance of debt and applicable interest rate, 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.

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 reflect improvements across all segments. Consolidated total net revenues increased 9% to \$3.9 billion, driven by global comparable store sales growth of 6%. Consolidated operating income increased \$100 million, or 18%, to \$644 million. Operating margin expanded across all reportable segments, contributing to a consolidated operating margin of 16.6%, reflecting growth of 130 basis points over the prior year quarter. Earnings per share of \$0.56 increased 10% over the prior year quarter earnings per share of \$0.51, which included a \$0.03 per share gain on the sale of our equity interest in our Mexico joint venture operations.

The Americas segment continued its solid performance in the second quarter, growing revenues by 8% to \$2.8 billion, primarily driven by comparable store sales growth of 6%, comprised of a 3% increase in average ticket and a 2% increase in number of transactions. Successful promotional beverages and expanded food offerings, including the rollout of our La Boulange™ food platform in the US, contributed to the growth in comparable store sales. Operating margin expanded 50 basis points to 21.6%, primarily due to lower commodity costs, mainly coffee. Looking forward, we expect to continue to drive revenue growth and margin expansion through new stores and expanded product offerings. We plan to continue elevating our food program, in part with the completion of the rollout of La Boulange™ bakery items in our US stores and enhancements to our lunch options.

In the EMEA segment, the combination of solid company-operated and licensed store growth drove increased revenues and profitability. Revenues grew 13% to \$310 million, driven by favorable foreign currency exchange and comparable store sales growth of 6%, the highest growth in the region in fourteen quarters. Incremental revenues from 168 net new licensed store openings over the past year also contributed. Sales leverage, largely driven by our strategic portfolio shift to higher margin licensed stores, and continued cost management drove the increase in operating margin of 380 basis points over the prior year quarter, to 5.7%. We expect continued disciplined licensed store expansion and a focus on the customer experience in this region will result in improved operating performance as we progress on our plan towards mid-teens operating margin over time.

The China/Asia Pacific segment leveraged strong sales in the quarter to offset the unfavorable margin impact of the portfolio shift toward more company-operated stores in this segment. New store growth, along with a 7% increase in comparable store sales, drove a 24% increase in revenues to \$265 million. The 7% growth in comparable store sales was driven by an increase in number of transactions. Operating income grew 27% to \$87 million, while operating margin expanded 80 basis points to 32.8%, primarily driven by sales leverage. We expect this segment will become a more meaningful contributor to overall company profitability in the future, as we look forward to continued new store openings and establishing China as our largest market outside of the US.

Channel Development segment revenues grew 10% for the quarter to \$370 million, primarily due to increased sales of premium single serve products, driven by sales of Starbucks- and Tazo-branded K-Cup[®] portion packs. Operating income grew \$33 million, or 35%, to \$127 million. Operating margin increased 660 basis points to 34.4% for the second quarter of fiscal 2014, primarily driven by lower coffee costs and sales leverage. As we continue to expand customer occasions outside of our retail stores, including growing our presence in the premium single serve category, we expect this segment to become a more significant contributor to future growth.

Fiscal 2014 — Financial Outlook for the Year

For fiscal year 2014, we expect revenue growth will be driven by mid-single digit comparable store sales growth, new store openings, and continued growth in the Channel Development business. Approximately one-half of new store openings will be in China / Asia Pacific, with the remaining half coming primarily from the Americas.

We expect full-year consolidated operating margin improvement of 175 to 200 basis points over fiscal 2013 and strong EPS growth when excluding the Kraft litigation charge and gains from the sales of our equity in our Mexico, Chile and Argentina joint ventures in fiscal 2013.

Comparable Store Sales

Starbucks comparable store sales for the second quarter and the first two quarters of fiscal 2014 :

	Quarter Ended Mar 30, 2014			Two Quarters Ended Mar 30, 2014		
	Sales Growth	Change in Transactions	Change in Ticket	Sales Growth	Change in Transactions	Change in Ticket
Consolidated	6%	3%	3%	6%	3%	2%
Americas	6%	2%	3%	5%	3%	2%
EMEA	6%	5%	1%	5%	4%	1%
China/Asia Pacific	7%	7%	—%	7%	7%	1%

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

Results of Operations (in millions)

Revenues

	Quarter Ended			Two Quarters Ended		
	Mar 30, 2014	Mar 31, 2013	% Change	Mar 30, 2014	Mar 31, 2013	% Change
Company-operated stores	\$ 3,068.0	\$ 2,807.7	9.3%	\$ 6,411.8	\$ 5,797.3	10.6%
Licensed stores	356.2	322.1	10.6	758.0	672.2	12.8
CPG, foodservice and other	449.6	419.8	7.1	943.6	873.2	8.1
Total net revenues	\$ 3,873.8	\$ 3,549.6	9.1%	\$ 8,113.4	\$ 7,342.7	10.5%

Total net revenues for the second quarter and the first two quarters of fiscal 2014 increased \$324 million and \$771 million, respectively, primarily due to increased revenues from company-operated stores (contributing \$260 million and \$614 million, respectively). An increase in comparable store sales was the primary driver of the increase in company-operated store revenues (approximately 6% for both periods, or \$152 million for the second quarter and \$312 million for the first two quarters). Also contributing to net revenue growth for both periods were incremental revenues from 551 net new Starbucks[®] company-operated store openings over the past 12 months (approximately \$127 million for the second quarter and \$253 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 2014 (approximately \$34 million for the second quarter and \$86 million for the first two quarters). The increase for both periods was primarily due to increased product sales to and royalty revenues from our licensees, as a result of improved comparable store sales and the opening of 1,054 net new licensed stores over the past 12 months.

CPG, foodservice and other revenues increased \$30 million and \$70 million for the second quarter and the first two quarters of fiscal 2014, respectively. These increases were primarily due to increased sales of premium single serve products (approximately \$23 million and \$48 million, respectively).

Operating Expenses

	Quarter Ended				Two Quarters Ended			
	Mar 30, 2014	Mar 31, 2013	Mar 30, 2014	Mar 31, 2013	Mar 30, 2014	Mar 31, 2013	Mar 30, 2014	Mar 31, 2013
	% of Total Net Revenues				% of Total Net Revenues			
Cost of sales including occupancy costs	\$ 1,629.2	\$ 1,530.4	42.1%	43.1%	\$ 3,424.2	\$ 3,151.1	42.2 %	42.9%
Store operating expenses	1,134.5	1,038.4	29.3	29.3	2,309.6	2,127.9	28.5	29.0
Other operating expenses	110.9	105.8	2.9	3.0	225.8	231.9	2.8	3.2
Depreciation and amortization expenses	174.4	153.1	4.5	4.3	344.1	302.0	4.2	4.1
General and administrative expenses	240.6	230.3	6.2	6.5	483.2	462.2	6.0	6.3
Litigation charge/(credit)	—	—	—	—	(20.2)	—	(0.2)	—
Total operating expenses	3,289.6	3,058.0	84.9	86.2	6,766.7	6,275.1	83.4	85.5
Income from equity investees	59.9	52.5	1.5	1.5	111.0	107.0	1.4	1.5
Operating income	\$ 644.1	\$ 544.1	16.6%	15.3%	\$ 1,457.7	\$ 1,174.6	18.0 %	16.0%
Store operating expenses as a % of related revenues			37.0%	37.0%			36.0 %	36.7%

Cost of sales including occupancy costs as a percentage of total net revenues decreased 100 basis points and 70 basis points for the second quarter and first two quarters of fiscal 2014, respectively, primarily driven by lower commodity costs (approximately 100 basis points for the second quarter and 90 basis points for the first two quarters), mainly coffee.

Store operating expenses as a percentage of total net revenues were flat for the second quarter and decreased 50 basis points for the first two quarters of fiscal 2014. Store operating expenses as a percentage of company-operated store revenues were flat for the second quarter and decreased 70 basis points for the first two quarters of fiscal 2014. The decrease for the first two quarters of fiscal 2014 was primarily driven by higher litigation charges in the first quarter of the prior year period (approximately 40 basis points) and a decrease in marketing (approximately 20 basis points), largely due to lapping the prior year launch of the Verismo[®] system by Starbucks in company-operated stores.

Other operating expenses as a percentage of total net revenues decreased 10 basis points for the second quarter and 40 basis points for the first two quarters of fiscal 2014. Excluding the impact of company-operated store revenues, other operating expenses decreased 50 basis points for the second quarter and 170 basis points for the first two quarters of fiscal 2014, primarily due to decreased marketing (approximately 20 basis points for the second quarter and 60 basis points for the first two quarters). The decrease for the first two quarters of fiscal 2014 was primarily attributable to the timing of product launches in Channel Development. Sales leverage from licensed store revenue growth (approximately 20 basis points for the second quarter and 30 basis points for the first two quarters) also contributed to the decreases.

General and administrative expenses as a percentage of total net revenues decreased 30 basis points for both the second quarter and the first two quarters of fiscal 2014. The decrease for the second quarter was primarily due to increased sales leverage. The decrease for the first two quarters was primarily due to lapping our leadership conference held in the first quarter of the prior year period.

The \$20.2 million litigation credit (contributing approximately 20 basis points for the first two quarters of fiscal 2014) reflects a reduction to our estimated prejudgment interest payable associated with the Kraft arbitration in the first quarter of fiscal 2014, as a result of paying our obligation earlier than anticipated. The \$2.8 billion litigation charge was accrued in the fourth quarter of fiscal 2013 and fully extinguished in the first quarter of fiscal 2014.

The combination of these changes resulted in an overall increase in operating margin of 130 basis points for the second quarter and 200 basis points for the first two quarters of fiscal 2014 .

Other Income and Expenses

	Quarter Ended				Two Quarters Ended			
	Mar 30, 2014	Mar 31, 2013	Mar 30, 2014	Mar 31, 2013	Mar 30, 2014	Mar 31, 2013	Mar 30, 2014	Mar 31, 2013
	% of Total Net Revenues				% of Total Net Revenues			
Operating income	\$ 644.1	\$ 544.1	16.6 %	15.3 %	\$ 1,457.7	\$ 1,174.6	18.0 %	16.0 %
Interest income and other, net	17.8	50.8	0.5	1.4	37.6	48.0	0.5	0.7
Interest expense	(16.7)	(6.1)	(0.4)	(0.2)	(31.3)	(12.7)	(0.4)	(0.2)
Earnings before income taxes	645.2	588.8	16.7	16.6	1,464.0	1,209.9	18.0	16.5
Income taxes	218.3	198.1	5.6	5.6	496.4	386.8	6.1	5.3
Net earnings including noncontrolling interests	426.9	390.7	11.0	11.0	967.6	823.1	11.9	11.2
Net earnings attributable to noncontrolling interests	(0.1)	0.3	—	—	—	0.6	—	—
Net earnings attributable to Starbucks	\$ 427.0	\$ 390.4	11.0 %	11.0 %	\$ 967.6	\$ 822.5	11.9 %	11.2 %
Effective tax rate including noncontrolling interests			33.8 %	33.6 %			33.9 %	32.0 %

For the second quarter and first two quarters of fiscal 2014 , net interest income and other decreased \$33 million and \$10 million , respectively. These decreases were primarily due to lapping the gain on the sale of our equity in the joint venture that operates Starbucks[®] stores in Mexico in the prior year quarter (approximately \$35 million). Also contributing to the decreases were unrealized losses on our trading securities portfolio (approximately \$14 million for the second quarter and \$10 million for the first two quarters), partially offset by favorable mark-to-market adjustments from derivatives used to manage our risk of commodity price fluctuations (approximately \$8 million for the second quarter and \$17 million for the first two quarters).

Interest expense increased \$11 million for the second quarter and \$19 million for the first two quarters of fiscal 2014 , respectively, due to interest on the long-term debt we issued in the first quarter of fiscal 2014 and the fourth quarter of fiscal 2013.

The effective tax rate for the quarter ended March 30, 2014 was 33.8% compared to 33.6% for the same quarter in fiscal 2013 . The slight increase in the rate was driven by the release of a capital loss valuation allowance in the prior year period. The effective tax rate for the two quarters ended March 30, 2014 was 33.9% compared to 32.0% for the same period in fiscal 2013 . The increase in the rate for the first two quarters of fiscal 2014 was primarily due to lapping 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

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

Americas

	Quarter Ended				Two Quarters Ended			
	Mar 30, 2014	Mar 31, 2013	Mar 30, 2014	Mar 31, 2013	Mar 30, 2014	Mar 31, 2013	Mar 30, 2014	Mar 31, 2013
	% of Americas Net Revenues				% of Americas Net Revenues			
Total net revenues	\$ 2,808.8	\$ 2,604.1			\$ 5,881.7	\$ 5,444.7		
Cost of sales including occupancy costs	1,059.6	1,000.0	37.7%	38.4%	2,223.8	2,092.5	37.8%	38.4%
Store operating expenses	963.9	891.9	34.3	34.2	1,963.5	1,851.7	33.4	34.0
Other operating expenses	23.7	21.2	0.8	0.8	49.0	51.2	0.8	0.9
Depreciation and amortization expenses	114.8	105.6	4.1	4.1	227.1	211.0	3.9	3.9
General and administrative expenses	41.2	38.1	1.5	1.5	80.7	100.9	1.4	1.9
Total operating expenses	2,203.2	2,056.8	78.4	79.0	4,544.1	4,307.3	77.3	79.1
Income from equity investees	—	2.4	—	0.1	—	2.4	—	—
Operating income	\$ 605.6	\$ 549.7	21.6%	21.1%	\$ 1,337.6	\$ 1,139.8	22.7%	20.9%
Store operating expenses as a % of related revenues			37.6%	37.5%			36.7%	37.3%

Revenues

Americas total net revenues for the second quarter and the first two quarters of fiscal 2014 increased 8% for both periods or \$205 million and \$437 million, respectively. These increases were primarily due to higher revenues from company-operated stores (contributing \$185 million and \$386 million, respectively) and licensed stores (contributing \$21 million and \$56 million, respectively).

The increase in company-operated store revenues for both periods was driven by an increase in comparable store sales (approximately 6%, or \$129 million, for the second quarter and approximately 5%, or \$265 million, for the first two quarters). Also contributing were incremental revenues from 311 net new Starbucks® company-operated store openings over the past 12 months (approximately \$88 million and \$178 million, respectively). Partially offsetting these increases was unfavorable foreign currency exchange (approximately \$21 million and \$37 million, respectively), primarily driven by the strengthening of the US dollar against the Canadian dollar.

The increases in licensed store revenues were primarily due to increased product sales to and higher royalty revenues from our licensees, as a result of improved comparable store sales and the opening of 456 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 70 basis points and 60 basis points for the second quarter and the first two quarters of fiscal 2014, respectively. These decreases were primarily driven by lower commodity costs (approximately 60 basis points for the second quarter and 50 basis points for the first two quarters). Sales leverage on occupancy costs also contributed.

Store operating expenses as a percentage of total net revenues and as a percentage of company-operated store revenues, increased 10 basis points for the second quarter and decreased 60 basis points for the first two quarters of fiscal 2014. The slight increase for the second quarter was primarily driven by timing of marketing (20 basis points). The decrease for the first two quarters of fiscal 2014 was primarily driven by higher litigation charges in the first quarter of the prior year period (approximately 40 basis points) and a decrease in marketing (approximately 20 basis points), largely due to lapping the prior year launch of the Verismo® system by Starbucks in company-operated stores.

General and administrative expenses as a percentage of total net revenues were flat for the second quarter and decreased 50 basis points for the first two quarters of fiscal 2014, primarily due to lapping our leadership conference held in the first quarter of the prior year period (approximately 40 basis points).

The combination of these changes resulted in an overall increase in operating margin of 50 basis points for the second quarter and 180 basis points for the first two quarters of fiscal 2014.

EMEA

	Quarter Ended				Two Quarters Ended			
	Mar 30, 2014	Mar 31, 2013	Mar 30, 2014	Mar 31, 2013	Mar 30, 2014	Mar 31, 2013	Mar 30, 2014	Mar 31, 2013
	% of EMEA Net Revenues				% of EMEA Net Revenues			
Total net revenues	\$ 309.9	\$ 273.2			\$ 649.5	\$ 579.3		
Cost of sales including occupancy costs	158.3	140.8	51.1%	51.5%	326.5	293.3	50.3%	50.6%
Store operating expenses	92.4	83.2	29.8	30.5	188.8	173.5	29.1	29.9
Other operating expenses	11.8	10.7	3.8	3.9	23.4	19.1	3.6	3.3
Depreciation and amortization expenses	14.8	13.7	4.8	5.0	29.4	27.9	4.5	4.8
General and administrative expenses	16.0	19.6	5.2	7.2	32.1	38.0	4.9	6.6
Total operating expenses	293.3	268.0	94.6	98.1	600.2	551.8	92.4	95.3
Income from equity investees	1.1	—	0.4	—	1.9	—	0.3	—
Operating income	\$ 17.7	\$ 5.2	5.7%	1.9%	\$ 51.2	\$ 27.5	7.9%	4.7%
Store operating expenses as a % of related revenues			37.6%	38.0%			36.7%	36.8%

Revenues

EMEA total net revenues increased \$37 million , or 13% , for the second quarter of fiscal 2014 and increased \$70 million , or 12% , for the first two quarters of fiscal 2014 . These increases were primarily due to higher revenues from company-operated stores (contributing \$27 million and \$43 million, respectively). These increases were driven by an increase in comparable store sales (approximately 6%, or \$12 million, for the second quarter and approximately 5%, or \$24 million, for the first two quarters) and favorable foreign currency exchange (approximately \$12 million and \$19 million, respectively), primarily driven by the weakening of the US dollar against the British pound.

Licensed store revenues grew (approximately \$8 million, or 18%, for the second quarter and \$25 million , or 28% , for the first two quarters), due to increased equipment and product sales to and higher royalty revenues from our licensees, primarily from the opening of 168 net new licensed stores over the past 12 months and improved comparable store sales.

Operating Expenses

Cost of sales including occupancy costs as a percentage of total net revenues decreased 40 basis points for the second quarter and 30 basis points for the first two quarters of fiscal 2014 , primarily driven by sales leverage and continued cost management (approximately 110 basis points for the second quarter and 100 basis points for the first two quarters). Also contributing to the decreases were lapping higher inventory reserves in the prior year (approximately 80 basis points for the second quarter and 40 basis points for the first two quarters) and lower coffee costs (approximately 60 basis points for both periods), partially offset by lapping a reduction to the estimated asset retirement obligations of our store leases in the region in the second quarter of fiscal 2013 (approximately 190 basis points for the second quarter and 80 basis points for the first two quarters).

Store operating expenses as a percentage of total net revenues decreased 70 basis points and 80 basis points for the second quarter and the first two quarters of fiscal 2014 , respectively. These decreases were driven by sales leverage. As a percentage of company-operated store revenues, store operating expenses decreased 40 basis points for the second quarter and 10 basis point for the first two quarters of fiscal 2014.

Other operating expenses as a percentage of total net revenues decreased 10 basis points for the second quarter and increased 30 basis points for the first two quarters of fiscal 2014 . Excluding the impact of company-operated store revenues, other operating expenses decreased 140 basis points for the second quarter and 50 basis points for the first two quarters, primarily driven by sales leverage and continued cost management (approximately 100 basis points for both periods).

General and administrative expenses as a percentage of total net revenues decreased 200 basis points and 170 basis points for the second quarter and the first two quarters of fiscal 2014 , respectively. These decreases were primarily due to sales leverage

and reduced support costs, largely driven by the shift to more licensed stores (approximately 180 basis points for the second quarter and 170 basis points for the first two quarters of fiscal 2014).

The combination of these changes resulted in an overall increase in operating margin of 380 basis points for the second quarter and 320 basis points for the first two quarters of fiscal 2014 .

China / Asia Pacific

	Quarter Ended				Two Quarters Ended			
	Mar 30, 2014	Mar 31, 2013	Mar 30, 2014	Mar 31, 2013	Mar 30, 2014	Mar 31, 2013	Mar 30, 2014	Mar 31, 2013
	% of CAP Net Revenues				% of CAP Net Revenues			
Total net revenues	\$ 265.3	\$ 213.6			\$ 532.2	\$ 427.7		
Cost of sales including occupancy costs	127.4	104.9	48.0%	49.1%	260.2	211.4	48.9%	49.4%
Store operating expenses	52.4	40.3	19.8	18.9	103.7	79.7	19.5	18.6
Other operating expenses	11.1	11.5	4.2	5.4	21.7	21.7	4.1	5.1
Depreciation and amortization expenses	11.8	8.5	4.4	4.0	22.0	15.9	4.1	3.7
General and administrative expenses	13.0	10.9	4.9	5.1	27.1	23.5	5.1	5.5
Total operating expenses	215.7	176.1	81.3	82.4	434.7	352.2	81.7	82.3
Income from equity investees	37.4	30.8	14.1	14.4	70.5	64.9	13.2	15.2
Operating income	\$ 87.0	\$ 68.3	32.8%	32.0%	\$ 168.0	\$ 140.4	31.6%	32.8%
Store operating expenses as a % of related revenues			25.9%	25.8%			25.7%	26.0%

Revenues

China/Asia Pacific total net revenues for the second quarter and the first two quarters of fiscal 2014 increased \$52 million , or 24% , and \$105 million , or 24% , respectively, primarily due to increased revenues from company-operated stores (contributing \$46 million for the second quarter and \$97 million for the first two quarters). The increases in company-operated store revenues were primarily driven by the opening of 241 net new company-operated stores over the past 12 months (approximately \$37 million for the second quarter and \$75 million for the first two quarters) and an increase in comparable store sales (approximately 7% for both periods, or \$11 million for the second quarter and \$23 million for the first two quarters).

Operating Expenses

Cost of sales including occupancy costs as a percentage of total net revenues decreased 110 basis points for the second quarter of fiscal 2014 and 50 basis points for the first two quarters of fiscal 2014, primarily due to sales leverage.

Store operating expenses as a percentage of total net revenues increased 90 basis points for both the second quarter and the first two quarters of fiscal 2014 . As a percentage of company-operated store revenues, store operating expenses increased 10 basis points for the second quarter, primarily driven by increased costs associated with company-operated store growth (approximately 50 basis points), partially offset by an insurance claim credit in the current quarter (approximately 40 basis points). As a percentage of company-operated store revenues, store operating expenses decreased 30 basis points for the first two quarters of fiscal 2014, primarily driven by the insurance claim credit in the second quarter of fiscal 2014 (approximately 20 basis points).

Other operating expenses as a percentage of total net revenues decreased 120 basis points for the second quarter of fiscal 2014 and 100 basis points for the first two quarters of fiscal 2014. Excluding the impact of company-operated store revenues, other operating expenses decreased 240 basis points for the second quarter and 110 basis points for the first two quarters. These decreases were primarily due to sales leverage.

Income from equity investees increased \$7 million for the second quarter of fiscal 2014 and \$6 million for the first two quarters of fiscal 2014, driven by higher income from our joint venture operations, mainly in South Korea and China, partially offset by unfavorable foreign currency fluctuations due to the weakening of the Yen against the US dollar. These fluctuations, paired with the accelerated growth in segment revenues resulting from the shift in the composition of the store portfolio to more company-operated stores, resulted in income from equity investees declining as a percentage of total net revenues.

The changes in the above items resulted in an overall increase in operating margin of 80 basis points for the second quarter of fiscal 2014 and a decrease of 120 basis points for the first two quarters of 2014.

Channel Development

	Quarter Ended				Two Quarters Ended			
	Mar 30, 2014	Mar 31, 2013	Mar 30, 2014	Mar 31, 2013	Mar 30, 2014	Mar 31, 2013	Mar 30, 2014	Mar 31, 2013
	% of Channel Development Net Revenues				% of Channel Development Net Revenues			
Total net revenues	\$ 370.4	\$ 338.1			\$ 771.5	\$ 712.5		
Cost of sales	213.6	212.6	57.7%	62.9%	459.2	447.8	59.5%	62.8%
Other operating expenses	46.6	43.9	12.6	13.0	94.6	101.5	12.3	14.2
Depreciation and amortization expenses	0.4	0.3	0.1	0.1	0.8	0.6	0.1	0.1
General and administrative expenses	3.9	6.5	1.1	1.9	9.3	11.3	1.2	1.6
Total operating expenses	264.5	263.3	71.4	77.9	563.9	561.2	73.1	78.8
Income from equity investees	21.4	19.3	5.8	5.7	38.6	39.7	5.0	5.6
Operating income	\$ 127.3	\$ 94.1	34.4%	27.8%	\$ 246.2	\$ 191.0	31.9%	26.8%

Revenues

Total Channel Development net revenues for the second quarter and the first two quarters of fiscal 2014 increased \$32 million , or 10% , and \$59 million , or 8% , respectively, primarily driven by increased sales of premium single serve products (approximately \$23 million for the second quarter and \$48 million for the first two quarters). Also contributing was an increase in foodservice revenues (approximately \$5 million for the second quarter and \$13 million for the first two quarters) driven by increased sales volumes compared to the prior year period. The increased sales for the first two quarters of fiscal 2014 were partially offset by the impact of the packaged coffee list price reductions (approximately \$14 million) effective beginning in the third quarter of fiscal 2013.

Operating Expenses

Cost of sales as a percentage of total net revenues decreased 520 basis points for the second quarter and 330 basis points for the first two quarters of fiscal 2014 . The decrease was primarily driven by lower coffee costs (approximately 510 basis points for the second quarter and 420 basis points for the first two quarters). The decrease for the first two quarters was partially offset by the impact of the list price reductions on total net revenues (approximately 100 basis points).

Other operating expenses as a percentage of total net revenues decreased 40 basis points for the second quarter and 190 basis points for the first two quarters of fiscal 2014 . The decrease for the second quarter was primarily due to sales leverage. The decrease for the first two quarters was primarily due to decreased marketing (approximately 100 basis points), largely due to the timing of product launches.

Income from equity investees increased \$2 million for the second quarter of fiscal 2014 and decreased \$1 million for the first two quarters of fiscal 2014. The increase for the second quarter was a result of higher income from our North American Coffee Partnership joint venture, primarily due to strong sales of bottled Frappuccino[®] and iced coffee drinks. The decrease for the first two quarters was a result of lower income from our North American Coffee Partnership joint venture, driven by increased investment in support of new product innovation platforms in the first quarter of fiscal 2014. The growth in segment revenues also contributed to our joint venture income declining as a percentage of total net revenues for the first two quarters of fiscal 2014.

The combination of these changes resulted in an overall increase in operating margin of 660 basis points for the second quarter and 510 basis points for the first two quarters of fiscal 2014 .

All Other Segments

	Quarter Ended			Two Quarters Ended		
	Mar 30, 2014	Mar 31, 2013	% Change	Mar 30, 2014	Mar 31, 2013	% Change
Total net revenues	\$ 119.4	\$ 120.6	(1.0)%	\$ 278.5	\$ 178.5	56.0 %
Cost of sales	68.8	69.7	(1.3)	151.3	106.0	42.7
Store operating expenses	25.8	23.0	12.2	53.6	23.0	133.0
Other operating expenses	18.0	18.5	(2.7)	37.6	38.4	(2.1)
Depreciation and amortization expenses	3.7	3.4	8.8	7.3	4.3	69.8
General and administrative expenses	10.9	10.1	7.9	22.6	15.0	50.7
Total operating expenses	127.2	124.7	2.0	272.4	186.7	45.9
Operating income/(loss)	\$ (7.8)	\$ (4.1)	90.2%	\$ 6.1	\$ (8.2)	nm

All Other Segments includes Teavana, Seattle's Best Coffee, Evolution Fresh, and Digital Ventures.

Total net revenues for All Other Segments decreased \$1 million for the second quarter of fiscal 2014 and increased \$100 million for the first two quarters of fiscal 2014 . The decrease for the second quarter resulted from lower Seattle's Best Coffee revenues (approximately \$10 million) mostly offset by growth in emerging businesses (approximately \$6 million), including Teavana and Evolution Fresh. The increase for the first two quarters was primarily driven by having an additional quarter of Teavana revenues in fiscal 2014 as Teavana was acquired at the beginning of the second quarter of fiscal 2013 (approximately \$92 million).

Total operating expenses increased \$3 million for the second quarter and \$86 million for the first two quarters of fiscal 2014 . The increase for the second quarter was driven by investments to support our emerging businesses. The increase for the first two quarters was primarily due to having an additional quarter of Teavana expenses in fiscal 2014 as Teavana was acquired at the beginning of the second quarter of fiscal 2013.

Quarterly Store Data

Our store data for the periods presented is as follows:

	Net stores opened/(closed) during the period				Stores open as of	
	Quarter Ended		Two Quarters Ended			
	Mar 30, 2014	Mar 31, 2013	Mar 30, 2014	Mar 31, 2013	Mar 30, 2014	Mar 31, 2013
Americas						
Company-operated stores	59	24	86	50	8,164	7,852
Licensed stores	69	71	184	132	5,599	5,143
Total Americas	128	95	270	182	13,763	12,995
EMEA ⁽¹⁾						
Company-operated stores	1	(4)	4	(24)	842	843
Licensed stores	31	26	92	53	1,223	1,055
Total EMEA	32	22	96	29	2,065	1,898
China / Asia Pacific						
Company-operated stores	53	66	114	113	1,020	779
Licensed stores	121	81	269	159	3,245	2,787
Total China / Asia Pacific	174	147	383	272	4,265	3,566
All Other Segments ⁽²⁾						
Company-operated stores	4	306	11	309	368	323
Licensed stores	(3)	20	(8)	10	58	86
Total All Other Segments	1	326	3	319	426	409
Total Company	335	590	752	802	20,519	18,868

⁽¹⁾EMEA store data has been adjusted for the transfer of certain company-operated stores to licensed stores in the second quarter of fiscal 2014.

⁽²⁾Includes 337 Teavana stores added in the second quarter of fiscal 2013.

Financial Condition, Liquidity and Capital Resources

Investment Overview

Starbucks cash and short-term investments totaled \$1.5 billion and \$3.2 billion as of March 30, 2014 and September 29, 2013, respectively. As discussed below, in the first quarter of fiscal 2014 we paid \$2.8 billion for the Kraft arbitration matter that was accrued in the fourth quarter of fiscal 2013. We actively manage our cash and short-term investments in order to internally fund operating needs, make scheduled interest and principal payments on our borrowings, and return cash to shareholders through common stock cash dividend payments and share repurchases. Our short-term and long-term investments consist of highly liquid available-for-sale securities, including agency obligations, corporate bonds, government treasury securities (foreign and domestic), state and local government obligations, mortgage and asset-backed securities, commercial paper, mutual funds, and certificates of deposit. As of March 30, 2014, approximately \$1.1 billion of cash and investments was held in foreign subsidiaries.

Borrowing Capacity

In December 2013, we issued \$400 million of 3-year 0.875% Senior Notes ("the 2014 3-year notes") due December 2016, and \$350 million of 5-year 2.000% Senior Notes ("the 2014 5-year notes") due December 2018, in an underwritten registered public offering, to fund a portion of the payment required by the arbitration award in the Kraft litigation matter. The remaining net proceeds will be used for general corporate purposes, which may include business expansion, payment of cash dividends on our common stock, the repurchase of common stock under our ongoing share repurchase program, or financing of possible acquisitions. Interest on the notes is payable semi-annually on June 5 and December 5 of each year, commencing on June 5, 2014. See Note 6, Debt, to the condensed consolidated financial statements included in Item 1 of Part I of this 10-Q for details of the components of our long-term debt.

The indentures under which all of our Senior Notes were issued require us to maintain compliance with certain covenants, including limits on future liens and sale and leaseback transactions on certain material properties. As of March 30, 2014, we were in compliance with each of these covenants.

Our \$750 million unsecured, revolving credit facility with various banks, of which \$150 million may be used for issuances of letters of credit, is available for working capital, capital expenditures and other corporate purposes, including acquisitions and share repurchases, and is currently set to mature on February 5, 2018. Starbucks has the option, subject to negotiation and agreement with the related banks, to increase the maximum commitment amount by an additional \$750 million. Borrowings under the credit facility will bear interest at a variable rate based on

LIBOR, and, for US dollar-denominated loans under certain circumstances, a Base Rate (as defined in the credit facility), in each case plus an applicable margin. The applicable margin is based on the better of (i) the Company's long-term credit ratings assigned by Moody's and Standard & Poor's rating agencies, and (ii) the Company's fixed charge coverage ratio, pursuant to a pricing grid set forth in the credit facility. The current applicable margin is 0.795% for Eurocurrency Rate Loans and 0.00% for Base Rate Loans. The credit facility contains provisions requiring us to maintain compliance with certain covenants, including a minimum fixed charge coverage ratio, which measures our ability to cover financing expenses. As of March 30, 2014, we were in compliance with each of these covenants. No amounts were outstanding under our credit facility as of March 30, 2014.

Under our commercial paper program, as approved by our Board of Directors, 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 to be backstopped by available commitments under our credit facility. Currently, we may issue up to \$727 million under our commercial paper program (the \$750 million committed credit facility amount, less \$23 million in outstanding letters of credit). The proceeds from borrowings under our commercial paper program may be used for working capital needs, capital expenditures and other corporate purposes, including acquisitions and share repurchases. In the first quarter of fiscal 2014, we issued and subsequently repaid commercial paper borrowings of \$225 million to fund a portion of the \$2.8 billion payment for the Kraft arbitration matter. We had no borrowings under our commercial paper program during the second quarter of fiscal 2014.

Use of Cash

In the first quarter of fiscal 2014, Starbucks paid all amounts due to Kraft under the arbitration, including prejudgment interest and attorneys' fees, and fully extinguished the litigation charge liability. Of the \$2,784.1 million litigation charge accrued in the fourth quarter of fiscal 2013, \$2,763.9 million was paid and the remainder was released as a litigation credit to reflect a reduction to our estimated prejudgment interest payable as a result of paying our obligation earlier than anticipated.

We expect to use additional available cash and short-term investments, including additional potential future borrowings under the credit facility and commercial paper program, to invest in our core businesses, including new product innovations and related marketing support, as well as other new business opportunities related to our core businesses. We believe that future cash flows generated from operations and existing cash and short-term investments both domestically and internationally will be sufficient to finance capital requirements for our core businesses in those respective markets as well as shareholder distributions for the foreseeable future.

We consider the majority of undistributed earnings of our foreign subsidiaries and equity investees as of March 30, 2014 to be indefinitely reinvested and, accordingly, no US income and foreign withholding taxes have been provided on such earnings. We have not, nor do we anticipate the need to, repatriate funds to the US to satisfy domestic liquidity needs; however, in the event that we need to repatriate all or a portion of our foreign cash to the US we would be subject to additional US income taxes, which could be material. We do not believe it is practical to calculate the potential tax impact of repatriation, as there is a significant amount of uncertainty around the calculation, including the availability and amount of foreign tax credits at the time of repatriation, tax rates in effect, and other indirect tax consequences associated with repatriation.

We may use our available cash resources to make proportionate capital contributions to our equity method and cost method investees. We may also seek strategic acquisitions to leverage existing capabilities and further build our business in support of our growth agenda. Acquisitions may include increasing our ownership interests in our equity method and cost method investees. Any decisions to increase such ownership interests will be driven by valuation and fit with our ownership strategy. Significant new joint ventures, acquisitions and/or other new business opportunities may require additional outside funding.

Other than normal operating expenses, cash requirements for the remainder of fiscal 2014 are expected to consist primarily of capital expenditures for remodeling and refurbishment of, and equipment upgrades for, existing company-operated stores; new company-operated stores; systems and technology investments in the stores and in the support infrastructure; and additional investments in manufacturing capacity. Total capital expenditures for fiscal 2014 are expected to be approximately \$1.2 billion .

During the second quarter of fiscal 2014 , our Board of Directors declared a quarterly cash dividend to shareholders of \$0.26 per share to be paid on May 23, 2014 to shareholders of record as of the close of business on May 8, 2014 . We repurchased 4.1 million shares of common stock (\$301.2 million) during the first two quarters of fiscal 2014 under share repurchase authorizations. The number of remaining shares authorized for repurchase as of March 30, 2014 totaled 22.3 million .

Cash Flows

Cash used by operating activities was \$983.5 million for the first two quarters of fiscal 2014 , compared to cash provided by operating activities of \$1.4 billion for the same period in fiscal 2013 . The decrease was driven by the first quarter payment of \$2.8 billion for the Kraft arbitration matter discussed above. This was partially offset by cash provided by operating activities of \$1.8 billion resulting from increased earnings and improvements in working capital accounts.

Cash used by investing activities for the first two quarters of fiscal 2014 totaled \$549.0 million , compared to \$613.0 million for the same period in fiscal 2013 . The change was primarily due to the use of cash to acquire Teavana in the second quarter of fiscal 2013, partially offset by increased investment in long-term securities during the first two quarters of fiscal 2014.

Cash provided by financing activities for the first two quarters of fiscal 2014 totaled \$157.4 million , compared to cash used by financing activities of \$718.5 million for the same period in fiscal 2013 . The increase was primarily due to the proceeds from the issuance of long-term debt in the first quarter of fiscal 2014 and decreased share repurchases compared to the first two quarters of fiscal 2013.

Contractual Obligations

In Management's Discussion and Analysis of Financial Condition and Results of Operations included in the 10-K, we disclosed that we had \$10.0 billion in total contractual obligations as of September 29, 2013. Other than the items discussed below, there have been no material changes to this total obligation during the period covered by this 10-Q outside of the ordinary course of our business.

In the first quarter of fiscal 2014, we issued \$750 million of debt, as described in Note 6 to the condensed consolidated financial statements included in Item 1 of Part I of this 10-Q. In addition, the \$2.8 billion that was accrued for the Kraft arbitration matter as of September 29, 2013 was removed from total contractual obligations, as this obligation was fully extinguished in the first quarter of fiscal 2014.

Off-Balance Sheet Arrangements

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

Commodity Prices, Availability and General Risk Conditions

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

Seasonality and Quarterly Results

Our business is subject to seasonal fluctuations, including fluctuations resulting from the holiday season in December. Notwithstanding our \$2.8 billion cash payment in the first quarter of 2014 related to the Kraft arbitration matter, our cash flows from operations are considerably higher in the first fiscal quarter than the remainder of the year. This is largely driven by cash received as Starbucks Cards are purchased and loaded during the holiday season. Since revenues from the Starbucks Card are recognized upon redemption and not when purchased, seasonal fluctuations on the consolidated statements of earnings are much less pronounced. Quarterly results are affected by the timing of the opening of new stores and the closing of existing stores. For these reasons, results for any quarter are not necessarily indicative of the results that may be achieved for the full fiscal year.

RECENT ACCOUNTING PRONOUNCEMENTS

See Note 1 to the condensed consolidated financial statements included in Item 1 of Part I of this 10-Q.

Item 3. *Quantitative and Qualitative Disclosures About Market Risk*

There has been no material change in the commodity price risk, foreign currency exchange risk, equity security price risk, or interest rate risk discussed in Item 7A of the 10-K.

Item 4. *Controls and Procedures*

We maintain disclosure controls and procedures that are designed to ensure that material information required to be disclosed in our periodic reports filed or submitted under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Our disclosure controls and procedures are also designed to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer as appropriate, to allow timely decisions regarding required disclosure.

During the second quarter of fiscal 2014, we carried out an evaluation, under the supervision and with the participation of our management, including our chief executive officer and our chief financial officer, of the effectiveness of the design and operation of the disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act. Based upon that evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective, as of the end of the period covered by this report (March 30, 2014).

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during our most recently completed fiscal quarter that materially affected or are reasonably likely to materially affect internal control over financial reporting.

The certifications required by Section 302 of the Sarbanes-Oxley Act of 2002 are filed as exhibits 31.1 and 31.2 to this 10-Q.

PART II — OTHER INFORMATION

Item 1. *Legal Proceedings*

See Note 10 to the condensed consolidated financial statements included in Item 1 of Part I of this 10-Q for information regarding certain legal proceedings in which we are involved.

Item 1A. *Risk Factors*

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

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

Information regarding repurchases of our common stock during the quarter ended March 30, 2014 :

Period ⁽¹⁾	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs ⁽²⁾
December 30, 2013 — January 26, 2014	1,025,288	\$ 75.97	1,025,288	24,729,132
January 27, 2014 — February 23, 2014	1,276,100	72.50	1,276,100	23,453,032
February 24, 2014 — March 30, 2014	1,161,688	72.33	1,161,688	22,291,344
Total	3,463,076	\$ 73.47	3,463,076	

⁽¹⁾ Monthly information is presented by reference to our fiscal months during the second quarter of fiscal 2014 .

⁽²⁾ The share repurchase program is conducted under authorizations made from time to time by our Board of Directors. On November 3, 2011 , we publicly announced the authorization of up to an additional 20 million shares, and on November 15, 2012 , we publicly announced the authorization of up to an additional 25 million shares. These authorizations have no expiration date.

Item 6. Exhibits

Exhibit No.	Exhibit Description	Incorporated by Reference			Filed Herewith	
		Form	File No.	Date of Filing		
3.1	Restated Articles of Incorporation of Starbucks Corporation	10-Q	0-20322	5/12/2006	3.1	
3.2	Amended and Restated Bylaws of Starbucks Corporation (As amended and restated through November 13, 2012)	10-K	0-20322	11/16/2012	3.2	
10.1	Letter Agreement dated January 29, 2014 between Starbucks Corporation and Troy Alstead	8-K	0-20322	1/29/2014	10.1	
10.2	Letter Agreement dated January 29, 2014 between Starbucks Corporation and Scott Maw	8-K	0-20322	1/29/2014	10.2	
10.3	Exclusive Aircraft Sublease (S/N 6003) dated as of September 27, 2013 by and between Cloverdale Services, LLC and Starbucks Corporation	—	—	—	—	X
31.1	Certification of Principal Executive Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, As Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	—	—	—	—	X
31.2	Certification of Principal Financial Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, As Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	—	—	—	—	X
32*	Certifications of Principal Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	—	—	—	—	—
101	The following financial statements from the Company's 10-Q for the fiscal quarter ended March 30, 2014, formatted in XBRL: (i) Condensed Consolidated Statements of Earnings, (ii) Condensed Consolidated Statements of Comprehensive Income, (iii) Condensed Consolidated Balance Sheets, (iv) Condensed Consolidated Statements of Cash Flows and (v) Notes to Condensed Consolidated Financial Statements	—	—	—	—	X

* Furnished herewith.

SIGNATURES

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

April 29, 2014

STARBUCKS CORPORATION

By: /s/ Scott Maw

Scott Maw

executive vice president and chief financial officer

Signing on behalf of the registrant and as principal financial officer

EXCLUSIVE AIRCRAFT SUBLEASE (S/N 6003)

THIS EXCLUSIVE AIRCRAFT SUBLEASE (S/N 6003) (together with all Supplements, Riders and Addenda hereto, this “**Sublease**”) is dated as of September 27, 2013 (the “**Effective Date**”) by and between **CLOVERDALE SERVICES, LLC**, a Washington limited liability company, as sublessor (“**Sublessor**”) and **STARBUCKS CORPORATION**, a Washington corporation, as sublessee (“**Sublessee**”). Capitalized and certain other terms used but not otherwise defined in this Sublease shall have the meanings ascribed to them in Annex A attached hereto and made a part hereof.

In consideration of the mutual agreements contained herein, and other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto agree as follows:

SECTION 1. SUBLEASE OF AIRCRAFT .

1.1 Sublease. Subject to the terms and conditions provided in this Sublease and the other Sublease Documents, Sublessor agrees to sublease the Aircraft to Sublessee, and Sublessee agrees to sublease the Aircraft from Sublessor.

1.2 Sublease Supplement. The execution by Sublessee of the Sublease Supplement will evidence that the Aircraft is subleased under, and is subject to all of the terms, provisions and conditions of, this Sublease and the other Sublease Documents, and shall constitute Sublessee’s unconditional and irrevocable acceptance of the Aircraft for all purposes hereof and thereof. The sublease of the Aircraft to Sublessee shall commence on the Acceptance Date and end on the Expiration Date, unless extended or earlier terminated or cancelled pursuant to this Sublease. Sublessee warrants that as of, and at all times after the Acceptance Date, Lessor will be the legal owner of the Aircraft, and Sublessee shall have only the right to use and possess the Aircraft in accordance with the Sublease Documents, in each case, except as otherwise expressly provided in this Sublease.

1.3 Monthly Report. Within thirty (30) days after the end of each month, Sublessee shall provide a monthly report to Sublessor which shall include flight segments and hours for the preceding month in the form attached hereto as Schedule No. 4.

SECTION 2. RENT, NET LEASE, TERMINATION .

2.1 Rent. Sublessee shall pay to Sublessor the following amounts (any and all such amounts, as applicable, “**Rent**”): (a) as “**Basic Rent**”, on the Rent Commencement Date, Daily Rent for each day starting with the Acceptance Date, to but excluding the Rent Commencement Date; and (b) on the First Basic Rent Date and on each Basic Rent Date following that date, an amount equal to the product of (i) the Lessor’s Cost, multiplied by (ii) the Basic Rent Percentage set forth on Schedule No. 2-A; and (b) as “**Supplemental Rent**”, (i) as and when due, any other amount that Sublessee is obligated to pay under this Sublease or any of the Sublease Documents to Sublessor (including Casualty Value and/or any amounts due pursuant to any Addendum), and (ii) interest accruing at the Late Payment Rate on any Rent not paid when due, until paid. Sublessee shall make all payments of Rent in United States Dollars (“**U.S. Dollars**”), in immediately available funds on the date payable under this Sublease or the other Sublease Documents, in the manner (whether by check, wire transfer or otherwise) directed by Sublessor, in writing to Sublessee.

2.2 Net Lease.

(a) This Sublease is a net lease, and Sublessee acknowledges and agrees that, except for a termination of this Sublease by either party as set forth herein, a termination by Lessor pursuant to Section 9.7 or as provided in Section 2.2(b) Sublessee’s obligation to pay, and Sublessor’s right to receive, all Rent in accordance with this Sublease shall be absolute, irrevocable, and unconditional (except for the defense of payment in accordance with the terms hereof).

(b) Sublease shall be permitted to setoff against amounts required to be paid by Sublessee to Sublessor any and all past due amounts required to be paid by Sublessor, its principal or affiliates to Sublessee or its affiliates in connection with the Aircraft.

2.3 Termination by Either Party. Either Sublessor or Sublessee may terminate this Sublease by giving at least forty-five (45) days’ written notice to the other party.

SECTION 3.

QUIET ENJOYMENT; DISCLAIMERS .

(a) Sublessor represents and warrants that during the Term, (i) Sublessor is and will remain (A) duly organized, validly existing and in good standing under the laws of the state of its organization, (B) duly qualified to do business in each jurisdiction where the failure to be so qualified would cause a material adverse effect on Sublessor's ability to perform its obligations under this Sublease, and (C) a "citizen of the United States" within the meaning of the Transportation Code; (ii) Sublessor has the necessary authority and power to transact the business in which it is engaged; (iii) Sublessor's execution and delivery of, and performance of its obligations under and with respect to, each of the Sublease Documents to which it is a party (including leasing the Aircraft, and participating in the other transactions contemplated herein and therein), (A) have been duly authorized by all necessary action on the part of Sublessor consistent with its form of organization, (B) do not contravene or constitute a default under any Applicable Law, any of Sublessor's Organizational Documents, or any agreement, indenture, or other instrument to which Sublessor is a party or by which it may be bound, (C) do not require the approval of or notice to (I) any Governmental Authority, except for the filings and registrations specified in the Section 10(b) of the Sublease Consent, all of which shall have been duly effected, prior to or concurrently with Sublessor's leasing the Aircraft from Lessor, Sublessor's subleasing of the Aircraft to Sublessee and Sublessee's acceptance of the Aircraft under this Sublease, or (II) any other party (including any trustees or holders of indebtedness), (D) will not result in the creation or imposition of any Lien (except Permitted Liens) on any of the asset of any Sublessee Party with respect to the Aircraft other than the Lessor's Interest created under the Lease and by the other Lease Documents with respect to the Aircraft and Sublessee's interest created by the Sublease and (E) [reserved]; (iv) each of the Sublease Documents have been duly authorized, executed and delivered by an authorized representative of Sublessor, and constitutes the legal, valid and binding obligation of Sublessor, enforceable against it in accordance with the respective terms of such Sublease Documents, and constitutes the legal, valid and binding obligation of Sublessor except to the extent that the enforcement of remedies may be limited under applicable bankruptcy and insolvency laws; (v) there are no proceedings pending or, so far as the managers or members of Sublessor know, threatened against or affecting Sublessor or any of its property before any Governmental Authority that reasonably could impair Lessor's or Sublessor's Interests in, to or with respect to the Aircraft, or that, if decided adversely, reasonably could materially affect the financial condition or operations of Sublessor or its ability to perform its obligations under the Lease Documents or the Sublease Documents, as applicable; and (vi) so long as no Event of Default has occurred and is continuing, the possession and use of the Aircraft by Sublessee pursuant to and during the Term of this Sublease, shall not be interfered with by Sublessor or anyone claiming an interest by or through Sublessor, including but not limited to the Lessor Parties.

(b) (i) EXCEPT AS EXPRESSLY PROVIDED IN SECTION 3(a) ABOVE, SUBLESSOR SHALL NOT BE DEEMED TO HAVE MADE, AND HEREBY DISCLAIMS, ANY REPRESENTATION OR WARRANTY, EITHER EXPRESS OR IMPLIED, AS TO THE AIRCRAFT, INCLUDING ANY ENGINE, PART OR RECORD, OR ANY MATTER WHATSOEVER, INCLUDING, THE AIRCRAFT'S DESIGN, CONDITION, MERCHANTABILITY, FITNESS FOR ANY PARTICULAR PURPOSE, TITLE, ABSENCE OF ANY PATENT, TRADEMARK OR COPYRIGHT INFRINGEMENT OR LATENT DEFECT (WHETHER OR NOT DISCOVERABLE BY SUBLESSEE), COMPLIANCE OF THE AIRCRAFT WITH ANY APPLICABLE LAW, CONFORMITY OF THE AIRCRAFT TO THE DESCRIPTION SET FORTH IN THE SUBLEASE, OR ANY INTERFERENCE OR INFRINGEMENT, OR ARISING FROM ANY COURSE OF DEALING OR USAGE OF TRADE, NOR SHALL SUBLESSOR BE LIABLE, FOR ANY INDIRECT, INCIDENTAL, SPECIAL OR CONSEQUENTIAL DAMAGES OR FOR STRICT OR ABSOLUTE LIABILITY IN TORT (EXCEPT TO THE EXTENT SUCH LIABILITY ARISES OUT OF THE NON-RECOURSE AGREEMENT OR ITS OBLIGATIONS THEREUNDER TO SUBLESSEE OR ANY LESSOR PARTY); AND SUBLESSEE HEREBY WAIVES ANY CLAIMS ARISING OUT OF ANY OF THE FOREGOING. (ii) Without limiting the foregoing, (A) Sublessor will not be responsible to Sublessee with respect to, and Sublessee agrees to bear sole responsibility for, any risk or other matter that is the subject of Sublessor's disclaimer; PROVIDED THAT, THE SUBLESSEE SHALL NOT BE LIABLE TO SUBLESSOR FOR ANY INDIRECT, INCIDENTAL, SPECIAL OR CONSEQUENTIAL DAMAGES OR FOR STRICT OR ABSOLUTE LIABILITY IN TORT, AND SUBLESSOR HEREBY WAIVES ANY CLAIMS ARISING OUT OF ANY OF THE FOREGOING; (B) Sublessee, with Sublessor's prior written consent (which consent shall not be unreasonably withheld, delayed or conditioned), may exercise Sublessor's rights, if any, under any warranty of any manufacturer (including the Manufacturer) or any supplier (including the Supplier(s)) with respect to the Aircraft; except that Sublessee's exercise of such rights (1) shall be at no cost or risk to Sublessor (except as otherwise provided in the Sublease Documents), and any such cost and risk shall be the sole responsibility of Sublessee by indemnification or other related promise hereunder, (2) shall not result in any prejudice to Sublessor, (3) shall not be enforced by legal proceeding without Sublessor's prior written consent, such consent not to be unreasonably delayed, withheld or conditioned, and (4) may be exercised unless and until the Aircraft is returned to Sublessor pursuant to this Sublease or to Lessor under the

Sublease Consent or the Non-Recourse Agreement and only so long as no Event of Default has occurred and is continuing; and (C) Sublessee hereby agrees that Sublessor's warranty in Section 3(a) above, and Sublessee's rights pursuant to sub-clause (B), are in lieu of any other representations or warranties by Sublessor, express or implied, with respect to the condition of the Aircraft, all of which have been effectively disclaimed and waived pursuant to this Section 3(b). For the avoidance of doubt, for purposes of Section 3(b)(ii)(A) above, Sublessor and Sublessee hereby agree that any amount, cost or expense paid by Sublessor shall not be deemed an indirect, incidental special or consequential damage.

SECTION 4. REPRESENTATIONS, WARRANTIES AND AGREEMENTS OF SUBLESSEE .

Sublessee represents, warrants and covenants to Sublessor that:

4.1 Organization. Sublessee is and will remain (a) duly organized, validly existing and in good standing under the laws of the state of its organization and (b) duly qualified to do business in the jurisdiction of the Primary Hangar Location, as well as in each other jurisdiction where the failure to be so qualified would cause a material adverse effect on Sublessee's ability to perform its obligations under this Sublease. Sublessee has the necessary authority and power to transact the business in which it is engaged.

4.2 Authority; Enforceability; Etc.

(a) Authorized. Sublessee's execution and delivery of, and performance of its obligations under and with respect to, each of the Sublease Documents to which it is a party (including its subleasing, possessing and operating the Aircraft, and participating in the other transactions contemplated herein and therein), (i) have been duly authorized by all necessary action on the part of Sublessee consistent with its form of organization, (ii) do not contravene or constitute a default under any Applicable Law, any of Sublessee's Organizational Documents, or any agreement, indenture, or other instrument to which Sublessee is a party or by which it may be bound, (iii) except with respect to operational or maintenance requirements, do not require the approval of or notice to (A) any Governmental Authority, except for the filings and registrations specified in the Section 8(b) of the Sublease Consent, all of which shall have been duly effected, prior to or concurrently with Lessor's purchasing the Aircraft and leasing it to the Sublessor and, Sublessor's subleasing of the Aircraft to Sublessee, and Sublessee's acceptance of the Aircraft under this Sublease, or (B) any other party (including any trustees or holders of indebtedness), and (iv) will not result in the creation or imposition of any Lien (except Permitted Liens) with respect to the Aircraft.

(b) Enforceable. Each of the Sublease Documents has been duly authorized, executed and delivered by an authorized representative of Sublessee, and constitutes the legal, valid and binding obligation of Sublessee, enforceable against Sublessee in accordance with their respective terms except to the extent that the enforcement of remedies may be limited under applicable bankruptcy and insolvency laws or the application of equitable principles.

(c) Proceedings. There are no proceedings pending or, so far as the officers of Sublessee know, threatened against or affecting Sublessee or any of its property before any Governmental Authority that reasonably could impair Lessor's Interests in, to or with respect to the Aircraft, or that, if decided adversely, reasonably could materially affect Sublessee's ability to perform its obligations under the Sublease Documents.

(d) Reserved.

4.3 Acceptance; Title, Etc. Without limiting the foregoing, upon Sublessee's acceptance of the Aircraft under this Sublease, on the Acceptance Date:

(a) Conditions Satisfied. Sublessee has satisfied or complied with all applicable conditions precedent as set forth in the Sublease Documents; and no Default or Event of Default is existing.

(b) Acceptance. As of the Acceptance Date, the Aircraft has been delivered to Sublessee, is in Sublessee's possession, has been inspected by Sublessee to its complete satisfaction and is, unconditionally, irrevocably and fully accepted by Sublessee. Without limiting the foregoing, (i) the Aircraft has been found to be in good working order, repair and condition and fully equipped to operate for its intended purpose, is in conformity with the requirements of the Applicable Standards, is currently certified under all existing applicable FARs and any other Applicable Laws, and is airworthy in all respects; (ii) solely as between Sublessor and Sublessee (and without prejudicing Sublessee's rights against Supplier or any other third party, which rights are not being disclaimed hereby) Sublessee has no pending claims and has no current knowledge of any facts upon which a future claim may be based,

against any prior owner, Manufacturer or Supplier or any other supplier of the Aircraft, for breach of warranty or otherwise; (iii) Sublessee has furnished no equipment for the Aircraft, or permitted as an Addition pursuant to this Sublease; and (iv) all of the information contained in Schedules No. 1 and No. 2, including the Primary Hangar Location, the registration number of the Aircraft, and each of the serial numbers, manufacturer and model numbers of the Airframe and Engines and any APU are true and accurate.

(c) Reserved.

(d) Cape Town Convention. For the purposes of the Cape Town Convention and any other Applicable Law: (i) upon the acceptance of the Aircraft by Sublessee under this Sublease, Sublessee shall be situated in the United States (which is a contracting state); (ii) Sublessee consents to the registration with the International Registry of Sublessor's international interest created by the Sublease and Sublessor's security assignment to Lessor of such international interest together with all associated rights relating thereto, solely for purposes of Lessor's protecting its interest in the Aircraft and such associated rights under the Cape Town Convention and other applicable commercial law; (iii) Sublessee is a transacting user entity, has appointed an administrator (which administrator is Kirk Woford at Insured Aircraft Title Service, Inc.) and has designated a professional user entity reasonably acceptable to Sublessor; (iv) Sublessee has paid all required fees and taken all actions necessary to enable Lessor and Sublessor to register any international interests created with respect to this Sublease with the International Registry; (v) Sublessee authorizes its professional user entity to consent to the registrations contemplated herein with the International Registry upon request therefor by Sublessor or Lessor; and (vii) Sublessee will not discharge any international interest created in favor of Lessor, or assigned to Lessor, without Lessor's prior written consent.

SECTION 5. COMPLIANCE, USE AND MAINTENANCE .

5.1 Compliance; Organizational Issues. On the Acceptance Date, and at all times thereafter until the Aircraft is returned to Sublessor pursuant to this Sublease, Sublessee agrees that it shall fully and timely perform and comply with, or shall cause to be so fully and timely performed, all of the following:

(a) Sublessee shall (i) duly observe and conform to all requirements of Applicable Law relating to the Aircraft, (ii) obtain and keep in full force and effect all rights, franchises, licenses and permits, and all approvals by any Governmental Authority, in each case, required with respect to Sublessee's performance of its obligations under the Sublease Documents and the operation of the Aircraft, (iii) cause the Aircraft to (A) remain primarily hangared at the Primary Hangar Location (except as may be otherwise directed by Sublessor or its principal), and (B) (subject to Section 5.6) be and remain duly registered in Lessor's name under the Transportation Code, including by fully and timely complying with any and all informational and other requests by the FAA, and taking all other actions required by Applicable Law, and (iv) pay and perform all of its obligations and liabilities when due (except in the case of a good faith dispute being pursued with due diligence and by appropriate proceedings).

(b) Reserved.

(c) Sublessee agrees to (i) prominently display on the Aircraft the FAA registration number, specified in Schedule No. 1, or such other registration number as has been approved by and exclusively reserved to Lessor in its name and duly reflected on the FAA Registry; and (ii) notify Sublessor in writing thirty (30) days prior to making any material change in the appearance or coloring of the Aircraft.

5.2 Operation, Etc. Sublessee agrees that the Aircraft will be operated in compliance with Part 91 and any other applicable provision of the FARs, and all other Applicable Standards, for purposes that are incidental to the business of Sublessee, including for the purposes permitted under FAR 91.501(b)(5), and in a manner that is consistent with the transactions hereunder being deemed commercial (and not consumer) transactions under Applicable Law. Unless otherwise expressly permitted hereunder, (a) Sublessee shall not operate or permit the Aircraft to be operated for air taxi operations or otherwise under Part 135 of the FARs; and (b) Sublessee shall at all times have, and maintain, "operational control" of the Aircraft (as such term is then interpreted by the FAA or such other applicable Governmental Authority), and no other Person shall operate the Aircraft. The Aircraft at all times will be operated by duly qualified pilots having satisfied all requirements established and specified by the FAA, the TSA and any other applicable Governmental Authority and the Required Coverages. Sublessee may fly the Aircraft temporarily to any country in the world, provided that the Aircraft (x) shall at all times be based and predominantly used, operated and located in the continental United States (except as authorized by Sublessor, its principal or its affiliate); and (y) shall not be flown, operated, used or located in, to or over any such country or area (temporarily or otherwise) (i) that is excluded from the Required Coverages (or specifically not covered by such insurance), (ii) with which the United States does not

maintain favorable diplomatic relations (except for such flights permitted with respect to Sublessee, as well as the Lessor Parties and the Aircraft, under Applicable Law, and otherwise in compliance with all of the other provisions of this Sublease and the other Sublease Documents, including, all of the other clauses of this sentence), (iii) in any area of recognized or threatened hostilities, (iv) if as a result, payment of any related claim under the Required Coverages is likely to be prohibited under any trade or other economic sanction or embargo by the United States, (v) in violation of any of the Sublease Documents or any Applicable Standards, or (vi) in a manner that causes it to be deemed to have been used or operated "predominantly" outside of the United States, as that phrase is used in Section 168(g)(1)(A) of the Code. Sublessee shall adopt, implement and comply with all security measures required by any Applicable Law (except as authorized by Sublessor, its principal or its affiliate) the provisions of the Required Coverages, or that Sublessee reasonably deems are necessary for the proper protection of the Aircraft (whether on the ground or in flight) against theft, vandalism, hijacking, destruction, bombing, terrorism or similar acts.

5.3 Maintenance. Sublessee agrees that, with respect to the Airframe, the Engines, the APU and each Part, Sublessee will at its own expense, perform or cause to be performed the following: (a) maintain, inspect, service, repair, overhaul and test the same in accordance with Applicable Standards, (b) make any alterations or modifications that may at any time be required to comply with Applicable Standards, and to cause the Aircraft to remain airworthy, (c) furnish all required parts, replacements, mechanisms, devices and servicing so that the condition and operating efficiency thereof will at all times be no less than its condition and operating efficiency as and when delivered to Sublessee, ordinary wear and tear from proper use alone excepted, (d) promptly replace all Parts (i) which become worn out, lost, stolen, taken, destroyed, damaged beyond repair or permanently rendered or declared unfit for use for any reason whatsoever, or (ii) if not previously replaced pursuant to clause (i), as and when required by any Applicable Standards, including any applicable life limits, (e) maintain (in English) all Records in accordance with Applicable Standards, and (f) enroll and maintain the Engines in an Engine Maintenance Program. All maintenance procedures shall be performed by properly trained, licensed, and certified maintenance sources and personnel, as applicable, utilizing replacement parts approved by the FAA and the manufacturer of (as applicable) the Airframe, the Engine, any APU, or any Part. Without limiting the foregoing, Sublessee shall comply with all mandatory service bulletins and airworthiness directives by causing compliance with such bulletins and directives to be completed, as and when required thereby, through corrective modification in lieu of operating manual restrictions; provided, however, that, so long as no Default or Event of Default is then existing and a method of compliance other than terminating action is permitted by the airworthiness directive or mandatory service bulletin, and conforms to the other Applicable Standards, then Sublessee shall have one hundred twenty (120) days (or such shorter period as may be required under such airworthiness directive or mandatory service bulletin) to complete the terminating action and/or corrective modification (as applicable) with regard to any such applicable mandatory service bulletin and/or airworthiness directive, as the case may be, and Sublessee may continue to operate the Aircraft under Applicable Law and/or Applicable Standards, as the case may be, during such one hundred twenty (120) day period (or such shorter period as may be required under the airworthiness directive or service bulletin) by repetitive inspections or by operating manual restrictions but only to the extent that such Applicable Law and/or Applicable Standards, as the case may be, permit such operation of the Aircraft by any such repetitive inspections or operating manual restrictions, as the case may be.

5.4 Additions, Alterations, Etc. Except as required by Applicable Law, Sublessee will not make or authorize any improvement, change, addition or alteration to the Aircraft that will impair the originally intended function or use of the Aircraft, diminish the value of the Aircraft as it existed immediately prior thereto, or violate any Applicable Standard. All repairs, parts, replacements (other than temporary replacements), mechanisms and devices added by Sublessee or on its behalf shall immediately, without further act, become part of the Aircraft and subject to this Sublease and the other Sublease Documents (including Lessor's Interest granted or otherwise created hereby and thereby), and title thereto shall immediately vest in Lessor and Owner Participant without any payment by, or any cost or expense to any Lessor Party.

5.5 Loaner Engines or APU. In the event any Engine or the APU is damaged, being inspected, repaired or overhauled and provided no Event of Default has occurred and is continuing, Sublessee, at its option, may temporarily substitute another engine or APU, as applicable, of the same make and model as the Engine or APU, as applicable, being repaired or overhauled (any such substitute engine or APU, as applicable, being hereinafter referred to as a "**Loaner Engine**" or "**Loaner APU**", as applicable) during the period of such repair or overhaul, and provided further (a) installation of the Loaner Engine or Loaner APU, as applicable, is performed by a maintenance facility certified by the FAA and the manufacturer with respect to an aircraft of this type, (b) the Loaner Engine or Loaner APU, as applicable, is removed and the repaired or overhauled original Engine or APU, as applicable, is reinstalled on the Airframe promptly upon completion of the repair or overhaul but in no event later than the earlier of one hundred eighty (180) days after removal, or the expiration, cancellation or earlier termination of this Sublease, and (c) the Loaner Engine or Loaner

APU, as applicable, is free and clear of any Lien that is reasonably likely (in Sublessor's reasonable good faith discretion) to impair Lessor's rights or interests in the Aircraft, and is maintained in accordance herewith.

5.6 Aircraft Registration. On the Acceptance Date, and at all times thereafter until this Sublease is terminated or the Aircraft is returned to Sublessor in accordance with the terms of this Sublease, Sublessee shall cause the Aircraft to be effectively and otherwise validly registered in Lessor's name on the Registry, and the currently assigned U.S. registration number to remain authorized for use by Lessor on the Aircraft, in each case, in accordance with the Registration Requirements (except for any such failure that is the direct result of a Lessor-Related Deregistration); and without limiting the foregoing (including the referenced exception), or any other provision of this Sublease, Sublessee shall:

(a) cause a valid Registration Certificate to be maintained at all times within the Aircraft and without limiting the foregoing Sublessee shall (i) notify Sublessor immediately of any event or circumstance of which it becomes aware with respect to which the Registration Requirements require further action by Sublessor or Lessor (other than those for which Sublessor or Lessor receives sole notification from the Governmental Authority or any other party), and (ii) comply with any and all of the Registration Requirements;

(b) with respect to any Defective Registration (and without waiving Sublessee's responsibility to avoid such circumstance as set forth in Section 5.6(a) above), the Aircraft shall not be operated until authorized by the Registration Requirements, and Sublessee shall (i) comply with the FARs and other Applicable Laws relating to such Defective Registration, and (ii) ground and store the Aircraft in accordance with terms of this Sublease; and

(c) fully and timely cooperate with Sublessor; pay or reimburse Sublessor upon its demand for all reasonable and documented fees, charges, or other amounts payable or incurred in connection with any of the foregoing, and take any and all of the other actions contemplated herein, as and when required by the Registration Requirements or as otherwise reasonably requested by Sublessor, including with respect to any disposition permitted under the Sublease Documents.

Sublessor agrees to provide and to cause Lessor to provide its reasonable cooperation to Sublessee with respect to Sublessee's compliance with the provisions of this Section 5.6; provided, however, with respect to any such Defective Registration, (unless directly resulting from a Lessor-Related Deregistration), in no event will Lessor be deemed liable to Sublessee as a result of any Defective Registration (unless directly resulting from a Lessor-Related Deregistration).

Notwithstanding the foregoing, if there is any NCT Law Change, each of Sublessor and Sublessee shall reasonably cooperate with the other party and with Lessor for the purpose of promptly resolving any related Aircraft registration issues.

5.7 No Disposition or Liens; and Exceptions.

(a) No Dispositions, Liens, Etc. Except as permitted by this Sublease or instructed or directly caused by Sublessor or Lessor, Sublessee shall not sell, assign, enter into any Third Party Agreement, convey, mortgage, exchange or otherwise transfer or relinquish possession of (including by any seizure or other taking by any foreign or domestic Governmental Authority) or dispose of, or grant or otherwise create a Lien (other than a Permitted Lien) against, the Airframe, or any Engine, APU or Part, related associated rights, international interests, prospective international interests, or any proceeds, nor shall it attempt, or suffer or permit, any of the foregoing. Sublessee shall be permitted, however, to enter into Permitted Third Party Agreements and shall be permitted to deliver possession of the Airframe, or any Engine, APU or Part to another Person for the purpose of complying with any of the other provisions of this Section 5, in each case, if and to the extent consistent with the provisions of the Sublease Documents. Sublessee will warrant and defend Lessor's Interest in and to the Aircraft (including Lessor's good and marketable title thereto), and the validity, perfection and first priority of Lessor's Interest in the Aircraft, against all other Liens, claims and demands whatsoever, except Permitted Liens; and without limiting the foregoing, Sublessee will (a) not create, assume or suffer to exist any Liens on or with respect to the Aircraft, or Sublessor's interest therein (other than Permitted Liens); and (b) promptly take such action as directed by Sublessor or by Lessor to duly discharge any such unpermitted Liens and in the event of conflicting instructions by Sublessor and Lessor, shall follow the written instruction of Lessor.

(b) Exceptions. So long as no Event of Default has occurred and is continuing, Sublessee may enter into and remain a party to one or more time sharing agreements under §91.501(b)(6) of the FARs with officials or guests of Sublessee (each, a “ **Timesharer** ”), subject to the satisfaction of, and compliance by Sublessee and such Timesharer with, all of the following throughout the term of such arrangement (a “ **Permitted Third Party Agreement** ”):

(i) Reserved.

(ii) Any operation of the Aircraft pursuant to any such Permitted Third Party Agreement shall be limited to operation by Lessee pursuant to a time sharing or other arrangement or agreement with an affiliated Interested Third Party pursuant to either Section 91.501(b)(5) or Section 91.501(b)(6) of the FARs, and so long as Lessee does not relinquish possession or operational control of the Aircraft pursuant thereto, and any such operation by Sublessee shall comply with (1) Part 91 and any other applicable provision of the FARs, and all other Applicable Standards, and (2) the provisions hereof and of the other Sublease Documents pertinent to the operation of the Aircraft by such party.

(iii) The Permitted Third Party Agreement shall (A) be and remain, subordinate to Lessor’s Interest in and with respect to the Aircraft, and under the Sublease Documents (and such subordination shall be expressly acknowledged therein), (B) not convey any Lien on, or other property interest in or against the Airframe or the Engines, (C) not permit any further disposition of or Lien against the Aircraft by Timesharer, or any change in registration or unpermitted change in the Primary Hangar Location of the Aircraft, (D) not contain material provisions that are inconsistent with the material provisions of any of the Sublease Documents or cause Sublessee to breach any of its representations, warranties or agreements under any of the Sublease Documents, and (E) be in conformity with all applicable requirements of the FARs and other Applicable Laws.

(iv) Reserved.

(v) Reserved.

(vi) (A) No such Permitted Third Party Agreement shall reduce any of Sublessee’s obligations, or any Lessor Party’s rights or Sublessor’s rights, under any of the Lease Documents or any of the Sublease Documents, (B) all of Sublessee’s obligations under the Sublease Documents shall be and remain primary as to Sublessor and continue in full force and effect as the obligations of a principal and not of a guarantor or surety, and (C) none of the Lessor Parties and Sublessor is waiving the right to require full and timely performance of any such obligations in strict accordance with the provisions hereof and of the other Sublease Documents except as provided by the Non-Recourse Agreement.

5.8 Return Requirements. Upon the expiration, cancellation, or other termination of this Sublease, Sublessee shall at its sole expense return the Aircraft to Sublessor in accordance with, and otherwise pay, perform and comply with, all of the provisions of the Return Addendum (all of which are hereby incorporated herein), in each case as and when required hereby.

SECTION 6. LOSS OR DAMAGE .

6.1 Risk of Loss. As of the Acceptance Date, and at all times thereafter unless and until the Aircraft is returned to Sublessor pursuant to the provisions of this Sublease, Sublessee shall bear the risk of any Event of Loss or other loss, theft, confiscation, taking, unavailability, damage or partial destruction of the Aircraft, and shall not be released from its obligations hereunder in the event of any damage or Event of Loss to the Aircraft or any part thereof. With respect to any repairable damage to the Aircraft, Sublessee shall: (a) repair the same in accordance with all of the applicable provisions of this Sublease (including as provided in Section 5.3); and (b) provide written notice to Sublessor thereof if constituting Material Damage either concurrently with its report of same to the applicable Governmental Authority, or (if no such report is required) within ten (10) days of the occurrence of such Material Damage. The required notice must be provided together with any damage reports provided to the FAA or any other Governmental Authority, the insurer or Supplier, and any documents existing at the time of such notice pertaining to the repair of such damage, including copies of work orders, and all invoices for related charges.

6.2 Loss of Aircraft. Upon the occurrence of any Event of Loss with respect to the Airframe or the Aircraft, Sublessee shall notify Sublessor within five (5) Business Days of the date thereof. On the Casualty Payment Date, Sublessee shall pay to Sublessor any Rent then due, plus the Casualty Value of the Aircraft determined as of such Casualty Payment Date, together with interest at the Late Payment Rate for the period (if any) from the Casualty

Payment Date through the date of payment. Upon making the applicable payment required hereby, Sublessee's obligation to pay further Basic Rent for the Aircraft subsequent to such payment shall cease, but Sublessee shall remain liable for, and pay as and when due, all Supplemental Rent, and this Sublease shall terminate (except for the provisions hereof which by their terms survive any termination of this Sublease, and except for any right of Sublessee to recover possession of the Aircraft, if recoverable, subject to the requirements of any third party insurance carrier, the rights of any other Person claiming an interest therein (other than if constituting a Lessor Lien), and any other pertinent terms of this Sublease). Notwithstanding the foregoing, this Section 6.2 shall not apply in the event that such occurrence does not trigger a corresponding demand from Lessor to Sublessor under the Lease.

6.3 Loss of an Engine or an APU. Upon an Event of Loss with respect to any Engine or APU (as applicable, a "Lost Item"), but not the Airframe, Sublessee shall give Sublessor prompt written notice thereof, and within one hundred twenty (120) days after the occurrence of such Event of Loss replace such Lost Item with a Permitted Replacement by complying with the provisions of this Section 6.3, and during such one hundred twenty (120) day period, Sublessee may temporarily substitute a Loaner Engine or Loaner APU as set forth in Section 5.5 above. Any engine or auxiliary power unit constituting a "Permitted Replacement" for a Lost Item shall (i) be of the same make and model number as the Lost Item, (ii) be free and clear of all Liens and (iii) have a value, utility and useful life at least equal to, and be in as good an operating condition as, the Lost Item, assuming such Lost Item was in the condition and repair required by the terms hereof immediately prior to the occurrence of such Event of Loss. Sublessee, at its own cost and expense, shall (i) furnish Sublessor with such documents to evidence such replacement, (ii) cause Lessor to have good and marketable title to the Permitted Replacement as provided for under this Sublease, and (iii) take such other actions as may reasonably be required by Lessor to cause Lessor's Interest in such Permitted Replacement to be validly created and have first priority, including as evidenced on the FAA Registry, the International Registry, and any other recording office, as applicable. Each such Permitted Replacement shall, after such conveyance, be deemed an "Engine" or "APU", as applicable, and shall be deemed part of the same Aircraft as was the Lost Item replaced thereby. Upon full compliance by Sublessee with the terms of this paragraph, and to the extent that Sublessor receives the same from Lessor, Sublessor will transfer to Sublessee all of Sublessor's right, title and interest, if any, in and to such Lost Item, which transfer shall be "AS-IS, WHERE-IS".

6.4 Credit for Loss Payments. If Sublessor or Lessor receives a payment under any of the Required Coverages, or from a Manufacturer or Governmental Authority, in connection with an Event of Loss of an Airframe, or an Engine or any APU, and such payment is in immediately available funds, then provided no Event of Default shall have occurred and be continuing, and Sublessee shall have complied with the provisions of Sections 6.2 or 6.3, as applicable, Sublessor shall, at Sublessee's option, remit or cause such proceeds to be remitted to Sublessee (a) up to an amount equal to (i) the amount paid by Sublessee to Sublessor as the Casualty Value pursuant to Section 6.2, if applicable, or (ii) the amount of the replacement costs actually incurred by Sublessee with respect to any Permitted Replacement pursuant to Section 6.3, or (b) if payment has not yet been made under Section 6.3, credit such proceeds against any amounts owed by Sublessee pursuant to Section 6.3. In addition, any excess insurance proceeds shall be retained by Sublessor. If recoverable, Sublessor shall be entitled to recover possession of the Aircraft and to any salvage value in excess of the Casualty Value paid to Sublessor, but subject to the requirements of any third party insurance carrier, the rights of any other Person claiming an interest therein (other than if constituting a Lessor Lien) and any other pertinent terms of this Sublease). Sublessor shall not be under any duty to Sublessee to pursue any claim against any Person in connection with an Event of Loss, but Sublessee, in its sole discretion, may do so at its own cost and expense and with Sublessor's prior written consent, which shall not be unreasonably withheld, delayed or conditioned.

SECTION 7. INSURANCE .

7.1 Insured Risks. Sublessee agrees to maintain at all times, at its sole cost and expense, with insurers of recognized reputation and responsibility reasonably satisfactory to Lessor and Sublessor (but in no event having an A.M. Best or comparable agency rating of less than "A-"):

(a) (i) comprehensive aircraft liability insurance against bodily injury or property damage claims including, without limitation, contractual liability, premises liability, death and property damage liability, public and passenger legal liability coverage, and sudden accident pollution coverage resulting from a crash or collision of the Aircraft or recorded in flight emergency causing abnormal operating of the Aircraft, in an amount not less than \$300,000,000.00 for each single occurrence, and (ii) personal injury liability in an amount not less than \$25,000,000.00; but, in no event shall the amounts of coverage required by sub-clauses (i) and (ii) be less than the coverage amounts as may then be required by Applicable Law;

(b) "all-risk" ground, taxiing, and flight hull insurance on an agreed-value basis, covering the Aircraft, provided that such insurance shall at all times be in an amount not less than the Casualty Value of the Aircraft (as set forth in Schedule No. 3); and

(c) war risk and allied perils (including confiscation, appropriation, expropriation, terrorism and hijacking insurance) in the amounts required in paragraphs (a) and (b), as applicable.

7.2 Policy Terms. Any policies of insurance carried in accordance with this Section 7 and any policies taken out in substitution or replacement of any such policies shall (a) be endorsed to name Sublessor and each Lessor Party as an additional insured as its interests may appear (but without responsibility for premiums), (b) provide, with respect to insurance carried in accordance with Section 7.1(b) or (c) above, that, except as set forth in Section 7.3, any amount payable thereunder paid directly to Servicing Agent as sole loss payee and not to Servicing Agent and Sublessee jointly, (c) provide for thirty (30) days' (ten (10) days' in the case of nonpayment and seven (7) days' in the case of war, hijacking and allied perils) prior written notice by such insurer of cancellation, material adverse change, or non-renewal, (d) include a severability of interest clause providing that such policy shall operate in the same manner as if there were a separate policy covering each insured, (e) waive any right of set-off against Sublessor and each Lessor Party, and any rights of subrogation against such party, (f) provide that in respect of the interests of Sublessor and each Lessor Party in such policies, that the insurance shall not be invalidated by any action or inaction of Sublessee or any other Person operating or in possession of the Aircraft, regardless of any breach or violation of any warranties, declarations or conditions contained in such policies by or binding upon Sublessee or any other Person operating or in possession of the Aircraft, and (g) be primary, not subject to any co-insurance clause and shall be without right of contribution from any other insurance. Sublessor expressly acknowledges and agrees that the Required Coverage does not cover loss of the Records.

7.3 Proceeds to Sublessee. Provided that no Event of Default has occurred and is continuing, (a) proceeds that are equal to or less than \$500,000.00 shall be paid directly to Sublessee for the purpose of repairing and remediating any loss or casualty to the Aircraft which does not constitute an Event of Loss; or (b) if the aggregate amount thereof is more than \$500,000.00, it shall be paid to Lessor and Sublessor shall promptly upon receipt of Sublessee's written request therefor either (i) reimburse (to the extent of the proceeds paid by the insurer) Sublessee for payments made by Sublessee to the facility that repaired and/or remediated such loss or casualty or (ii) make payment of the proceeds directly to the facility that repaired and/or remediated such loss or casualty; in either such case, upon and after (A) the completion of such repairs and/or remediation, and confirmation that the same have caused the Aircraft to fully conform to the standards set forth in this Sublease, including Section 5.3 hereof, (B) upon presentation of the invoice from such facility for such repair and/or remediation for the amount being requested by Sublessee, and (C) with respect to any request for reimbursement, proof that the amount being requested was fully and finally paid by Sublessee to such facility. Sublessor shall provide its cooperation to Sublessee and the applicable insurer, and shall coordinate with Servicing Agent to provide its cooperation, for the purpose of authorizing the insurer's payment of such insurance proceeds directly to Sublessee.

7.4 Additional Requirements. Sublessee shall not self-insure (by deductible, premium adjustment, or risk retention arrangement of any kind) with respect to any of the risks required to be insured pursuant to this Section 7. Sublessee agrees that it shall obtain and maintain such other insurance coverages, or cause adjustments to be made to the scope, amount or other aspects of the existing insurance coverages, promptly upon Sublessor's reasonable request, as and when Sublessor or Lessor reasonably and in good faith deems such additional insurance coverages or modifications to be appropriate in light of any changes in Applicable Law, prudent industry practices, the insurance market, Timesharer's anticipated use of the Aircraft or other similar pertinent circumstances. All of the coverages required herein shall be in full force and effect worldwide throughout any geographical areas to, in or over which the Aircraft is operated. All insurance proceeds payable under the requisite policies shall be payable in U.S. Dollars. At least ten (10) days prior to the policy expiration date for any Required Coverages, Sublessee shall furnish to Sublessor and to Lessor an insurance certificate or other evidence requested by Sublessor or Lessor of the renewal or replacement of any such coverages complying with the terms hereof, for a twelve (12) month or greater period commencing from and after such expiration date.

SECTION 8. GENERAL AND TAX INDEMNIFICATIONS .

8.1 General Indemnification. Sublessee hereby agrees to pay, indemnify, and hold Sublessor, its agents, employees, officers, members, attorneys-in-fact, lawyers, successors and assigns (collectively, the "**Indemnified Parties** ") harmless on an after-tax basis, from and against any and all liabilities, obligations, losses, damages, penalties, claims, actions, suits, demands, costs, expenses and disbursements of any kind and nature whatsoever (each, a

“ **Claim** ”), which may be imposed on, incurred by or asserted against any Indemnified Party, but only to the extent such Indemnified Party shall not also be indemnified as to any such Claim by any other Person, in any way relating to or arising out of (a) Sublessee’s sublease, management, pooling, interchange, time sharing, chartering, possession, use, operation, maintenance, security, condition (after delivery or acceptance of any of the same), registration or re-registration, return, removal, repossession, storage or other disposition of any of the same, or any accident in connection therewith, including Claims involving or alleging environmental damage, criminal acts, hijacking, acts of terrorism or similar acts, including the same that result in injuries, death, destruction, or other harm or loss to persons or property, Persons or property, with respect to the Aircraft or (b) the breach (including any Default or Event of Default) or enforcement of any of the terms of the Sublease Documents, provided, that Sublessee shall have no obligation to indemnify an Indemnified Party with respect to Claims directly (a) arising from the gross negligence or willful misconduct or fraud of such Indemnified Party; (b) covered under Section 8.2; (c) arising from acts or events that occur after redelivery of the Aircraft to Sublessor in accordance with this Sublease; or (d) to the extent such Claims would not have arisen if Sublessor owned the Aircraft rather than leasing the Aircraft from Lessor. In the event that any Indemnified Party receives from any Party, including but not limited to the insurer or a Lessor Party, any insurance proceeds in good and immediately available funds pursuant to any of the liability policies required by Section 7.1(a) or (c) hereof or receives any other indemnification payment with respect to any monetary Claim for which Sublessee has previously paid to such Indemnified Party in good and immediately available funds an indemnity payment, such Indemnified Party shall refund such indemnity payment to Sublessee solely out of and up to the amount of such insurance proceeds or such other payment, as applicable. If any Claim is made against any Indemnified Party, the party receiving notice or otherwise becoming aware of such Claim shall promptly notify the other, but the failure of the party having knowledge of a Claim to so notify the other party shall not relieve Sublessee of any obligation hereunder except to the extent any such failure by an Indemnitee to notify Sublessee materially prejudices Sublessee’s ability to limit or avoid by practical means the responsibility to pay the amounts being indemnified hereunder with respect to such Claim.

8.2 General Tax Indemnity. On the Acceptance Date, and at all times thereafter (subject to the exceptions provided below):

(a) Tax Reporting. Sublessee shall prepare and file only such tax returns, registrations, declarations and other documentation with respect to any personal property taxes (or any other taxes in the nature of or imposed in lieu of property taxes) due or to become due with respect to the Aircraft, or any part of either thereof that Sublessee is required to file under Applicable Law. With respect to the payment of property taxes, Sublessor and Sublessee will cooperate with each other, and Sublessor will cause Lessor to cooperate, with all reasonable and good faith requests of Sublessor or Sublessee to mitigate, reduce and apportion such property taxes, so long as such requests do not violate any Applicable Law, do not result in any risk of civil or criminal liability for Sublessee, Sublessor or Lessor, do not result in any reasonable risk of the imposition of a Lien on or the sale, forfeiture or loss of the Aircraft or any part thereof or interest therein (unless, in the case of the imposition of a Lien, Sublessee has provided security for such Lien reasonably satisfactory to Lessor).

(b) Impositions. Sublessee hereby further agrees to pay on or before the due date, directly to the appropriate federal, state, local or foreign taxing authority or other Governmental Authority (a “ **Taxing Authority** ”) when required by Applicable Law to make such direct payment or, if such direct payment to a Taxing Authority by Sublessee is not required under Applicable Law, directly to Sublessor with sufficient prior notice and assistance as reasonably requested in order for Sublessor to timely cause payment before the due date (i) the Washington State business and occupation (B&O) taxes on the Basic Rent Payment, (ii) as shown on said returns and all taxes assessed, billed or otherwise payable with respect to Sublessee’s operation of the Aircraft, any part of or interest thereof, or the transactions contemplated by the Sublease Documents and the Permitted Third Party Agreements; (iii) all license and/or registration or filing fees, assessments, governmental charges and use, property, excise, privilege, value added, withholding and other taxes (including any related interest, charges or penalties) or other charges or fees now or hereafter imposed by any Taxing Authority, on Sublessor or any other Person in possession of the Aircraft or any part thereof, the Aircraft or any part of or interest thereof, the Rent (or other amounts payable under the Sublease Documents and the Permitted Third Party Agreements), or the transactions contemplated by the Sublease Documents and the Permitted Third Party Agreements, including any of the same imposed with respect to the landing, airport use, manufacturing, ordering, shipment, inspection, acceptance, rejection, delivery, installation, management, pooling, interchange, time sharing, chartering, operation, possession, use, maintenance, repair, condition, removal, registration, de-registration, abandonment, repossession, storage, return, or other disposition of the Aircraft or any part thereof, the Rent (or other amounts under the Sublease Documents and the Permitted Third Party Agreements) or any part thereof, or any interest in any thereof; provided, however, Sublessor shall bear all costs associated with importing the Aircraft into the EU and the risk of the assessment of any value added taxes arising from EU operations; and (iii) any penalties, charges, interest, fines, additions to tax or costs imposed with respect to any items referred to in sub-

clauses (i) and (ii); the items referred to in sub-clauses (i) and (ii) above being referred to herein collectively, as “ **Impositions** ”; except that “Impositions” shall expressly exclude, and Sublessee shall have no such obligation in respect of, any of the same if (A) such tax is a property or similar tax owed by Lessor or Sublessor on the ownership of the Aircraft, (B) imposed against Lessor or Sublessor and imposed on or measured by the net income, capital or net worth of Lessor or Sublessor by the jurisdiction in which Lessor or Sublessor was incorporated or formed, or in which a Lessor Party or Sublessor has a place of business, (C) imposed as a result of the manufacturing, ordering, shipment, inspection, acceptance, delivery, or registration of the Aircraft, (D) arising from the gross negligence or willful misconduct of Sublessor or a Lessor Party (unless imputed by Applicable Law), (E) arising from acts or events that occur after redelivery of the Aircraft to Sublessor or Lessor in accordance with this Sublease or the Sublease Consent or (F) imposed on Sublessor or Lessor as a result of its failure to timely make any filing or return for which Sublessor or a Lessor Party is responsible pursuant to this Section 8.2 and for which Sublessee has timely and properly paid to Sublessor all Impositions in good and immediately available funds, and has provided such information and assistance as Sublessor may reasonably require from Sublessee to enable Sublessor to fulfill its filing and return obligations (or exercise its rights with respect thereto). Sublessee will indemnify Sublessor from, and defend and hold Sublessor harmless, on an after-tax basis against, any and all such Impositions. Any Impositions which are not paid when due and which are paid by Sublessor shall, at Sublessor’s option, become immediately due from Sublessee. For the avoidance of doubt, Sublessee shall not be obligated to indemnify Sublessor or any of the Lessor Parties for any Tax Loss or under the Special Tax Indemnity Rider (each as defined in the Lease) or for or resulting from a breach of any provision in the Lease involving the operation of the Aircraft that would impact the classification of the Aircraft or the Transaction Documents or impact the Lessor Parties’ tax treatment of the Aircraft or the Transaction Documents to the extent Sublessee is directed by or on behalf of Guarantor to operate the flights affecting such classification or treatment.

(c) Notices, Payment, Etc. Sublessor shall provide or cause to be provided to Sublessee notice of any such Impositions for which Sublessor intends to hold Sublessee responsible under this Section 8.2, provided that the failure to give such notice shall not relieve Sublessee of responsibility under this Section 8.2 except to the extent such failure or delay materially prejudices Sublessee’s ability to limit or avoid by practical means the responsibility for such Impositions, and upon such notice to Sublessee, such Impositions shall become due to Sublessor and shall be paid [ten(10)] days in advance of the due date of such Imposition; provided, however, if such notice is received by Sublessee less than [ten (10)] days in advance of the due date of such Imposition, the Imposition shall be paid by Sublessee no later than the end of the next Business Day. Sublessee shall promptly provide Sublessor, at Sublessee’s cost and expense, with copies of all returns and documents for which it is responsible under this Section 8.2, as well as receipts for payment of such Impositions.

(d) Right to Contest. Notwithstanding anything to the contrary herein, Sublessee may contest, at its sole cost and expense, any assessment of any Imposition so long as such contest is pursued directly with the appropriate Taxing Authority, in good faith, with due diligence and by appropriate proceedings, so long as Sublessor has not advised Sublessee in writing that Lessor has determined that such proceedings involve, in Sublessor’s and Lessor’s sole but good faith judgment, a material danger of the sale, foreclosure, transfer, forfeiture or loss of the Aircraft or any property comprising the Aircraft or Lessor’s title thereto, or the respective rights or interest of any Lessor Party, Sublessor or Sublessee therein.

8.3 Survival. Sublessee’s obligations under this Section 8 shall survive any expiration, cancellation or other termination of this Sublease.

SECTION 9. EVENTS OF DEFAULT AND REMEDIES .

9.1 Events of Default. The term “ **Event of Default** ”, wherever used herein, shall mean:

(a) any non-payment of, including any failure by Sublessee to pay, (i) any Basic Rent or Casualty Value, or other accelerated amount, as and when due pursuant to this Sublease or any of the other Sublease Documents (whether on a specified payment date, or by acceleration, upon demand or otherwise), and such non-payment or other failure continues for a period of ten (10) days from and including such date; or (ii) any Supplemental Rent or any other amount as and when due pursuant to this Sublease or any of the other Sublease Documents, excluding any amounts covered by clause (i) (whether on a specified payment date, or by acceleration, upon demand or otherwise) and such non-payment or other failure continues for a period of ten (10) days from and including the date of receipt of written notice of a payment default from Sublessor; or

(b) Reserved;

(c) (i) any of the Required Coverages are not kept in full force and effect, or a breach or violation shall exist with respect to any provisions thereof; or the Aircraft is operated in a manner, at a time or in or over or located at a place with respect to which such Required Coverages shall not be in effect; (ii) Sublessee shall fail to cause the Airframe or the Engines to be used, operated, maintained or otherwise kept in a condition so as to be in compliance with all Applicable Laws; (iii) Sublessee shall fail to comply with any provision of any of the Sublease Documents restricting Liens and other dispositions relating to the Aircraft or the unpermitted assignment or delegation or Sublessee's respective rights or obligations under any of the Sublease Documents (including Section 5.6 hereof); or (iv) any failure to return the Aircraft to Sublessor on the date and in the manner required by this Sublease or any of the other Sublease Documents; or

(d) (i) any representation or warranty made by Sublessee to or in favor of Sublessor or in any of the Sublease Documents or in any related agreement, document or certificate shall prove to have been incorrect, misleading, or inaccurate in any material respect when made or given (or, if a continuing representation or warranty, at any time) and such representation or warranty and any harm suffered by Sublessor and any of the Lessor Parties is not cured within thirty (30) days after written notice from Sublessor identifying the representation or warranty that is incorrect, misleading or inaccurate (but such notice and cure period will not be applicable unless such representation or warranty and related harm are all curable by practical means within such notice period); or (ii) Sublessee shall fail to (A) perform or observe any other agreement (other than those specifically referred to in this Section 9.1) required to be performed or observed by it under this Sublease or in any of the other Sublease Documents, and such failure remains uncured for thirty (30) days after written notice thereof from Sublessor to Sublessee specifying the nature of such non-compliance (but such notice and cure period will not be applicable unless such breach is curable by practical means within such notice period) or (B) notify Sublessor of any Default or Event of Default within ten (10) days of an officer of Sublessee becoming aware of its occurrence; or

(e) (i) Sublessee shall (A) generally fail to pay its debts as they became due, admit its inability to pay its debts or obligations generally as they fall due, or shall file a voluntary petition in bankruptcy or a voluntary petition or an answer seeking reorganization in a proceeding under any bankruptcy laws or other insolvency laws, or an answer admitting the material allegations of such a petition filed against Sublessee in any such proceeding; or (B) by voluntary petition, answer or consent, seek relief under the provisions of any other bankruptcy or other insolvency or similar law providing for the reorganization or liquidation of corporations, or providing for an assignment for the benefit of creditors, or providing for an agreement, composition, extension or adjustment with its creditors; or (ii) a petition against Sublessee in a proceeding under applicable bankruptcy laws or other insolvency laws, as now or hereafter in effect, shall be filed and shall not be withdrawn or dismissed within sixty (60) days thereafter, or if, under the provisions of any law providing for reorganization or liquidation of business entities that may apply to Sublessee, any court of competent jurisdiction shall assume jurisdiction, custody or control of Sublessee or of any substantial part of its property and such jurisdiction, custody or control shall remain in force unrelinquished, unstayed or unterminated for a period of sixty (60) days after the filing date; or

(f) Reserved; or

(g) (i) any repudiation by Sublessee of its obligation for the payment or performance of the Obligations, or (ii) any allegation or judicial determination that any of the Sublease Documents is unenforceable in any material respect; or

(h) any event or condition constituting a material breach or other material default by Sublessee under the Sublease Consent, after giving effect to any notice or grace period described in the related clause of this Section 9.1.

9.2 Remedies. If an Event of Default occurs and is continuing, in addition to all other rights and remedies granted to it in this Sublease and in the other Sublease Documents. Sublessor may exercise all rights and remedies of a lessor under the UCC or as a creditor, chargee or security assignee under the Cape Town Convention (including any and all remedies thereunder requiring agreement by Sublessee), or otherwise available to Sublessor under any other Applicable Law. Without limiting the generality of the foregoing, Sublessee agrees that upon the occurrence of an Event of Default, Sublessor, following thirty (30) days after receipt written notice from Sublessor or Servicing Agent to Sublessee, if such Event of Default is curable, in its sole discretion, may exercise any one or more of the following remedies: (a) proceed at law or in equity, to enforce specifically Sublessee's performance or to recover damages; (b) declare this Sublease in default, or cancel this Sublease or otherwise terminate Sublessee's rights, but not its obligations under this Sublease and the other Sublease Documents (including Sublessee's right to use and possess

the Aircraft), and Sublessee shall promptly return the Aircraft, to Sublessor (or such other party as shall be identified to Sublessee in writing by Sublessor) in accordance with the terms hereof and thereof; (c) to the extent permitted by Applicable Law, enter the premises where the Aircraft is located and take immediate possession of and remove (or disable in place) the Aircraft (or the APU, any Engines and Parts then unattached to the Aircraft), by self-help, summary proceedings or otherwise without liability or cost (including for storage or rent) (provided, however, the remedies in Section 9.2(c) shall not give Sublessor or any of the Lessor Parties the right to keep the Aircraft in the Primary Hangar Location where it will be based during the Term); (d) [reserved]; (e) preserve the Airframe and Engines, and their respective value (but without any obligation to do so), immobilize or keep idle the Airframe or any Engine, manage, re-sublease or otherwise dispose of the Airframe, any Engine or other property relating to the Aircraft, whether or not in Sublessor's possession to the extent permitted under the Lease; (f) apply any deposit or other cash collateral, or collect and apply any proceeds, at any time to reduce any amounts due to Sublessor; (g) [reserved]; (h) terminate any Permitted Third Party Agreement without regard as to the existence of any event of default thereunder and recover, or cause Sublessee to relinquish possession and return the Aircraft, including the Engines and Parts, pursuant to this Section 9.2, or exercise any and all other remedies under the Sublease Consent; (i) demand and obtain from any court speedy relief pending final determination available at law (including, without limitation, possession, control, custody or immobilization of the Aircraft or preservation of the Aircraft or its fair market value); and (j) exercise any and all other remedies provided in Section 9.3, elsewhere in this Sublease or in any of the other Sublease Documents. For the avoidance of doubt, Sublessor shall not be permitted to exercise any of the Remedies set forth in this Section 9.2 to the extent the Event of Default was caused by the act or omission of Sublessor.

9.3 Reserved.

9.4 Costs, Etc. Sublessee shall be liable for, and pay to Sublessor upon demand, all reasonable and documented costs, charges and expenses incurred by Sublessor in enforcing or protecting its rights under this Sublease or any other Sublease Documents, whether by reason of any Default or Event of Default, or otherwise, including, (a) any reasonable and documented expenses incurred by Sublessor in connection with effecting performance on Sublessee's behalf (when Sublessee has been notified by Sublessor and has failed to perform; except that no such notice requirement shall be applicable upon or after the occurrence of an Event of Default of the type described in Sections 9.1(a) or (e) shall have occurred and be continuing), together with interest thereon at the Late Payment Rate, until repaid, and (b) any other reasonable and documented legal fees, disbursements, insurance, expert witness fees, consultant fees, repossession, Impositions, Lien removal, recovery, storage, inspection, appraisal and repair.

9.5 Acknowledgments, Waivers, Etc. Sublessee hereby acknowledges and agrees as follows: (a) None of the provisions of this Section 9, including any remedies set forth or referenced herein, is "manifestly unreasonable" for the purposes of the Cape Town Convention. (b) No right or remedy is exclusive, and each may be used successively and cumulatively and in addition to any other right or remedy referred to above or otherwise available to Sublessor at law or in equity, including, such rights and/or remedies as are provided for in the Cape Town Convention or the UCC (but solely as and to the extent the provisions thereof may otherwise entitle Lessor to exercise remedies directly against Sublessee, any such exercise of remedies against Sublessee shall be subject to the Sublessee Limitation and the Non-Recourse Agreement), but in no event shall Sublessor be entitled to recover any amount in excess of the maximum amount recoverable under Applicable Law with respect to any Event of Default. (c) No express or implied waiver by Sublessor of any Default or Event of Default hereunder shall in any way be, or be construed to be, a waiver of any future or subsequent Default or Event of Default. (d) The failure or delay of Sublessor in exercising any available rights or remedies upon the occurrence of any event shall not constitute a waiver of any such right or remedy upon the continuation or reoccurrence of any such contingencies or similar contingencies, and any single or partial exercise of any particular right by Sublessor shall not exhaust the same or constitute a waiver of any other right provided for or otherwise referred to herein. (e) All remedies set forth herein shall survive the expiration, cancellation or other termination of this Sublease for any reason whatsoever. (f) Sublessee hereby waives any rights under the UCC or the Cape Town Convention to cancel or repudiate this Sublease or any of the other Sublease Documents, to reject or revoke acceptance of the Aircraft or any component thereof, to suspend performance, and to recover from Sublessor any general, special, incidental or consequential damages, for any reason whatsoever.

9.6 Reserved.

9.7 Sublessor's Default under the Lease.

(a) Sublessee acknowledges and agrees that upon the occurrence of any Event of Default by Sublessor under the Lease, Lessor shall have the right at its sole election to exercise any and all of the following remedies: (i) Lessor may exercise all of its rights, powers and remedies under the Lease, including, without limitation,

its right to demand and recover possession of the Aircraft, notwithstanding any rights or interests Sublessee or Timesharer may have; (ii) Lessor may terminate the Sublease to the extent still in effect (provided, however, that if the Aircraft is in flight when Sublessee is notified in writing of the existence and continuation of such Event of Default or when Sublessee receives a Termination Notice, Sublessee shall promptly (consistent with the flight crew's regulatory obligations) return the Aircraft to the Primary Hangar Location (after disembarking the passenger(s) at the scheduled destination, if applicable) and, notwithstanding anything to the contrary in the Termination Notice, the termination of the Lease and/or Sublease, as applicable, shall not be effective until the Aircraft has returned to the Primary Hangar Location and Sublessee has completed its post flight inspection and the Sublease shall terminate automatically and without further action; and (iii) Lessor may exercise any other remedy (including interim remedies) available to it pursuant to Applicable Law, including without limitation, under the UCC and/or the Cape Town Convention, subject to the Non-Recourse Agreement. All rights granted in this Section 9.7 shall be cumulative and not alternative, shall be in addition to and shall in no manner impair or affect Lessor's right under the Lease, or any other agreement, statute or rule of law (other than the Non-Recourse Agreement).

(b) Sublessee agrees to cooperate with all reasonable requests of Lessor to enable Lessor to exercise of any such rights, powers and remedies, including Lessor's right to recover possession of the Aircraft. Sublessee agrees that it shall, (i) upon receipt of Lessor's written notice of its termination of the Sublease (the "**Termination Notice**") and demand with respect thereto, take all reasonable steps to promptly make the Aircraft (including any Engine, APU, or any Part thereof, or Records relating thereto) available to Lessor or its authorized designee, (A) at either the Primary Hangar Location provide reasonable access to Lessor subject to security requirements subject to Lessor, its employees, agents and representatives complying with all security procedures imposed by Applicable Law and all other security procedures reasonably imposed by Sublessee or any third party at the location where the Aircraft is located; and (ii) provide reasonable cooperation with the reasonable requests of Lessor in connection therewith. Sublessor shall be liable for any costs, charges or expenses incurred by Lessor or Sublessee in enforcing or protecting their respective rights under the Sublease Documents. Notwithstanding anything to the contrary in Section 9.7, Sublessee shall be paid or reimbursed by Lessor for any reasonable costs incurred by Sublessee in connection with the return of the Aircraft to the Primary Hangar Location if Sublessee is in flight at the time Sublessee is notified in writing of the existence and continuation of such Event of Default or when Sublessee receives a Termination Notice, and Sublessor shall remain responsible to Lessor for any amounts so paid by Lessor. Notwithstanding anything to the contrary in this Section 9.7 or in Section 10.4, Sublessee shall not be obligated to provide such assistance nor shall it be obligated to pay damages or the Casualty Loss Value to the Lessor Parties when the provision of such assistance could, in the reasonable business judgment of Sublessee, cause undue business risk to Sublessee.

SECTION 10. NOTICES, REPORTS, FURTHER ASSURANCES AND INSPECTIONS .

10.1 Notices. Sublessee shall give written notice to Sublessor of (a) the occurrence of any Event of Default of which Sublessee's officers have knowledge, within five (5) Business Days of acquiring such knowledge; (b) the occurrence of any Event of Loss within the time period set forth in Section 6.2; and (c) the commencement or threat of any material litigation or proceedings that would reasonably be expected to impair Sublessee's ability to perform its obligations under the Sublease Documents or any material litigation or proceedings that would reasonably be expected to adversely affect the Aircraft or any Collateral, or the ability of Lessee to comply with its obligations under the Sublease Documents, within five (5) Business Days of acquiring knowledge of the same (For purposes of this clause (c), "material litigation or proceedings" shall be limited to litigation or proceedings involving an amount in excess of \$10,000,000.00); and (d) any dispute between Sublessee and any Governmental Authority or other party that involves Aircraft and that is reasonably likely to materially interfere with Sublessee's ability to fulfill its obligations hereunder, within five (5) Business Days of acquiring knowledge of any such dispute.

10.2 Reserved.

10.3 Further Assurances. Sublessee shall, at Sublessor's sole expense, promptly execute and deliver to Sublessor such further instruments, UCC and FAA filings and other documents, make, cause to be made and/or consent to all registrations (including any discharges and subordinations, or as to the prospective or actual sale of, and any international interest in, the Engines) with the International Registry, and take such further action, as Sublessor or, upon written notification from Lessor that an Event of Default under the Lease has occurred and is continuing, Lessor may from time to time reasonably request in order to further carry out the intent and purpose of the Sublease Documents and to establish, protect and enforce the rights, interests, remedies and Liens (including Lessor's Interest) created, or intended to be created, in favor of Sublessor or Lessor thereby.

10.4 Inspection. Sublessor or Lessor (or any other Lessor Party) shall have the right, but not the duty, to inspect the Aircraft, any component thereof and the Records, at any reasonable time and from time to time, wherever located, upon reasonable prior written notice to Sublessee provided that the parties will reasonably cooperate in arranging for such inspection so as not to interfere with the normal operation of the Aircraft by Sublessee or Timesharer, or the conduct of business by Sublessee or, if applicable, such Timesharer; except that no advance notice shall be necessary prior to any inspection conducted, and such inspection may be conducted at any time, after the occurrence of a Default that is continuing or an Event of Default that is continuing subject to compliance with security procedures reasonably imposed at the Primary Hangar Location, or at such other permitted location by the applicable Permitted Sublessee or Permitted Manager or a third party landlord or owner of the hangar location of the Aircraft at such time (the “ **Applicable Security Procedures** ”). Upon request of Sublessor or Lessor, Sublessee promptly shall confirm to Sublessor or Lessor the location of the Aircraft and the Records and shall, subject to the provisions of the preceding sentence and the last sentence of this Section 10.4, take all reasonable steps to make the Aircraft and the Records available to such party for inspection. Sublessee shall be responsible for the reasonable and documented cost of any inspection conducted after the occurrence of a Default by Sublessee that is continuing or an Event of Default by Sublessee that is continuing, and shall pay Sublessor such amount as additional Rent within ten (10) days of written demand. Notwithstanding anything to the contrary in Section 9.7 or in this Section 10.4, Sublessee shall not be obligated to provide such assistance nor shall it be obligated to pay damages or the Casualty Loss Value to the Lessor Parties when the provision of such assistance could, in the reasonable business judgment of Sublessee, cause undue business risk to Sublessee.

SECTION 11. MISCELLANEOUS .

11.1 Construction and Related Matters. All representations and warranties made in this Sublease and in the other Sublease Documents shall survive the execution and delivery of this Sublease, and the timesharing of the Aircraft pursuant to the Sublease Documents. Without limiting any other provision of this Sublease regarding the survival of Sublessee’s obligations hereunder or under any of the other Sublease Documents, Sublessee’s obligation to pay Supplemental Rent, and any of its other obligations under this Section 11, shall survive the expiration, cancellation or other termination of this Sublease. This Sublease may be executed by the parties hereto on any number of separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute but one and the same instrument. IF, NOTWITHSTANDING THE PARTIES’ CONTRARY INTENTION, THIS SUBLEASE CONSTITUTES “CHattel PAPER,” ONLY COUNTERPART NO. 1 OF THIS LEASE AND THE LEASE SUPPLEMENT SHALL BE CONSIDERED “CHattel PAPER” FOR PURPOSES OF THE UCC. The execution hereof on behalf of Sublessee and Sublessor shall be deemed to constitute the acceptance by Sublessee and Sublessor of the terms and conditions of each and every addendum, rider, supplement, annex and exhibit hereto as if such document was separately and individually executed on behalf of such party hereto and shall constitute a part of this Sublease. The headings of the Sections hereof are for convenience only, are not part of this Sublease and shall not be deemed to affect the meaning or construction of any of the provisions hereof. Time is of the essence in the payment and performance of all of Sublessee’s and Sublessor’s obligations under this Sublease. Any provision of this Sublease that may be determined to be prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective in such jurisdiction to the extent thereof without invalidating the remaining provisions of this Sublease, which shall remain in full force and effect.

11.2 Notices. All communications and notices provided for herein shall be in writing and shall be deemed to have been duly given or made (i) upon hand delivery, (ii) upon delivery by a nationally recognized overnight delivery service, or (iii) five (5) Business Days after being deposited in the U.S. mail, return receipt requested, first class postage prepaid, and addressed to Sublessor or Sublessee, as the case may be, at their respective addresses set forth under their signatures hereto or such other address as either party may hereafter designate by written notice to the other, or (iv) when sent by telecopy (with customary confirmation of receipt of such telecopy) on the Business Day when sent if sent during the normal business hours of the recipient or, if sent after such normal business hours or if sent on other than a Business Day, the next Business Day.

11.3 No Third Party Beneficiary. This Sublease does not confer any rights or remedies upon any Person other than Sublessor except for such rights and remedies available to any Lessor Party through the Sublease Consent subject to the Non-Recourse Agreement.

11.4 Sublessor’s Performance. If Sublessee fails to perform or comply with any of its agreements within the time period provided for such performance or compliance, including any applicable grace periods, that are contained herein or in the other Sublease Documents, including its obligations to keep the Aircraft free of Liens (other than the Permitted Liens), comply with Applicable Standards, or obtain the Required Coverages, Sublessor shall have the right,

but shall not be obligated, to effect such performance or compliance, with such agreement, and Sublessor shall provide prompt written notice thereof to Sublessee; provided, however, the above-referenced grace periods and notice requirements shall not apply to any payments made by Sublessor pursuant to Section 9.4, unless such grace and notice requirements are expressly provided for in Section 9.4. Any reasonable and documented expenses of Sublessor incurred in connection with effecting such performance or compliance, together with interest thereon at the Late Payment Rate from the date incurred until reimbursed, shall be payable by Sublessee to Sublessor as Rent promptly on demand. Any such action shall not be a cure or waiver of such Default or Event of Default hereunder.

11.5 Assignment. This Sublease is not assignable by Sublessor or Sublessee. Should the Lease or Lease Documents be assigned by any Lessor Party (each, an “ **Assignor** ”), upon the written request and at the cost of Sublessor, Sublessee agrees (i) to promptly execute and deliver an insurance certificate naming the beneficiary of such assignment (the “ **Assignee** ”) as additional insured and (if applicable) loss payee and otherwise evidencing the Required Coverages and such other documents and assurances reasonably requested by such Assignor or Assignee, as provided herein, (ii) to make, or cause to be made, all registrations (including all assignments and subordinations) and all amendments, extensions and discharges with the International Registry reasonably requested by Sublessor (and give or obtain any necessary consent thereto, as well as renew any authorization required by the International Registry in connection therewith, including renewing its transacting user entity status and re-designating a professional user entity, if necessary in Sublessor’s reasonable and good faith judgment), and (iii) to comply with any and all other reasonable requirements of any Assignee in connection with any such assignment.

11.6 Entire Agreement. This Sublease and the other Sublease Documents constitute the entire understanding and agreement between Sublessor and Sublessee with respect to the matters contained herein and therein, and shall completely and fully supersede all other prior agreements, both written and oral, between Sublessor and Sublessee relating to the transactions contemplated herein. The terms of this Sublease may not be changed, waived, discharged or terminated except by an instrument in writing signed by the party against which enforcement of a change, waiver, discharge or termination is sought.

11.7 Governing Law, Forum and Jury Trial Waiver.

(a) Jurisdiction. Sublessee and Sublessor hereby irrevocably consent and agree that any legal action, suit or proceeding arising out of or in any way in connection with this Sublease or any of the other Sublease Documents may be instituted or brought in the courts of the State of New York or in the United States Courts for the Southern District of New York, as either party may elect or in any other state or Federal court as either party shall deem appropriate, and by execution and delivery of this Sublease, each of Sublessee and Sublessor hereby irrevocably accepts and submits to, for itself and in respect of its property, generally and unconditionally, the non-exclusive jurisdiction of any such court, and to all proceedings in such courts. Each of Sublessee and Sublessor irrevocably consent to service of any summons and/or legal process in accordance with the notice provisions of Section 11.2 (to the extent such provisions are not inconsistent with Applicable Law) at the address set forth below its signature hereto, such method of service to constitute, in every respect, sufficient and effective service of process in any such legal action or proceeding. Nothing in this Sublease or in any of the other Sublease Documents shall affect the right to service of process in any other manner permitted by law or limit the right of either party to bring actions, suits or proceedings in the courts of any other jurisdiction. Each party further agrees that final judgment against it in any such legal action, suit or proceeding shall be conclusive and may be enforced in any other jurisdiction, within or outside the United States of America, by suit on the judgment, a certified or exemplified copy of which shall be conclusive evidence of the fact and the amount of the liability. Notwithstanding anything in the foregoing to the contrary, Sublessor and Sublessee may bring a judicial proceeding in the Republic of Ireland, solely with respect to matters relating to the International Registry.

(b) Governing Law; Binding Effect. This Sublease shall be construed and enforced in accordance with, and the rights of both parties shall be governed by, the internal laws of the State of New York (without regard to the conflict of laws principles of such state, except as to the effect of Title 14, Section 5-1401 of the New York General Obligations Law), including all matters of construction, validity, and performance. This Sublease shall be binding upon and inure to the benefit of Sublessee and Sublessor and their respective successors and assigns, except as otherwise expressly provided herein.

(c) Jury Waiver. EACH OF SUBLESSEE AND SUBLESSOR HEREBY KNOWINGLY AND FREELY WAIVES ITS RIGHTS TO A JURY TRIAL IN ANY ACTION, SUIT OR PROCEEDING RELATING TO, ARISING UNDER OR IN CONNECTION WITH THIS SUBLEASE OR ANY OF THE OTHER SUBLEASE DOCUMENTS.

11.8 No Assumption. Nothing in this Sublease or the Transaction Documents shall constitute an assumption by Sublessee of any responsibility for Sublessor's compliance with the terms of the Lease and the Lease Documents.

SECTION 12. TRUTH IN LEASING . UPON ENTERING INTO THE SUBLEASE SUPPLEMENT FOR THE PURPOSE OF, AMONG OTHER THINGS, ACCEPTING THE AIRCRAFT UNDER THIS SUBLEASE IN ACCORDANCE WITH THE TERMS HEREOF AND THEREOF, SUBLESSOR CERTIFIES AS FOLLOWS: THE AIRCRAFT, AS EQUIPMENT, BECAME SUBJECT TO THE MAINTENANCE REQUIREMENTS OF PART 91 OF THE FEDERAL AVIATION REGULATIONS (" **FARS** ") UPON THE REGISTRATION OF THE AIRCRAFT WITH THE FAA. SUBLESSOR FURTHER CERTIFIES THAT DURING THE TWELVE (12) MONTHS (OR PORTION THEREOF AFTER THE AIRCRAFT WAS DELIVERED TO SUBLESSOR), THE AIRCRAFT HAS BEEN MAINTAINED AND INSPECTED UNDER PART 91 OF THE FARS. SUBLESSEE CERTIFIES THAT THE AIRCRAFT WILL BE MAINTAINED AND INSPECTED UNDER PART 91 OF THE FARS FOR OPERATIONS TO BE CONDUCTED UNDER THIS SUBLEASE. UPON EXECUTION OF THIS SUBLEASE, AND DURING THE TERM HEREOF, SUBLESSEE, WHOSE NAME AND ADDRESS ARE SET FORTH IMMEDIATELY BELOW, ACTING BY AND THROUGH THE SIGNATORY HERETO, WHO EXECUTES THIS SUBLEASE SOLELY IN THE CAPACITY SET FORTH BELOW HER/HIS SIGNATURE, CERTIFIES THAT SUBLESSEE SHALL BE RESPONSIBLE FOR THE OPERATIONAL CONTROL OF THE AIRCRAFT UNDER THIS SUBLEASE (WHILE IT HAS POSSESSION OF THE AIRCRAFT). SUBLESSEE FURTHER CERTIFIES THAT IT UNDERSTANDS ITS RESPONSIBILITIES FOR COMPLIANCE WITH APPLICABLE FARS. AN EXPLANATION OF FACTORS BEARING ON OPERATIONAL CONTROL AND PERTINENT FARS CAN BE OBTAINED FROM THE NEAREST FEDERAL AVIATION FLIGHT STANDARDS DISTRICT OFFICE, GENERAL AVIATION DISTRICT OFFICE, OR AIR CARRIER DISTRICT OFFICE.

[Signatures on Next Page]

IN WITNESS THEREOF the parties hereto have caused this Sublease to be duly executed as of the date first written above by their respective officers thereunto duly authorized.

Sublessor:
CLOVERDALE SERVICES, LLC

Sublessee:
STARBUCKS CORPORATION

By:/s/Timothy Donlan

Name: Timothy Donlan

Title: Manager

Address:

c/o The McCutchen Group
925 Fourth Avenue, Suite 2288
Seattle, WA 98104

By:/s/ Troy Alstead

Name: Troy Alstead

Title: Chief Financial Officer

Address:

2401 Utah Avenue South
Seattle, WA 98134
United States of America

Signature Page

ANNEX A

DEFINITIONS

The following terms shall have the following meanings for all purposes of the Sublease:

A. Rules of Interpretation . (1) The following terms shall be construed as follows: (a) “ **herein** ,” “ **hereof** ,” “ **hereunder** ,” etc.: means in, of, under, etc. the Sublease as a whole (and not merely in, of, under, etc. the section or provision where the reference occurs); (b) “ **including** ”: means including without limitation unless such term is followed by the words “ **and limited to** ,” or similar words; and (c) “ **or** ”: means at least one, but not necessarily only one, of the alternatives enumerated. (2) Any defined term used in the singular preceded by “ **any** ” indicates any number of the members of the relevant class. (3) Except as otherwise indicated, all the agreements and instruments defined herein or in the Sublease shall mean such agreements and instruments as the same may from time to time be supplemented or amended, or as the terms thereof may be expressly waived or modified to the extent permitted by, and in accordance with, the terms thereof. (4) Any reference in the Sublease Documents to the “ **Return Addendum** ”, shall mean that certain rider or addendum titled as such; and upon execution of the Sublease by Sublessee and Sublessor, shall be deemed to constitute execution and acceptance of the terms and conditions of such rider or addendum, and it shall supplement and be a part of the Sublease (each, an “ **Addendum** ”). (5) The terms defined herein and in the Sublease shall, for purposes of the Sublease and the Sublease Supplement, Addenda, annexes, schedules, and exhibits hereto and thereto, have the meanings assigned to them and shall include the plural as well as the singular as the context requires.

B. CTC Terms. Certain of the terms used in the Sublease (“ **CTC Terms** ”) have the meaning set forth in and/or intended by the “ **Cape Town Convention** ”, which term means, collectively, (i) the official English language text of the Convention on International Interests in Mobile Equipment, adopted on 16 November 2001 at a diplomatic conference held in Cape Town, South Africa, as the same may be amended or modified from time to time (the “ **Convention** ”), (ii) the official English language text of the Protocol to the Convention on International Interests in Mobile Equipment on Matters Specific to Aircraft Equipment, adopted on 16 November 2001 at a diplomatic conference held in Cape Town, South Africa, as the same may be amended or modified from time to time (the “ **Protocol** ”), and (iii) the related procedures and regulations for the International Registry of Mobile Assets located in Dublin, Ireland and established pursuant to the Cape Town Convention, along with any successor registry (the “ **International Registry** ”), issued by the applicable supervisory authority pursuant to the Convention and the Aircraft Protocol, as the same may be amended or modified from time to time. By way of example, but not limitation, these CTC Terms include, “administrator”, “associated rights”, “contract of sale”, “sale”, “prospective sale”, “proceeds”, “international interests”, “prospective international interest”, “security assignment”, “transfer”, “working days”, “consent”, “final consent”, “priority search certificate”, “professional user entity”, “transacting user entity” and “contract”; except “proceeds” shall also have the meaning set forth below.

C. Schedule Terms. The following terms shall have the respective meanings set forth for such terms in Schedules No. 2 and 2-A for all purposes of the Sublease: Basic Rent Date, Basic Rent Percentage, Basic Term, Renewal Term, Daily Rent Percentage, Expiration Date, First Basic Rent Date, Last Basic Rent Date, Lessor’s Cost and Rent Commencement Date .

D. Other Defined Terms.

“ **Acceptance Date** ” shall mean the date on which Sublessee irrevocably and unconditionally accepts the Aircraft for sublease under the Sublease as evidenced by the execution and delivery of, and specified as such in, the Sublease Supplement.

“ **Aircraft** ” shall mean, collectively, the Airframe, the Engines, the APU and the Records; and all accessories, additions, accessions, alterations, modifications, Parts, repairs and attachments now or hereafter affixed thereto or used in connection therewith, and all Permitted Replacements and all other replacements, substitutions and exchanges (including trade-ins) for any of the foregoing.

“ **Airframe** ” shall mean, collectively, (i) the airframe described in Schedule No. 1 , and shall not include the Engines or APU, and (ii) any and all related Parts.

“ **airworthiness directives** ” shall have the meaning set forth in the FARs.

“ **Applicable Law** ” shall mean all applicable laws, statutes, treaties, conventions, judgments, decrees, injunctions, writs and orders of any Governmental Authority and rules, regulations, orders, directives, licenses and permits of any Governmental Authority as amended and revised, and any judicial or administrative interpretation of any of the same, including the airworthiness certificate issued with respect to the Aircraft, the Cape Town Convention, the UCC, the Transportation Code, TSA regulations, FARs, airworthiness directives, and/or any of the same relating to the Aircraft generally or to noise, the environment, security, public safety, insurance, taxes and other Impositions, exports or imports or contraband.

“ **Applicable Standards** ” shall mean, collectively, (i) Applicable Law, (ii) the requirements of the Required Coverages, and (iii) all Maintenance Requirements.

“ **APU** ” shall mean (i) the auxiliary power unit described and listed by manufacturer’s serial number in Schedule No. 1, whether or not hereafter installed on the Aircraft or any other airframe from time to time; (ii) any auxiliary power unit constituting a Permitted Replacement; and (iii) any and all related Parts.

“ **Article 2A** ” shall mean that certain version of “Uniform Commercial Code - Subleases” as adopted and in effect in the applicable jurisdiction.

“ **Assignee** ” and “ **Assignor** ” shall each have the meanings respectively set forth in Section 11.5 hereof.

“ **AS-IS, WHERE-IS** ” shall mean “**AS-IS WHERE-IS**” , and “**WITH ALL FAULTS**” , without any representation or warranty, express or implied, of any kind whatsoever, by, or any recourse of any kind whatsoever, to Sublessor or any Lessor Party, except that Sublessor will warrant the absence of Lessor’s Liens and Sublessor’s Liens.

“ **Basic Rent** ” shall have the meaning set forth in Section 2.1 of the Sublease.

“ **Business Day** ” shall mean any day other than a Saturday, Sunday or other day on which banks located in New York, New York or Seattle, Washington are closed or are authorized to close.

“ **Casualty Payment Date** ” shall mean, with respect to an Event of Loss, whichever of the following dates as may then be applicable: (a) the next Basic Rent Date following the earlier of either (i) the receipt of the related casualty insurance proceeds payable pursuant to the Required Coverages, or (ii) the sixtieth (60th) day following the occurrence of such Event of Loss; or (b) if such Event of Loss occurs after the last Basic Rent Date, then on the earlier of either (i) the receipt of the related casualty insurance proceeds payable pursuant to the Required Coverages, or (ii) the sixtieth (60th) day following the occurrence of such Event of Loss.

“ **Casualty Value** ” shall mean, for any Casualty Payment Date, an amount equal to, whichever of the following amounts as may then be applicable: (a) the Lessor’s Cost, multiplied by the applicable percentage set forth on Schedule No. 3 for the corresponding Basic Rent Date, or (b) if the Casualty Payment Date is after the last Basic Rent Date, an amount equal to the Lessor’s Cost, multiplied by the applicable percentage set forth on Schedule No. 3 for the last Basic Rent Date.

“ **charter** ” or “ **chartering** ” means the provision of on-demand commercial air transportation in accordance with Part 135 of the FARs.

“ **Claim** ” shall have the meaning set forth in Section 8.1 hereof.

“ **Code** ” shall mean the Internal Revenue Code of 1986, as amended.

“ **Effective Date** ” shall have the meaning set forth in the preamble of the Sublease.

“ **Daily Rent** ” shall mean any daily rent payable during the Term pursuant to this Sublease in a per diem amount equal to the product of (a) the Lessor’s Cost, multiplied by (b) the Daily Rent Percentage, for each day of the referenced period.

“ **Default** ” shall mean an event or circumstance that, after the giving of notice or lapse of time, or both, would become an Event of Default.

“ **Defective Registration** ” shall mean any failure to cause the Aircraft to be effectively registered with the Registry in the name of Lessor in accordance with the applicable Registration Requirements, for any reason whatsoever, including should such registration be revoked, canceled or expired or otherwise deemed to have ended or been invalidated pursuant to the Registration Requirements; provided, however, no such failure shall constitute a “ **Defective Registration** ” for the purposes of this definition if such failure is the direct result of a Lessor-Related Deregistration.

“ **Engine** ” shall mean (i) each of the engines described in Schedule No. 1, whether or not hereafter installed on the Airframe or any other airframe from time to time; (ii) any engine constituting a Permitted Replacement; and (iii) any and all related Parts.

“ **Engine Maintenance Program** ” shall mean an agreement, in form and substance reasonably satisfactory to Sublessor entered into from time to time between Sublessee and such vendor as Sublessee may designate and as may be reasonably satisfactory to Sublessor, which provides for the maintenance and/or overhaul of the Engines consistent with the Engine manufacturer’s service program.

“ **Estimated Annual Hours** ” shall mean the anticipated number of average annual flight hours as shown on Schedule No. 2-A.

“ **Event of Default** ” shall have the meaning set forth in Section 9.1 of the Sublease.

“ **Event of Loss** ” with respect to the Aircraft (other than the Records), the Airframe, an Engine, or any APU shall mean any of the following events: (i) loss, theft or disappearance of such property or the use thereof due to theft or disappearance for a period of more than thirty (30) consecutive days, (ii) destruction, damage beyond repair or rendition of such property permanently unfit for normal use for any reason whatsoever; (iii) any damage to such property that results in an insurance settlement with respect to such property on the basis of a total loss or constructive total loss; (iv) the condemnation, confiscation or seizure of, or requisition of title to or use of, such property by the act of any foreign or domestic Governmental Authority for a period of more than thirty (30) consecutive days (“ **Requisition of Use** ”); (v) [reserved]; or (vi) with respect to an Engine or any APU, the removal thereof from the Airframe for a period of six (6) consecutive months or longer, whether or not such Engine or APU is operational. The date of such Event of Loss shall be the date of such destruction, damage or Return to Manufacturer, or the expiration date of the periods specified above for such theft, disappearance, Requisition of Use, prohibition, unfitness for use, or removal for the applicable stated period.

“ **FAA** ” shall mean the United States Federal Aviation Administration, or such other Governmental Authority succeeding to the functions of such aeronautical authority.

“ **FARs** ” shall mean the Federal Aviation Regulations and any Special Federal Aviation Regulations (Title 14 C.F.R. Part 1 et seq.), together with all successor regulations thereto.

“ **GAAP** ” shall mean generally accepted accounting principles consistently applied.

“ **Governmental Authority** ” shall mean any court, governmental or administrative body, instrumentality, department, bureau, commission, agency or authority having jurisdiction over the party or matter at issue.

“ **Impositions** ” shall have the meaning set forth in Section 8.2(b) of the Sublease.

“ **Indemnified Parties** ” shall have the meaning set forth in Section 8.1 of the Sublease.

“ **Late Payment Rate** ” shall mean the lesser of a rate equal to 1.0% per month or the highest rate permitted by Applicable Law. The Late Payment Rate shall be computed on the basis of a 360-day year and a 30-day month.

“ **Lease** ” shall mean that certain Aircraft Lease dated as of September __, 2013 by and between Lessor and Sublessor, as amended and supplemented.

“ **Lease Documents** ” shall have the meaning set forth in Annex A of the Lease.

“ **Lessor** ” shall have the meaning set forth in the preamble of the Lease.

“ **Lessor Parties** ” shall mean Lessor, Trust Bank, Owner Participant, Servicing Agent and any Assignees.

“ **Lessor-Related Deregistration** ” shall mean any de-registration resulting from either (i) Lessor’s failure to accurately complete or effectively file any required registration filing (including the Lessor’s failure to file the AC Form 8050-1A in a timely fashion) despite Sublessee’s having provided Sublessor or Lessor, on a timely basis, with all of the information and other cooperation requested by Lessor or otherwise required in connection with such filing; (ii) Lessor not being deemed a “citizen of the United States” within the meaning of the Transportation Code; or (iii) Sublessor’s failure to provide necessary information or cooperation to Lessor without direct fault of Sublessee.

“ **Lessor’s Interest** ” shall mean (a) Lessor’s good and marketable title to the Aircraft (including the Airframe and each Engine), (b) the first priority international interest, or other Lien granted to or created in favor of any of the Lessor Parties pursuant to the Sublease (including Section 11.3 thereof), or any of the other Transaction Documents, in, against, under and with respect to the Airframe and Engines or any other property comprising the Aircraft, and (c) any and all rights, interests and remedies of any of the Lessor Parties under the Sublease or any of the other Transaction Documents relating to any of the foregoing.

“ **Lessor’s Liens** ” shall mean any Liens against the Aircraft or any Engine, APU or Parts created or granted by any of the Lessor Parties or resulting from claims against such Lessor Party, in either such case, unrelated to either (a) the transactions contemplated in the Lease Documents, or (b) any matter, the responsibility for which is allocated to Sublessee under any of the Sublease Documents, whether the subject of any representation, warranty, agreement, acknowledgment, indemnity or other assurance.

“ **Liens** ” shall mean all liens, claims, demands, charges, security interests, leaseholds, international interests and other Registerable Interests and encumbrances of every nature and description whatsoever, including, without limitation, any rights of third parties under Third Party Agreements and any registrations on the International Registry.

“ **Loaner APU** ” shall have the meaning set forth in Section 5.5 of the Sublease.

“ **Loaner Engine** ” shall have the meaning set forth in Section 5.5 of the Sublease.

“ **Lost Item** ” shall have the meaning set forth in Section 6.3 of the Sublease.

“ **Maintenance Program** ” shall mean the manufacturer’s airframe maintenance program to the extent covered by any applicable warranty, and thereafter, in accordance with the manufacturer’s prescribed maintenance program and procedures.

“ **Maintenance Requirements** ” shall mean, with respect to the Airframe or the Engines, APU or any Part, all compliance requirements set forth in or under (A) all maintenance manuals (in electronic format or otherwise) initially furnished with respect thereto, including any subsequent amendments or supplements to such manuals issued by the manufacturer or supplier thereof from time to time, (B) all applicable mandatory service bulletins issued, supplied, or available by or through the applicable manufacturer with respect thereto, (C) all conditions to the enforcement of any warranties pertaining thereto, (D) Sublessee’s FAA-approved maintenance program with respect to the Airframe, the Engines, APUs or Part, as applicable, and (E) any Maintenance Program or Engine Maintenance Program.

“ **Manufacturer** ” shall mean each manufacturer identified on Schedule No. 1 and its successors and assigns.

“ **Material Damage** ” shall mean any damage: (a) (i) the repair of which is required to be reported pursuant to any governmental reporting requirement on an FAA Form 337, or (ii) to the extent that no FAA Form 337 was required or issued in connection with any damage incident, the cost to repair or replace all items in connection with such damage incident exceeds \$25,000.00 (except that, solely for the purposes of Section 6.1(b), such amount shall be \$75,000), or (b) with respect to which an insurance claim is being made

“ **NCT Law Change** ” shall mean any change to Applicable Law pertinent to the use of a non-citizenship trust for the purpose of Lessor’s maintaining the valid registration of the Aircraft in Lessor’s name on the FAA Registry, which change when deemed effective creates a reasonable risk to Lessor’s maintaining such valid registration, or renders such continued registration impractical in any material respect.

“ **Non-Recourse Agreement** ” shall mean that certain Non-Recourse Agreement dated as of the date hereof among Lessor, Sublessor, Sublessee and Guarantor.

“ **Obligations** ” shall mean all obligations and liabilities of Sublessee under the Sublease and any and all of the Sublease Documents at any time owing to Sublessor, whether direct or indirect, matured or unmatured, primary or secondary, certain or contingent, or acquired by or otherwise created in favor of Sublessor, including without limitation any and all Rent or other periodic payments, taxes and other Impositions, indemnities, liquidated damages, accelerated amounts, return deficiency charges, Casualty Value Payments, and other reimbursements, administrative charges, all interest, including interest at the Late Payment Rate, attorneys’ fees or enforcement and other costs, which may at any time be payable in accordance with the Sublease Documents, together with all claims for damages arising from or in connection with the failure to punctually and completely pay or perform such obligations.

“ **Parts** ” shall mean all appliances, avionics, parts, instruments, appurtenances, accessories, furnishings and other equipment of whatever nature (other than a complete Engine or APU) that may from time to time be incorporated or installed in or attached to the Airframe, the Engines or the APU, and any and all such appliances, avionics, parts, instruments, appurtenances, accessories, furnishings and other equipment removed therefrom so long as the same have not been released from the Lessor’s Lien pursuant to the applicable terms of the Sublease.

“ **Permitted Liens** ” shall mean (a) the Lessor’s Liens and Sublessor’s Liens, (b) any Permitted Third Party Agreements, (c) Liens for taxes either not yet due or being contested, and (d) inchoate materialmen’s, mechanic’s, workmen’s, repairmen’s, employee’s, or other like Liens arising in the ordinary course of business of Sublessee or Timesharer for sums not yet delinquent or being contested; except that any such contest described in clauses (c) or (d) must be conducted by Sublessee or a Timesharer, in good faith, with due diligence and by appropriate proceedings, so long as Sublessor has not advised Sublessee in writing that Lessor has determined in accordance with the Lease that such proceedings involve, in Lessor’s sole but good faith judgment, material danger of the sale, foreclosure, transfer, forfeiture or loss of the Aircraft or any property comprising the Aircraft, or Lessor’s title thereto, or the respective rights or interest of any Lessor Party or Sublessor therein, and for the payment of which adequate reserves are being maintained in accordance with GAAP or other appropriate provisions reasonably satisfactory to Lessor have been made; and with respect to any such Lien existing at the time the Aircraft shall become subject to Lessor’s Interest, such Lien must be subordinated, as and to the extent required in any of the Sublease Documents.

“ **Permitted Replacement** ” shall have the meaning provided in Section 6.3.

“ **Permitted Third Party Agreement** ” shall have the meaning provided in Section 5.7(b).

“ **Person** ” shall mean any individual, partnership, corporation, limited liability company, trust, association, joint venture, joint stock company, or non-incorporated organization or Governmental Authority, or any other entity of any kind whatsoever.

“ **Primary Hangar Location** ” shall mean the location identified as such on Schedule No. 1 hereto.

“ **proceeds** ” shall have the meaning assigned to it in the UCC, and in any event, shall include, but not be limited to, all goods, accounts, chattel paper, documents, instruments, general intangibles, investment property, deposit accounts, letter of credit rights, investment property, deposit accounts and supporting obligations (to the extent any of the foregoing terms are defined in the UCC, any such foregoing terms shall have the meanings given to the same in the UCC), and all of Sublessee’s rights in and to any of the foregoing, and any and all rents, payments, charter hire and other amounts of any kind whatsoever due or payable under or in connection with the Airframe or the Engines, including, without limitation, (A) any and all proceeds of any insurance, indemnity, warranty or guaranty payable to Sublessee from time to time, (B) any and all payments (in any form whatsoever) made or due and payable to Sublessee from time to time in connection with any requisition, confiscation, condemnation, seizure or forfeiture by any Governmental Authority or any other Person (whether or not acting under color of any Governmental Authority), and (C) any and all other rents or profits or other amounts from time to time paid or payable.

“ **Records** ” shall mean any and all logs, manuals, certificates and data and inspection, modification, maintenance, engineering, technical, and overhaul records (whether in written or electronic form) with respect to the Airframe, the Engines, any APU, and all Parts, including, without limitation, all records (i) required to be maintained by the FAA or any other Governmental Authority having jurisdiction, or by any manufacturer or supplier with respect to the enforcement of warranties or otherwise, (ii) evidencing Sublessee’s compliance with Applicable Standards, or (iii) with respect to any maintenance service program; provided, however, that Records shall not include any financial records Sublessor or any Timesharer or any passenger records.

“ **Registerable Interests** ” shall mean all existing and prospective international interests and other interests, rights and/or notices, sales and prospective sales, assignments, subordinations, and discharges, in each case, susceptible to being registered at the International Registry pursuant to the Cape Town Convention.

“ **Registration Certificate** ” shall mean a currently effective Certificate of Aircraft Registration, AC Form 8050-3, or any other certificate issued to Lessor evidencing the currently effective registration of the Aircraft in its name, in connection with the operation of the Aircraft in the United States pursuant to the Registration Requirements, or any other document as may then be required to be maintained within the Aircraft by such Registration Requirements, either together with or in lieu of such certificate.

“ **Registration Requirements** ” shall mean the requirements for registering aircraft with the Registry under 49 U.S.C. §§ 44101-44104, and 14 C.F.R. Part 47 as then in effect, any successor laws, rules or regulations pertaining to applicants for and holders of a Registration Certificate, the U.S. registration number for the Aircraft, and any such other FARs and other Applicable Laws, in each case as and to the extent pertaining to the registration of Lessor’s ownership of the Aircraft with the Registry, including any renewal of such registration, or replacement of any such Registration Certificate.

“ **Registry** ” shall mean the FAA Civil Aviation Registry, Aircraft Registration Branch, or any successor registry having an essentially similar purpose pertinent to the ownership registration of the Aircraft pursuant to the Registration Requirements.

“ **Rent** ” shall have the meaning set forth in Section 2.1 of the Sublease.

“ **Required Coverages** ” shall mean any of the insurance coverages required under the Sublease or any of the other Sublease Documents.

“ **Requisition of Use** ” shall have the meaning set forth in the Event of Loss definition contained herein.

“ **Return to Manufacturer** ” shall have the meaning set forth in the Event of Loss definition contained herein.

“ **Schedules No. 1, 2, 2-A, or 3** ” shall mean any of Schedules No. 1, 2, 2-A, or 3, as applicable, to the Sublease Supplement.

“ **service bulletins** ” shall have the meaning set forth in the FARs.

“ **Servicing Agent** ” shall mean RBS Asset Finance, Inc. and its successors, and any Assignee permitted under Section 11.5 of the Sublease.

“ **Sublease Consent** ” shall mean that certain Consent to Sublease dated as of the date hereof between and among Lessor, Sublessor and Sublessee.

“ **Sublease Documents** ” shall mean the Sublease (including the Sublease Supplement), the Sublease Consent, the Non-Recourse Agreement and all other agreements, instruments, or documents entered into pursuant to or in connection with the Sublease.

“ **Sublease Supplement** ” shall mean a supplement to the Sublease to be entered into as of the Acceptance Date by Sublessee, which supplement shall be substantially in the form attached to the Sublease, and upon execution by Sublessee shall constitute a part of the Sublease.

“ **Sublessee Party** ” shall mean Sublessee together with its successors and permitted assigns.

“ **Sublessor’s Liens** ” shall mean any Liens against the Aircraft or any Engine, APU or Parts created or granted by Sublessor or resulting from claims against Sublessor to the extent not caused by a Default by Sublessee of any matter, the responsibility for which is allocated to Sublessee under any of the Sublease Documents, whether the subject of any representation, warranty, agreement, acknowledgment, indemnity or other assurance.

“ **Supplemental Rent** ” shall have the meaning set forth in Section 2.1 of the Sublease.

“ **Supplier** ” shall mean the “Supplier” or “Suppliers”, as the case may be, identified as such on Schedule No. 1 and their respective successors and assigns.

“ **Taxing Authority** ” shall have the meaning set forth in Section 8.2(b).

“ **Term** ” shall mean, collectively, (a) the period, if any, from and including the Acceptance Date through, but not including, the Rent Commencement Date, (b) the Basic Term and (c) any Renewal Term or Renewal Terms entered into pursuant to the Sublease.

“ **Termination Notice** ” shall have the meaning set forth in Section 9.7.

“ **Third Party Agreements** ” shall mean any and all subleases, interchange agreements, management agreements, charter agreements, pooling agreements, timeshare agreements, engine, airframe or aircraft maintenance programs and any other similar agreements or arrangements of any kind whatsoever relating to the Airframe, the Engines or the APU.

“ **Timesharer** ” shall have the meaning set forth in Section 5.7(b).

“ **Transaction Documents** ” shall mean, collectively, the Sublease Documents and any other document, agreement or instrument entered into for the purposes of effectuating the transactions contemplated in the Sublease Documents, or relating thereto.

“ **Transportation Code** ” shall mean Subtitle VII of Title 49 of the United States Code, as amended and recodified.

“ **Trust Bank** ” shall mean Wells Fargo Bank Northwest, National Association.

“ **TSA** ” shall mean the Transportation Security Administration and/or the Administrator of the TSA, or any Person, Governmental Authority succeeding the functions of any of the foregoing.

“ **U.S. Dollars** ” shall have the meaning set forth in Section 2.1 hereof.

“ **UCC** ” shall mean the Uniform Commercial Code as then in effect in the applicable jurisdiction.

CERTIFICATION PURSUANT TO RULE 13a-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Howard Schultz, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the fiscal quarter ended March 30, 2014 of Starbucks Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 29, 2014

/s/ Howard Schultz

Howard Schultz

chairman, president and chief executive officer

CERTIFICATION PURSUANT TO RULE 13a-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Scott Maw, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the fiscal quarter ended March 30, 2014 of Starbucks Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 29, 2014

/s/ Scott Maw

Scott Maw

executive vice president and chief financial officer

CERTIFICATIONS PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Starbucks Corporation (“Starbucks”) on Form 10-Q for the fiscal quarter ended March 30, 2014 , as filed with the Securities and Exchange Commission on April 29, 2014 (the “Report”), Howard Schultz, chairman, president and chief executive officer, and Scott Maw, executive vice president and chief financial officer of Starbucks, each hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to his knowledge:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Starbucks.

April 29, 2014

/s/ Howard Schultz

Howard Schultz

chairman, president and chief executive officer

April 29, 2014

/s/ Scott Maw

Scott Maw

executive vice president and chief financial officer