STARBUCKS CORP

FORM 10-K
(Annual Report)

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Address	P O BOX 34067
	SEATTLE, Washington 98124-1067
Telephone	206-447-1575
CIK	0000829224
Industry	Restaurants
Sector	Services
Fiscal Year	09/28

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Form 10-K

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

For the fiscal year ended September 29, 2002

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)*	**98134** *(Zip Code)*

(Registrant's Telephone Number, including Area Code): (206) 447-1575

Securities Registered Pursuant to Section 12(b) of the Act: None

Securities Registered Pursuant to Section 12(g) of the Act:
Common Stock, $0.001 Par Value Per Share

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation of S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

The aggregate market value of the voting stock held by non-affiliates of the Registrant, based upon the closing sale price of the Registrant's Common Stock on December 16, 2002 as reported on the National Market tier of The NASDAQ Stock Market, Inc. was $6,451,558,299.

As of December 16, 2002, there were 387,464,184 shares of the Registrant's Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Annual Report to Shareholders for the fiscal year ended September 29, 2002, have been incorporated by reference into Parts II and IV of this Annual Report on Form 10-K. Portions of the definitive Proxy Statement for the Registrant's Annual Meeting of Shareholders to be held on March 25, 2003 have been incorporated by reference into Part III of this Annual Report on Form 10-K.

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STARBUCKS CORPORATION

FORM 10-K
For the Fiscal Year Ended September 29, 2002

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

Certain statements set forth in or incorporated by reference into this Annual Report on Form 10-K, including anticipated Company-operated and licensed store openings, planned capital expenditures, expected cash requirements and trends in or expectations regarding the Company's operations, 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 and other raw materials prices and availability, successful execution of internal performance and expansion plans, the effect of slowing United States and international economies, the impact of competition, the effect of legal proceedings and other risks detailed herein.

PART I

Item 1. *Business*

Starbucks Corporation (together with its subsidiaries, "Starbucks" or the "Company") purchases and roasts high-quality whole bean coffees and sells them, along with fresh, rich-brewed coffees, Italian-style espresso beverages, cold blended beverages, a variety of pastries and confections, coffee-related accessories and equipment, a selection of premium teas and a line of compact discs primarily through Company-operated retail stores. Starbucks sells coffee and tea products through other channels of distribution, and, through certain of its equity investees, Starbucks also produces and sells bottled Frappuccino® and Starbucks DoubleShot ™ coffee drinks and a line of premium ice creams. These non-retail channels are collectively known as "Specialty Operations." The Company's objective is to establish Starbucks as the most recognized and respected brand in the world. To achieve this goal, the Company plans to continue rapid expansion of its retail operations, grow its Specialty Operations and selectively pursue other opportunities to leverage the Starbucks brand through the introduction of new products and the development of new distribution channels.

Company-operated Retail Stores

The Company's retail goal is to become the leading retailer and brand of coffee in each of its target markets by selling the finest quality coffee and related products and by providing superior customer service, thereby building a high degree of customer loyalty. Starbucks strategy for expanding its retail business is to increase its market share in existing markets and to open stores in new markets where the opportunity exists to become the leading specialty coffee retailer. In support of this strategy, Starbucks opened 614 new Company-operated stores during the fiscal year ended September 29, 2002 ("fiscal 2002"). All store openings are reported net of closures. At fiscal year end, Starbucks had 3,496 Company-operated stores in 43 states, the District of Columbia and five Canadian provinces (which comprise the Company's North American Retail operating segment), as well as 322 stores in the United Kingdom, 33 stores in Australia and 29 stores in Thailand (which comprise the Company's International Retail business unit). Company-operated retail stores accounted for approximately 85% of net revenues during fiscal 2002.

Starbucks retail stores are typically located in high-traffic, high-visibility locations. Because the Company can vary the size and format, its stores are located in a variety of settings, including downtown and suburban retail centers, office buildings and university campuses. While the Company selectively locates stores in suburban malls, it focuses on stores that have convenient access for pedestrians and drivers.

All Starbucks stores offer a choice of regular and decaffeinated coffee beverages, including at least one "coffee of the day," a broad selection of Italian-style espresso beverages, cold blended beverages, a selection of teas and distinctively packaged roasted whole bean coffees. Starbucks stores also offer a selection of fresh pastries and other food items, sodas, juices, coffee-making equipment and accessories, a selection of compact discs, games and seasonal novelty items. Each Starbucks store varies its product mix depending upon the size of the store and its location. Larger stores carry a broad selection of the Company's whole bean coffees in various sizes and types of packaging, as well as an assortment of coffee and espresso-making equipment and accessories such as coffee grinders, coffee makers, espresso machines, coffee filters, storage containers, travel tumblers and mugs. Smaller Starbucks stores and kiosks typically sell a full line of coffee beverages, a more limited selection of whole bean coffees and a few accessories such as travel tumblers and logo mugs. Approximately 500 Starbucks stores carry a selection of “grab and go” sandwiches and salads. During fiscal 2002, the Company’s retail sales mix by product type was approximately 77% beverages, 13% food items, 6% whole bean coffees and 4% coffee-making equipment and accessories.

Specialty Operations

Starbucks Specialty Operations strive to develop the Starbucks brand outside the Company-operated retail store environment through a number of channels. Starbucks strategy is to reach customers where they work, travel, shop and dine by establishing relationships with prominent third parties that share the Company’s values and commitment to quality. These relationships take various forms, including arrangements through Business Alliances, international retail store licensing agreements, grocery channel licensing agreements, warehouse club accounts, interactive operations, equity investees and other initiatives related to the Company’s core businesses. In certain situations, Starbucks has an equity ownership interest in licensee operations. During fiscal 2002, specialty revenues (which include royalties and fees from licensees as well as product sales derived from Specialty Operations) accounted for approximately 15% of the Company’s net revenues.

North American Foodservice Accounts and North American Retail Store Licensing together comprise the Business Alliances operating segment and represents approximately 45% of specialty revenues.

Foodservice Accounts

The Company sells whole bean and ground coffees to office coffee distributors, hotels, airlines, retailers and restaurants as well as institutional foodservice companies that service business, industry, education and healthcare accounts. In fiscal 2002, the Company had approximately 5,600 foodservice accounts, and revenues from these accounts comprised approximately 27% of specialty revenues.

Retail Store Licensing

Although the Company does not generally relinquish operational control of its retail stores in North America, in situations in which a master concessionaire or another company controls or can provide improved access to desirable retail space, the Company licenses its operations. As part of these arrangements, Starbucks receives license fees and royalties and sells coffee and related products for resale in the licensed locations. Employees working in the licensed locations must follow Starbucks detailed store-operating procedures and attend training classes similar to those given to Starbucks store managers and employees. During fiscal 2002, Starbucks opened 269 licensed retail stores. As of September 29, 2002, the Company had 1,078 licensed stores in continental North America. Revenues from these stores accounted for approximately 18% of specialty revenues in fiscal 2002.

The remainder of the Company’s business units include international retail store licensing, grocery channel licensing, warehouse club accounts, interactive operations, equity investees and other initiatives. These business units comprised approximately 55% of specialty revenues in fiscal 2002.

International Retail Store Licensing

The Company’s retail stores located outside of North America, the United Kingdom, Thailand and Australia are operated through a number of licensing arrangements with prominent retailers. During fiscal 2002, Starbucks expanded its international presence by opening 294 new international licensed stores, including the first stores in Austria, Oman, Spain, Germany, Indonesia, Mexico, Puerto Rico and Greece. Licensing arrangements are managed within three operating regions, based primarily on geography.

At fiscal year end, the Company had a total of 928 licensed international retail stores located in the following operating regions:

Asia-Pacific		Europe/Middle East/Africa		Latin America	
Japan	397	United Arab Emirates	23	Hawaii	30
Taiwan	99	Saudi Arabia	22	Mexico	1
China	88	Kuwait	16	Puerto Rico	1
South Korea	53	Switzerland	12		
Philippines	49	Lebanon	11		
New Zealand	34	Israel	6		
Singapore	32	Austria	5		
Malaysia	26	Spain	5		
Indonesia	5	Germany	4		
		Qatar	3		
		Bahrain	2		
		Greece	2		
		Oman	2		
Total	783		113		32

Product sales to, and royalty and license fee revenues from, licensed international retail stores accounted for approximately 17% of specialty revenues in fiscal 2002.

Grocery Channel Licensing

Starbucks has a licensing agreement with Kraft Foods, Inc. (“Kraft”) to market and distribute Starbucks whole bean and ground coffees in the grocery channel in the United States. Pursuant to that agreement, Kraft manages all distribution, marketing, advertising and promotions for Starbucks whole bean and ground coffee in grocery and mass merchandise stores and pays a royalty to Starbucks based on a percentage of total net sales. By the end of fiscal 2002, the Company’s whole bean and ground coffees were available throughout the United States in approximately 18,000 supermarkets. Revenues from the grocery channel accounted for approximately 13% of specialty revenues in fiscal 2002.

Warehouse Club Accounts

The Company sells whole bean and ground coffees to warehouse club chains in North America. As part of its agreement with Starbucks to market and distribute to the grocery channel, Kraft distributes Starbucks products to warehouse club stores, for which the Company pays a distribution fee. Revenues from warehouse club accounts represented approximately 13% of specialty revenues in fiscal 2002.

Interactive Operations

The Company makes Starbucks coffee and coffee-related products conveniently available via mail order and online. The Company maintains a web site at Starbucks.com with an online store that allows customers to purchase coffee, gifts and other items via the Internet. Starbucks also publishes and distributes a catalog of business gifts that offer coffees, certain food items and select coffee-making equipment and accessories. Additionally, Starbucks offers customers high-speed wireless Internet access at approximately 1,650 enabled Company-operated retail stores.

Management believes these interactive operations support its retail store expansion into new markets and reinforce brand recognition and the *Starbucks Experience* for customers in existing markets. The Company’s interactive operations accounted for approximately 7% of specialty revenues in fiscal 2002.

Equity Investees and Other Initiatives

The Company has two partnerships to produce and distribute Starbucks branded products. The North American Coffee Partnership with the Pepsi-Cola Company develops and distributes bottled Frappuccino and Starbucks DoubleShot coffee drinks. The Starbucks Ice Cream Partnership with Dreyer's Grand Ice Cream, Inc. develops and distributes premium ice creams. Starbucks sells roasted coffee for use by equity investees, and these revenues accounted for approximately 2% of specialty revenues in fiscal 2002.

The Company has several other initiatives related to its core businesses that are intended to enhance the customers' experience at Starbucks retail stores. For example, the Company has marketed a selection of premium tea products since the acquisition of Tazo, L.L.C. in 1999. Collectively, these initiatives accounted for approximately 3% of specialty revenues in fiscal 2002.

Product Supply

Starbucks is committed to selling only the finest whole bean coffees and coffee beverages. To ensure compliance with its rigorous coffee standards, Starbucks controls its coffee purchasing, roasting and packaging, and the distribution of coffee to its retail stores. The Company purchases green coffee beans from coffee-producing regions around the world and custom roasts them to its exacting standards for its many blends and single origin coffees.

The supply and price of coffee are subject to significant volatility. Although most coffee trades in the commodity market, coffee of the quality sought by the Company tends to trade on a negotiated basis at a substantial premium above commodity coffee prices, depending upon the supply and demand at the time of purchase. Supply and price can be affected by multiple factors in the producing countries, including weather, political and economic conditions. In addition, green coffee prices have been affected in the past, and may be affected in the future, by the actions of certain organizations and associations that have historically attempted to influence prices of green coffee through agreements establishing export quotas or restricting coffee supplies.

The Company depends upon its relationships with coffee producers, outside trading companies and exporters for its supply of green coffee. World coffee prices reached historic lows during fiscal 2002. In an effort to encourage the continuing supply of high quality coffee, the Company is negotiating contracts with its suppliers at levels equal to prior years, and has been successful in securing long-term contracts on this basis. The Company routinely enters into fixed-price purchase commitments for future deliveries of coffee. As of September 29, 2002, the Company had $242.2 million in fixed-price purchase commitments which, together with existing inventory, are expected to provide an adequate supply of green coffee for 2003. The Company believes, based on relationships established with its suppliers in the past, that the risk of non-delivery on such purchase commitments is low. There can be no assurance that these activities will successfully protect the Company against the risks of higher coffee prices or that such activities will not result in the Company having to pay substantially more for its coffee supply than it would have been required to pay absent such activities.

In addition to coffee, the Company also purchases significant amounts of dairy products to support the needs of its retail stores. Fluid milk is purchased from multiple suppliers who have processing facilities near concentrations of Starbucks retail stores. Dairy prices vary throughout the year as supply and demand fluctuate and are subject to additional changes due to government regulations.

The Company also purchases a broad range of paper and plastic products, such as paper cups, plastic cold cups, hot cup lids, napkins, straws, shopping bags and corrugated paper boxes from several companies to support the needs of its retail stores as well as its manufacturing and distribution operations. The cost of these materials are somewhat dependent upon commodity paper and plastic resin costs, but the Company believes it mitigates the effect of short-term raw material price increases through strategic relationships with key suppliers.

Products other than whole bean coffees and coffee beverages sold in Starbucks retail stores are obtained through a number of different channels. Beverage ingredients other than coffee and milk are purchased from several specialty manufacturers, usually pursuant to long-term supply contracts. Specialty foods, such as fresh pastries and lunch items, are generally purchased from both regional and local sources based on quality and price. Coffee-making equipment, such as drip, vacuum and French press coffee makers, espresso machines and coffee grinders, are generally purchased directly from their manufacturers for resale. Coffee-related accessories, including items bearing the Company's logos and trademarks, are produced and distributed through contracts with a number of different vendors.

Competition

The Company's primary competitors for coffee beverage sales are restaurants, coffee shops, and street carts. In almost all markets in which the Company does business, there are numerous competitors in the specialty coffee beverage business, and management expects this situation to continue. Although competition in the beverage market is currently fragmented, a major competitor with substantially greater financial, marketing and operating resources than the Company could enter this market at any time and compete directly against the Company.

The Company's whole bean coffees compete directly against specialty coffees sold at retail through supermarkets, specialty retailers and a growing number of specialty coffee stores. Both the Company's whole bean coffees and its coffee beverages compete indirectly against all other coffees on the market. The Company believes that its customers choose among retailers primarily on the basis of product quality, service and convenience, and, to a lesser extent, on price.

Management believes that supermarkets are the most competitive distribution channel for specialty whole bean coffee, in part because supermarkets offer customers a variety of choices without having to make a separate trip to a specialty coffee store. A number of nationwide coffee manufacturers are distributing premium coffee products in supermarkets that may serve as substitutes for the Company's coffees. Regional specialty coffee companies also sell whole bean coffees in supermarkets.

In addition to the competition generated by supermarket sales of coffee, Starbucks competes for whole bean coffee sales with franchise operators and independent specialty coffee stores. In virtually every major metropolitan area where Starbucks operates and expects to expand, there are local or regional competitors with substantial market presence in the specialty coffee business. Starbucks Specialty Operations also face significant competition from established wholesale and mail order suppliers, some of whom have greater financial and marketing resources than the Company.

In addition, the Company faces intense competition from both restaurants and other specialty retailers for suitable sites for new stores and qualified personnel to operate both new and existing stores. There can be no assurance that Starbucks will be able to continue to secure adequate sites at acceptable rent levels or that the Company will be able to attract a sufficient number of qualified workers.

Patents, Trademarks, Copyrights and Domain Names

The Company owns and/or has applied to register numerous trademarks and service marks in the United States, Canada and in more than 125 additional countries throughout the world. Rights to the trademarks and service marks in the United States are generally held by Starbucks U.S. Brands Corporation, a wholly-owned subsidiary of the Company, and are used by the Company under license. Some of the Company's trademarks, including "Starbucks," the Starbucks logo and "Frappuccino," are of material importance to the Company. The duration of trademark registrations varies from country to country. However, trademarks are generally valid and may be renewed indefinitely as long as they are in use and/or their registrations are properly maintained, and they have not been found to have become generic.

The Company also owns numerous copyrights for its product packaging, promotional materials, in-store graphics and training materials, among other things. The Company also holds patents on certain products, systems and designs. In addition, the Company has registered and maintains numerous Internet domain names, including "Starbucks.com" and "Starbucks.net." While valuable, individual copyrights, patents and domain names currently held by the Company are not viewed as material to the Company's business.

Research and Development

The Company's research and development efforts are led by food scientists, engineers, chemists and culinarians in the Research and Development department. This team is responsible for the technical development of food and beverage products and new equipment. Recent development efforts have resulted in successful flavor line extensions for latte beverages, coffee and non-coffee based Frappuccino blended beverages and new items for the Company's morning pastry and lunch lines. The department also introduced improvements in base ingredients and approved a new supplier to aid in the distribution of products to international markets and formulation changes to tea-based beverages. The Company spent approximately $3.6 million during fiscal 2002 on technical research and development activities, in addition to customary product testing and product and process improvements in all areas of the Company's business.

Seasonality and Quarterly Results

The Company's business is subject to seasonal fluctuations. Significant portions of the Company's net revenues and profits are realized during the first quarter of the Company's fiscal year that includes the December holiday season. In addition, quarterly results are affected by the timing of the opening of new stores, and the Company's rapid growth may conceal the impact of other seasonal influences. Because of the seasonality of the Company's business, results for any quarter are not necessarily indicative of the results that may be achieved for the full fiscal year.

Employees

As of September 29, 2002, the Company employed approximately 62,000 people, approximately 57,000 in retail stores and the remainder in the Company's regional offices and administrative, specialty, store development, roasting and warehousing operations. At fiscal year end, employees at 10 of the Company's stores and a group of 11 maintenance mechanics and technicians at one roasting plant were represented by unions. The Company believes that its current relations with its employees are good.

Item 2. ***Properties***

Starbucks currently operates three roasting and distribution facilities. In the Seattle area, the Company owns a roasting plant and distribution facility of approximately 305,000 square feet and leases a warehouse facility of approximately 200,000 square feet in Kent, Washington. The Company also owns a 365,000 square foot roasting and distribution facility and a 297,000 square foot green coffee bean storage warehouse in York County, Pennsylvania. Starbucks presently leases a small roasting and storage facility in London, England to support its operations in Europe and the Middle East. The Company is nearing completion of a 70,000 square foot roasting plant in The Netherlands, and will relocate its European roasting facilities there during fiscal 2003. To support its growth, the Company acquired 100 acres of land in Minden, Nevada and has recently completed construction on a 360,000 square foot roasting and distribution facility.

The Company leases approximately 760,000 square feet of a building located in Seattle, Washington for administrative offices and has options to lease approximately 240,000 additional square feet in the same building. The Company owns 2.36 acres of undeveloped land near its administrative offices that is used for parking.

As of September 29, 2002, Starbucks operated a total of 5,886 retail stores. All Starbucks stores are located in leased premises. The Company also leases space in approximately 90 additional locations for regional, district and other administrative offices, training facilities and storage, not including certain seasonal retail storage locations.

Item 3. ***Legal Proceedings***

On June 20, 2001, and July 2, 2001, two purported class action lawsuits against the Company entitled *James Carr, et al. v. Starbucks Corporation* and *Olivia Shields, et al. v. Starbucks Corporation* were filed in the Superior Courts of California, Alameda and Los Angeles Counties, respectively. On April 19, 2002, Starbucks announced that it had reached an agreement to settle both lawsuits and fully resolve all claims brought by the plaintiffs without engaging in protracted litigation. Accordingly, Starbucks recorded an $18.0 million charge, which is included in "General and administrative expenses" on the consolidated statement of earnings, for the estimated payment of claims to eligible class members, attorney's fees and costs, and costs to a third-party claims administrator, as well as applicable employer payroll taxes. On December 17, 2002, the settlement was approved. Claims under the settlement agreement will be paid on a "claims made" basis. The Company expects most claims will be paid in the second quarter of fiscal 2003.

In addition to the California lawsuits described above, the Company is party to various legal proceedings arising in the ordinary course of its business, but it is not currently a party to any legal proceeding that management believes would have a material adverse effect on the financial position or results of operations of the Company.

Item 4. *Submission of Matters to a Vote of Security Holders.*

No matters were submitted to a vote of security holders during the fourth quarter of fiscal year 2002.

PART II

Item 5. *Market for the Registrant's Common Equity and Related Stockholder Matters*

The information required by this item is incorporated herein by reference to the section entitled "Shareholder Information" in the Company's Fiscal 2002 Annual Report to Shareholders, and is also attached in Exhibit 13 hereto.

Item 6. *Selected Financial Data*

The information required by this item is incorporated herein by reference to the section entitled "Selected Financial Data" in the Company's Fiscal 2002 Annual Report to Shareholders, and is also attached in Exhibit 13 hereto.

Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations*

The information required by this item is incorporated herein by reference to the sections entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's Fiscal 2002 Annual Report to Shareholders, and is also attached in Exhibit 13 hereto.

Item 7A. *Quantitative and Qualitative Disclosures about Market Risk*

The information required by this item is incorporated herein by reference to the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations — Coffee Prices, Availability and General Risk Conditions" and "Management's Discussion and Analysis of Financial Condition and Results of Operations — Financial Risk Management" in the Company's Fiscal 2002 Annual Report to Shareholders, and is also attached in Exhibit 13 hereto.

Item 8. *Financial Statements and Supplementary Data*

The information required by this item is incorporated herein by reference to the Consolidated Financial Statements and the notes thereto in the Company's Fiscal 2002 Annual Report to Shareholders, and is also attached in Exhibit 13 hereto.

Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosures*

None.

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PART III

Item 10. *Directors and Executive Officers of the Registrant*

Information concerning the directors of the Company and compliance with Section 16(a) of the Securities Exchange Act of 1934, as amended, is incorporated herein by reference to the sections entitled “Proposal 1 — Election of Directors” and “Executive Compensation — Section 16(a) Beneficial Ownership Reporting Compliance” in the Company’s definitive Proxy Statement for the Annual Meeting of Shareholders to be held on March 25, 2003 (the “Proxy Statement”). The Company intends to file the Proxy Statement within 120 days after the end of its fiscal year.

The executive officers of the Company are as follows:

Name	Age	Position	Since
Howard Schultz	49	chairman of the Board of Directors and chief global strategist	1985
Orin C. Smith	60	director, president and chief executive officer	1990
Howard Behar	58	director, president, North America Operations	1989
Peter Maslen	50	president, Starbucks Coffee International, Inc.	1999
Michael Casey	57	executive vice president, chief financial officer and chief administrative officer	1995
Eduardo R. (Ted) Garcia	55	executive vice president, Supply Chain and Coffee Operations	1995
Paula E. Boggs	43	executive vice president, general counsel and secretary	2002
Dave Pace	43	executive vice president, Partner Resources	2002
Deidra Wager	47	executive vice president; chief retail officer, Starbucks Coffee Japan, Ltd.	1993
Wanda Herndon	50	senior vice president, Worldwide Public Affairs	1996

Howard Schultz is the founder of the Company and has been chairman of the board since its inception in 1985. Mr. Schultz served as chief executive officer from 1985 until June 2000, when he transitioned into the role of chief global strategist. From 1985 to June 1994, Mr. Schultz was also the Company’s president. From September 1982 to December 1985, Mr. Schultz was the director of Retail Operations and Marketing for Starbucks Coffee Company, and from January 1986 to July 1987, he was the chairman of the board, chief executive officer and president of Il Giornale Coffee Company, a predecessor to the Company.

Orin C. Smith joined the Company in 1990 and has served as president and chief executive officer of the Company since June 2000. From June 1994 to June 2000, Mr. Smith served as the Company’s president and chief operating officer. Prior to June 1994, Mr. Smith served as the Company’s vice president and chief financial officer and later, as its executive vice president and chief financial officer.

Howard Behar joined the Company in August 1989 as vice president, Retail Stores and was promoted to senior vice president, Retail Operations in January 1991. Mr. Behar served as the Company’s executive vice president, Sales and Operations from February 1993 until June 1994 when he became president, Starbucks Coffee International, Inc., a position he held until his retirement in late 1999. Mr. Behar rejoined the Company in September 2001 as president, North American Operations. Mr. Behar has served as a member of the Board of Directors since January 1996.

Peter Maslen joined Starbucks in August 1999 as president, Starbucks Coffee International, Inc. Prior to joining Starbucks, Mr. Maslen served in various executive positions within Asia Pacific and Europe with Mars Inc., PepsiCo, Inc. and Tricon Global Restaurants (now YUM! Brands, Inc.). From 1992 to 1999, as senior vice president with Tricon, he served as president of its German, Swiss, Austrian and Central Europe divisions.

Michael Casey joined Starbucks in August 1995 as senior vice president and chief financial officer and was promoted to executive vice president, chief financial officer and chief administrative officer in September 1997. Prior to joining Starbucks, Mr. Casey served as executive vice president and chief financial officer of Family Restaurants, Inc. from its inception in 1986. During his tenure there, he also served as a director from 1986 to 1993, and as president and chief executive officer of its El Torito Restaurants, Inc. subsidiary from 1988 to 1993.

Eduardo R. (Ted) Garcia joined Starbucks in April 1995 as senior vice president, Supply Chain Operations and was promoted to executive vice president, Supply Chain and Coffee Operations in September 1997. From May 1993 to April 1995, Mr. Garcia was an executive for Gemini Consulting. From January 1990 until May 1993, he was the vice president of Operations Strategy for Grand Metropolitan PLC, Food Sector.

Paula E. Boggs joined Starbucks in September 2002 as executive vice president, general counsel and secretary. Prior to joining Starbucks, Ms. Boggs served as vice president, legal, for products, operations and information technology at Dell Computer Corporation from 1997 to 2002. From 1995 to 1997, Ms. Boggs was a partner with Preston Gates & Ellis. Ms. Boggs served in several roles at the Pentagon, White House and U.S. Department of Justice between 1984 and 1995.

Dave Pace joined Starbucks in July 2002 as executive vice president of Partner Resources. From 2000 to 2002, Mr. Pace was the president of i2 Technologies. From 1999 to 2000 Mr. Pace served as the chief human resources officer for HomeGrocer.com. From 1995 to 1999, he served as senior vice president of human resources for Tricon Restaurants International (now YUM! Brands, Inc.).

Deidra Wager joined Starbucks in 1992 and served as the Company’s senior vice president, Retail Operations from August 1993 to September 1997 when she was promoted to executive vice president, Retail. In March 1999, Ms. Wager moved to Tokyo, Japan where she serves as chief retail officer for Starbucks Coffee Japan, Ltd. and serves on the Board of Directors. From 1988 to 1992, Ms. Wager held several operations positions with Taco Bell®, Inc.

Wanda Herndon joined Starbucks in July 1995 as vice president, Communications and Public Affairs and was promoted to senior vice president, Communications and Public Affairs (now known as Worldwide Public Affairs) in November 1996. From February 1990 to June 1995, Ms. Herndon held several communications management positions at DuPont Company. From November 1978 to February 1990, Ms. Herndon held several public affairs and marketing communications positions at The Dow Chemical Company.

There are no family relationships between any directors or executive officers of the Company.

Item 11. ***Executive Compensation***

The information required by this item is incorporated by reference to the section entitled “Executive Compensation” in the Company’s Proxy Statement for the Annual Meeting of Shareholders on March 25, 2003.

Item 12. ***Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters***

The information required by this item is incorporated by reference to the sections entitled “Beneficial Ownership of Common Stock” and “Equity Compensation Plans” in the Company’s Proxy Statement for the Annual Meeting of Shareholders on March 25, 2003.

Item 13. ***Certain Relationships and Related Transactions***

The information required by this item is incorporated by reference to the section entitled “Executive Compensation — Certain Transactions” in the Company’s Proxy Statement for the Annual Meeting of Shareholders on March 25, 2003.

Item 14. ***Controls and Procedures***

(a) Evaluation of disclosure controls and procedures

The Company has evaluated the effectiveness of the design and operation of its disclosure controls and procedures pursuant to Exchange Act Rule 13a-14(c) and 15d-14(c) within 90 days of the filing date of this Annual Report on Form 10-K. Based on the evaluation, under the supervision and with the participation of the Company's management, the Company's chief executive officer and chief financial officer have concluded that these disclosure controls and procedures are effective.

(b) Changes in internal controls

There were no significant changes in the Company's internal controls or in other factors that could significantly affect the Company's disclosure controls and procedures, nor were there any significant deficiencies or material weaknesses in the Company's internal controls subsequent to the date of their evaluation. As a result, no corrective actions were required or undertaken.

PART IV

Item 15. ***Exhibits, Financial Statement Schedules and Reports on Form 8-K***

(a) The following documents are filed as a part of this Annual Report on Form 10-K:

1. Financial Statements

The following financial statements are incorporated by reference in Part II, Item 8 of this Annual Report on Form 10-K:

- Consolidated Statements of Earnings for the fiscal years ended September 29, 2002, September 30, 2001, and October 1, 2000;
- Consolidated Balance Sheets as of September 29, 2002, and September 30, 2001;
- Consolidated Statements of Cash Flows for the fiscal years ended September 29, 2002, September 30, 2001, and October 1, 2000;
- Consolidated Statements of Shareholders' Equity for the fiscal years ended September 29, 2002, September 30, 2001, and October 1, 2000;
- Notes to Consolidated Financial Statements; and
- Independent Auditors' Report

2. Financial Statement Schedules

Financial statement schedules are omitted because they are not required or are not applicable, or the required information is provided in the consolidated financial statements or notes thereto described in Item 15(a)(1) above.

3. Exhibits

The Exhibits listed in the Index to Exhibits, which appears immediately following the signature page and is incorporated herein by reference, are filed as part of this Annual Report on Form 10-K.

(b) Reports on Form 8-K.

The Company filed a Current Report on Form 8-K on August 5, 2002 announcing that its president and chief executive officer and its executive vice president and chief financial officer had submitted sworn statements to the Securities Exchange Commission pursuant to Section 21(a)(1) of the Securities Exchange Act of 1934, as amended. On June 19, 2002, the Company filed a Current Report on Form 8-K announcing the authorization of repurchase of up to 10 million shares of the Company's common stock. On April 24, 2002, the Company filed a Current Report on Form 8-K announcing that it had reached an agreement to settle two California class action lawsuits filed in 2001.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

STARBUCKS CORPORATION

By: /s/ HOWARD SCHULTZ

Howard Schultz
chairman of the Board of Directors and chief global strategist

December 20, 2002

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature		Title	Date
By:	/s/ HOWARD SCHULTZ Howard Schultz	chairman of the Board of Directors and chief global strategist	December 20, 2002
By:	/s/ ORIN C. SMITH Orin C. Smith	director, president and chief executive officer	December 20, 2002
By:	/s/ HOWARD BEHAR Howard Behar	director, president, North American Operations	December 20, 2002
By:	/s/ MICHAEL CASEY Michael Casey	executive vice president, chief financial officer and chief administrative officer (principal financial officer and principal accounting officer)	December 20, 2002
By:	/s/ BARBARA BASS Barbara Bass	director	December 20, 2002
By:	/s/ CRAIG J. FOLEY Craig J. Foley	director	December 20, 2002
By:	/s/ GREGORY B. MAFFEI Gregory B. Maffei	director	December 20, 2002
By:	/s/ ARLEN I. PRENTICE Arlen I. Prentice	director	December 20, 2002
By:	/s/ JAMES G. SHENNAN, JR. James G. Shennan, Jr.	director	December 20, 2002
By:	/s/ CRAIG E. WEATHERUP Craig E. Weatherup	director	December 20, 2002

INDEX TO EXHIBITS

Exhibit Number	Description
3.1	Restated Articles of Incorporation of Starbucks Corporation (incorporated herein by reference to Exhibit 3.1 to the Company's Form 10-Q for the quarter ended April 1, 2001, filed with the Securities Exchange Commission on May 16, 2001)
3.2	Amended and Restated Bylaws of Starbucks Corporation (incorporated herein by reference to Exhibit 3.2 to the Company's Form 10-Q for the quarter ended March 31, 2002, filed with the Securities Exchange Commission on May 15, 2002)
10.1	Starbucks Corporation Amended and Restated Key Employee Stock Option Plan — 1994 (incorporated herein by reference to Appendix A to the Company's Proxy Statement filed with the SEC on January 11, 2000)
10.2	Starbucks Corporation Amended and Restated 1989 Stock Option Plan for Non-Employee Directors (incorporated herein by reference to Appendix A to the Company's Proxy Statement filed with the SEC on January 13, 1999)
10.3	Starbucks Corporation 1991 Company-Wide Stock Option Plan, as amended and restated through August 28, 2000 (incorporated herein by reference to Exhibit 10.3 to the Company's Form 10-K for the Fiscal Year ended October 1, 2000, filed with the SEC on December 22, 2000)
10.3.1	Starbucks Corporation 1991 Company-Wide Stock Option Plan — Rules of the UK Sub-Plan, as amended and restated through August 28, 2000 (incorporated herein by reference to Exhibit 10.3.1 to the Company's Form 10-K for the Fiscal Year ended October 1, 2000, filed with the SEC on December 22, 2000)
10.4	Starbucks Corporation Employee Stock Purchase Plan — 1995, as amended and restated through June 30, 2000 (incorporated herein by reference to Exhibit 10.4 to the Company's Form 10-K for the Fiscal Year ended October 1, 2000, filed with the SEC on December 22, 2000)
10.5	Amended and Restated Lease, dated as of January 1, 2001, between First and Utah Street Associates, L.P. and Starbucks Corporation (incorporated herein by reference to Exhibit 10.5 to the Company's Form 10-K for the Fiscal Year ended September 30, 2001, filed with the SEC on December 20, 2001)
10.6	Joint Venture and Partnership Agreement, dated August 10, 1994, between Pepsi-Cola Company, a division of PepsiCo, Inc., and Starbucks New Venture Company (incorporated herein by reference to Exhibit 10 to the Company's Form 10-Q for the Quarterly Period ended July 3, 1994, filed with the SEC on August 16, 1994)
10.7	Starbucks Corporation Executive Management Bonus Plan (incorporated herein by reference to Exhibit 10.15 to the Company's Form 10-K for the Fiscal Year ended October 3, 1999 filed with the SEC on December 23, 1999)
10.8	Starbucks Corporation Management Deferred Compensation Plan (incorporated herein by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-8 filed with the SEC on January 1, 1998)
10.9	Starbucks Corporation 1997 Deferred Stock Plan (incorporated herein by reference to Exhibit 10.17 to the Company's Annual Report on Form 10-K for the Fiscal Year ended October 3, 1999 filed with the SEC on December 23, 1999)
10.10	Purchase Agreement, dated as of June 14, 2001, between Starbucks Manufacturing Corporation and CVBP LLC (incorporated herein by reference to Exhibit 10.12 to the Company's Form 10-K for the Fiscal Year ended September 30, 2001, filed with the SEC on December 20, 2001)
10.10.1	First Amendment to Purchase Agreement, dated as of November 7, 2001, between Starbucks Manufacturing Corporation and CVBP LLC (incorporated herein by reference to Exhibit 10.12.1 to the Company's Form 10-K for the Fiscal Year ended September 30, 2001, filed with the SEC on December 20, 2001)
10.11	Lease, dated February 15, 2002, between Multimodaal Transportcentrum Amsterdam Wespoint v.o.f. and Starbucks Corporation.

Exhibit Number	Description
13	Portions of the Fiscal 2002 Annual Report To Shareholders
21	Subsidiaries of the Registrant
23	Independent Auditors' Consent
99	Certification of the Annual Report of Starbucks Corporation on Form 10-K for the fiscal year ended September 29, 2002 filed with the SEC on December 20, 2002.

EXHIBIT 10.11

LEASE AGREEMENT PERTAINING TO OFFICE PREMISES

and other industrial Units not in accordance with Article 7A: 1624 of the Dutch Civil Code

The undersigned Multimodaal Transportcentrum Amsterdam Westpoint v.o.f., established at Cacaoweg 20, in Amsterdam (1047 BM) in the Netherlands, hereinafter to be referred to as "Lessor," duly represented in this matter by Mr
A.C. Ramselaar by power of attorney, and Starbucks Manufacturing EMEA B.V., a Dutch corporation, duly represented in this matter by Mr W.J. O'Shea, hereinafter to be referred to as "Lessee" hereby agree as follows:

The Leased Premises, Designated Use and Use

1.1 This Lease Agreement pertains to warehouses (together approximately 6415 m(2)), office space on the ground floor level consisting of approximately 1160 m2 ("Ground Floor Office Space"), office space on the first floor level consisting of approximately 1160 m2 ("First Floor Office Space") (the Ground Floor Office Space and the First Floor Office Space are collectively referred to herein as the "Office Space") and a designated parking area, to be constructed by Lessor as outlined and specified in Section 5 herein, situated at Westpoint II, referred to in the land register as: Municipality of Haarlemmerliede en Spaarnwoude, Section L, number 3114 (partial) and fully known to both parties, hereinafter to be referred to as the "Leased Premises," and as shown on EXHIBIT A attached hereto and made a part hereof, as specified on the preliminary plans attached as EXHIBIT B and the technical description attached as EXHIBIT C (as used herein the term Leased Premises also refers to the "leased premises" as expanded from time to time pursuant to the terms hereof).

1.2 Lessee shall have the right to occupy and/or use the Leased Premises for any lawful purpose or purposes, subject to the restrictions contained in Lessee's environmental permit and in the ground lease, including without limitation as a business accommodation for uses such as production, manufacturing, distribution and warehousing, including without limitation coffee roasting, distributing, manufacturing and storage, with ancillary offices.

1.3 The maximum load to which the floors of the industrial Units within the Leased Premises may be subjected is 2.500 kg/m2. However, a part of the floors of the industrial Units within the Leased Premises is reinforced and may be subjected to 4000 kg/m(2), this part is specified in EXHIBIT D, attached hereto and made a part hereof. The maximum load to which the floors of the offices within the Leased Premises may be subjected is 500 kg/m2. The floors may not be subjected to any load that exceeds the maximum permissible load.

1.4 As of the date of the signing of the present Lease Agreement, Lessor and the Municipality of Amsterdam, the bare owner (the "Owner"), shall have entered into a ground lease in (the "Ground Lease") more particularly described in EXHIBIT E attached hereto and made a part hereof. Pursuant to the letter from the Owner to Lessee, dated 31 October 2001, attached as EXHIBIT F, the Owner has consented to this lease, the Owner has consented to Lessee becoming a ground lessee of the Leased Premises if Lessee exercises its option to purchase the Leased Premises with Lessee in such event, and the Owner has consented that in that event a direct ground lease relationship between the owner and Lessee in respect of the Leased Premises will arise. Lessor hereby agrees that it will at all times comply with all of the covenants, terms, conditions and obligations of the Ground Lease, that it will keep the Ground Lease in full force and effect and that this lease and all of Lessee's rights hereunder are not and will not be subject, in a manner disadvantageous to Lessee, to any liens.

General Terms and Conditions

2.1 The General Terms and Conditions applicable to lease agreements pertaining to the lease of office space and other industrial Units not in accordance with Article 7A: 1624 of the Dutch Civil Code, as filed at the Office of the District Court in `s-Gravenhage on 29 February 1996, registered under number 34/1996 (hereinafter referred to as "the General Terms and Conditions") are considered to constitute an integral part of this Lease Agreement. The content of the said General Terms and Conditions is known to the parties hereto and Lessee has received a copy of said General Terms and Conditions.

2.2 The General Terms and Conditions referred to in the previous clause apply to the extent that the provisions set out in this Lease Agreement do not expressly stipulate otherwise, unless the application of the said General Terms and Conditions is not possible in the case of the Leased Premises.

Duration, Renewal and Termination of the Lease Agreement

3.1 This Lease Agreement is entered into for a period of ten (10) years and the number of days between the date of Substantial Completion of the Leased Premises and the Commencement Date, commencing on the date on which the Leased Premises are Substantially Completed (as such term is defined in Section 5 below). For practical purposes, the Commencement Date of the Lease Agreement will be deemed to coincide with the first day of the month following the month in which the Leased Premises are Substantially Completed.

3.2 Following the expiry of the term of the lease referred to in the previous clause, this Lease Agreement is to be extended for an additional period of five
(5) years, unless this Lease Agreement has been terminated by Lessee in accordance with the stipulation set out in clause 3.3 hereof. Upon the expiry of the first option period as referred to above, the Lease Agreement will be renewed 3 more times, each time by 5 years, unless Lessee terminates the present Lease Agreement by the end of a current lease period in accordance with the stipulation set out in Section 3.3 and Section 3.4. Lessor may thus not terminate until by the end of the thirtieth year of the lease, also with due observance of a term of at least 9 calendar months.

3.3 Termination of this Lease Agreement is to be by means of notice of termination issued towards the end of a term of the lease with due observance of a period of notice of at least nine (9) calendar months. Lessor will serve a reminder notice in writing to Lessee at least twelve (12) calendar months before the end of a term of this lease, in order to signal to Lessee that a notice of termination might be issued by Lessee.

3.4 Notice of termination is to be served in the form of a writ or to be sent by registered letter.

3.5 Premature termination of this lease is possible in the event that one of the circumstances listed in Article 7 of the General Terms and Conditions arises.

3.6 This Lease Agreement may also end automatically in accordance with the provisions set forth in Section 5 hereof.

Payment Obligation, Term of Payment

4.1 The payment obligation (the "Rent") incumbent upon Lessee under the terms of this Lease Agreement comprises:

the Base Rent (as such term is defined herein)

the Additional Rent (as such term is defined herein)

the fee for any additional amenities and services described in Section 7 plus any value added tax that may apply

the value added tax that applies to the Base Rent and Additional Rent or an equivalent sum in the cases referred to in Section 13.2 of this Lease Agreement.

4.2 At the outset of the Lease Agreement, Lessee shall pay the sum of one hundred and thirteen euros and forty-four eurocents (113.44) (two hundred and fifty (250) guilders)/m(2) on an annual basis for that portion of the Office Space which is more particularly shown on the drawing attached hereto as EXHIBIT B and as indicatively technically described in the document attached hereto as EXHIBIT C (the "Finished Office Space"), fifty-five euros and thirty-six eurocents (55.36) (one hundred twenty-two (122) guilders)/m(2) for warehouse space, and forty-five euros and thirty-seven eurocents (45.37) (one hundred
(100) guilders)/m(2) for the remaining portion of the Office Space that may be completed in the future in accordance with Section 5.14 (the "Unfinished Office Space") (collectively, the "Base Rent"). The Base Rent for the Unfinished Office Space shall increase to one hundred and thirteen euros and forty-four eurocents (113.44) (two hundred fifty (250) guilders)/m(2) per annum upon the completion in accordance with Section 5.14. In the event that Lessee desires to lease additional exclusive parking spaces (in addition to those provided under Section 13.7 below), Lessee shall provide written notice to Lessor. Such notice shall include the number of additional exclusive parking spaces requested by Lessee. Provided such additional exclusive parking spaces are available, Lessor shall lease such additional exclusive parking spaces to Lessee. Lessee and Lessor shall reasonably agree on the location of all such additional exclusive parking spaces. Lessee shall pay the sum of thirteen euros and sixty-one eurocents
(13.61) (thirty (30) guilders)/m(2) on an annual basis per additional exclusive parking space leased to Lessee.

4.3 The Base Rent is established and indexed on the basis of the price index that applies as per 1 September 2002. The Base Rent shall be revised for the first time on the first (1st) anniversary of the Commencement Date, and every year thereafter on an annual basis in accordance with Article 4 of the General Terms and Conditions. The above also applies to the rent for the additional exclusive parking space(s) referred to in the last sentence of Section 4.2.

4.4.1 For the Additional Improvements referred to in Section 5, Lessee shall pay an amount equal to: (a) the annual amortization of the Additional Improvements increased by (b) interest on the amount of the prime costs of the Additional Improvements, which interest rate shall be equal to the effective interest rate of the financing arrangement that Lessor will conclude hereto, after approval by Lessee, to finance the Additional Improvements and commence as of the date which is the latter

of: (i) the date of the investments concerned or (ii) the date on which Lessee's obligation to begin paying Rent hereunder commences pursuant to Section 4.5 below, and also to be increased by (c) an additional two percent (2%) to cover the development fee and risks for Westpoint (the "Additional Rent"). Upon the full amortization of the Additional Improvements, Lessee shall no longer be liable for the payment of Additional Rent. The amortization term for the Additional Improvements shall be calculated as follows: (i) the Additional Improvements related to the base building shall have an amortization term based on the economic lifecycle of the Additional Improvements concerned and determined in accordance with generally accepted accounting principles consistently applied, but in no event will such term be less than ten (10) years, and (ii) all other Additional Improvements shall have an amortization term of 10 years. Lessor shall include the costs of the 13.1 meter clear height, increased floor loading, and increased pile lengths (if necessary) in the Base Rent as stated above and those improvements are therefore not characterised as Additional Improvements. If Lessee terminates the Lease Agreement before expiry of the amortization term of the Additional Improvements, Lessee shall within 3 months of the end of the lease compensate Lessor for the portion of the cost price of the Additional Improvements concerned that was not amortized, increased by any costs involved in the early repayment of the financing arrangement concluded by Lessor for the purpose of those Additional Improvements, all this in so far as not pertaining to Additional Improvements that are taken over by subsequent lessees within two (2) years of the end date of the present Lease Agreement. Lessor will inform Lessee in writing of subsequent leases until two
(2) years after the end date of the present Lease Agreement.

4.4.2 Lessee and Lessor have agreed a separate arrangement with regard to the installation of a sprinkler system, based on a proposal by Lessor to Lessee, dated 22 October 2001, and attached to the present agreement as EXHIBIT G, in the manner set out in this Section 4.4.2. The sprinkler system to be installed within the framework of the present agreement is capable of providing the entire Westpoint II building, as currently envisaged by Lessor, the said building consisting of 6 phases, with sprinkler facilities. The costs involved in the installation of the sprinkler system can therefore be divided into the costs involved in installation of the central sprinkler system, the so-called "capacity costs", and the costs involved in the installation of the sprinkler facilities per phase that are to be connected to the central sprinkler installation, the so-called "direct costs", all this as explained in EXHIBIT G. The direct costs for the sprinkler facilities of a certain phase will be entirely for Lessee's account - in the manner to be set out below - if Lessee leases the phase concerned and as soon as the sprinkler facilities concerned have been realised (in the first instance, the Leased Premises will comprise only phase 1). At Lessee's discretion, Lessee may either pay the direct costs by characterising the sprinkler facilities related to the direct costs as Additional Improvements, resulting in an Additional Rent to be calculated in accordance with Section 4.4.1, or by paying the direct costs concerned directly to the relevant contractor. Each of the parties shall pay one half of the capacity costs. Lessee shall pay its portion of the capacity costs via the Additional Rent with due observance of Section 4.4.1. As no more than approximately 24.5% of the capacity costs pertains to phase 1, assuming the final realisation and lease of all phases, the payment by Lessee of the Additional Rent in respect of the remaining 25.5% of the capacity costs will be decreased if and as soon as Lessor leases phases 2 and/or 3 to a third party, in proportion to the floor area included in such lease. The direct costs and the capacity costs shall have an amortization term of 20 years. Upon termination of the Lease Agreement, Lessee will not be obliged to remove the sprinkler system and the sprinkler provisions as referred to in EXHIBIT G.

4.5 Lessee's liability for Base and Additional Rent increased by the turnover tax due thereon shall commence one month after the date on which the Leased Premises were Substantially

Completed as referred to in Section 5. As from the date on which the Leased Premises are Substantially Completed, as referred to in Section 5, Lessee shall also pay the advance referred to in Section 4.6 and the turnover tax due thereon.

4.6 Payment of the fee for the ancillary amenities and services referred to in
Section 7 is to be provided for by means of a system of advance payment with final settlement at a later date, as described in Article 12 of the General Terms and Conditions. At the outset of this Lease Agreement, the advance for amenities and services amounts to nine euros and eight eurocents (9.08) (twenty
(20) guilders)/m2 for Finished Office Space (provided that such amount shall not be applicable to the Unfinished Office Space until such time that the Unfinished Office Space rent increase commences), one euro and thirty-six eurocents (1.36)
(three (3) guilders)/m2 for warehouse space, and twenty-three eurocents (0.23) (fifty cents (0.5) guilders)/m2 for the exclusive parking space(s) for Lessee, all on an annual basis.

4.7 The Base Rent, the Additional Rent, the advance payment relating to the fee for the additional amenities and services and the value added tax, or the equivalent sum as stipulated in Section 13.2, of this Lease Agreement are to be paid in advance as a lump sum in the amount of two monthly instalments. Payment is to be made by means of transfer to the bank account yet to be stipulated by Lessor on or before the first day of the relevant calendar month.

"Build to Suit"

5.1 Lessor shall construct, for its own account and risk, the spaces referred to in Section 4.2, which shall include access roads, driveways and the parking area in accordance with the Plans attached hereto as EXHIBITS A, B AND C (the "Preliminary Plans") and as possibly adjusted on account of any law, ordinance, rule or regulation (hereinafter: the "Basic Facilities"). Initially, Lessor shall construct the Office Space pursuant to the standards set forth in EXHIBITS B AND C (excluding, however, the Unfinished Office Space, which shall be completed in accordance with the provisions of Section 5.14 below).

During the term of the present agreement, Lessee may request that Lessor realises or has realised Additional Improvements with regard to the Leased Premises (hereinafter and above referred to as Additional Improvements). To the extent that the request must be deemed reasonably acceptable to Lessor, the parties will in mutual consultation attempt to reach an agreement on all aspects of the Additional Improvements concerned, with due observance of Section 4.4.1.

Lessor shall be responsible for paying the costs of the design and construction, provided that if as a result of the environmental permit obtained by Lessee additional improvements need to be constructed, such improvements shall be included in the Additional Improvements.

A final set of Construction Plans (the "Final Plans") is to be approved by both Lessor and Lessee in writing prior to commencement of construction, provided that such Final Plans shall be consistent with the Preliminary Plans and that which was agreed at the site meetings.

Lessor shall be responsible for procuring all necessary licenses and permits for the construction of the Basic Facilities and will use best endeavours to procure all necessary licenses and permits for the construction of the Additional Improvements (the "Permits"), with the exception that Lessee shall be responsible for obtaining the environmental permit necessary for its operation of a coffee roasting plant, warehouse and distribution centre. All costs related to the environmental permit are for Lessee's account. Procuring the Permits will have to be done in close consultation between Lessee and Lessor and Lessee will have to assist Lessor in procuring the permits as much as possible.

5.2 Lessor shall have the right to select and approve the contractor who will carry out the construction work referred to in Section 5.1, which contractor will be Hercuton B.V. and/or Ooms Bouwmaatschappij B.V. Lessor shall be exclusively responsible vis-a-vis Lessee for constructing the Additional Improvements. In connection with the construction of the Additional Improvements, Lessee shall have the right to require Lessor to acquire bids from at least two (2) contractors that are reasonably acceptable to Lessee, which bids shall be itemised in detail reasonably satisfactory to Lessee, and Lessee shall be furnished copies of all bids received by Lessor. Lessee shall have the right to select the contractor(s) who will construct the Additional Improvements, notwithstanding the fact that the contractor to be selected has to be reasonably acceptable for Lessor. However, Lessee assumes no obligations with respect to the manner or quality of this construction.

5.3 Lessor shall (i) commence construction of the Basic Facilities and realisation of the Additional Improvements agreed prior to the start of the construction as soon as reasonably possible after obtaining all Permits (ii) diligently proceed with the construction of the Basic Facilities and those Additional Improvements, and (iii) achieve Substantial Completion (as such term is defined below) of the same as soon as reasonably possible but in any event within seven (7) months after obtaining the Permits referred to in Section 5.1, including the environmental permit. Substantial Completion of the construction of the Basic Facilities and the realisation of the Additional Improvements agreed prior to the start of the construction shall be determined to be the point at which (a) Lessor and its Architect deliver to Lessee a notice of Substantial Completion, (b) Lessor delivers possession of the Leased Premises to Lessee and (c) the construction of the Basic Facilities and the realisation of the Additional Improvements that were agreed prior to the start of the construction are Substantially Completed in accordance with the Final Plans referred to in Section 5.1, subject only to minor items that will not and do not materially interfere with Lessee's occupancy of the Leased Premises (hereinafter: "Substantial Completion" or "Substantially Completed").

5.4 Lessor has indicated to Lessee that some lead time will be involved in the acquisition of piles and piling equipment. The lead times and dates for ordering such materials are described in EXHIBIT H attached hereto and made a part hereof. No later than two weeks before issuance of the building permit, Lessee shall notify Lessor if Lessor should order such materials or not order such materials. If Lessee instructs Lessor to order such materials, then said seven
(7) month period described above shall not be changed and Lessee shall be obligated to (i) pay the costs which Lessor incurs in that regard and shown in EXHIBIT H or (ii) compensate the actual damages incurred by Lessor with respect to the cancellation of the order for such materials, in so far as that damage is lower than the aforementioned costs, if Lessee terminates the present agreement pursuant to Section 5.12 and Lessor consequently cancels the order. If Lessee fails to instruct Lessor to order such materials, the said seven (7) month period shall be extended by one day for each day of delay in ordering such materials beyond the specified date therefore shown in EXHIBIT H, Lessor shall then order such materials immediately upon receipt of Lessee's notice to order such materials.

5.5 Lessor shall advise Lessee no less frequently than monthly regarding the status of the construction of the Basic Facilities and the Additional Improvements. In addition, Lessor shall provide Lessee with at least ten (10) days notice of the anticipated Substantial Completion date of the Basic Facilities and the Additional Improvements agreed prior to the start of the construction. Lessee shall have the right to have Lessee's Representative (as such term is defined below) attend all job meetings with the contractor(s) and the Architect, and Lessor shall keep Lessee advised as to the scheduling of all such meetings.

5.6 Lessee shall, at all times, have the right to inspect the progress of the construction work. Lessee shall give Lessor written notice of any incomplete work, unsatisfactory conditions or defects (the "Punch List Items") within thirty (30) days after the discovery of the same, and Lessor shall, in so far as obligated thereto, comply with Lessee's requirements in that regard as soon as possible. In addition, Lessee shall give Lessor written notice of any latent defects discovered by Lessee after the Commencement Date promptly after the discovery thereof and Lessor shall, in so far as obligated thereto, cause such latent defects to be corrected as soon as reasonably possible and entirely for its own account.

5.7 If Lessee requires any change, addition or alteration (collectively, a "Change") in the (preliminary and/or final) Plans, Lessee shall notify Lessor of such Change in writing ("Lessee's Change Notice"), providing detailed plans and/or drawings showing such Change. Lessor shall not unreasonably withhold its consent to any such Change in the Plans and Lessor shall inform Lessee of its initial response within (5) business days In principle, Change Notices as referred to above shall be given to Lessor at weekly site meetings only; in the event of urgency, Change Notices may be sent to Lessor by registered letter, signed return receipt requested. At the subsequent site meeting, Lessee will be informed of the additional or lower costs involved in the Change or the (change of the) Additional Rent proposed in relation thereto as well as the additional construction time reasonable required for the Change concerned, after which Lessee shall inform Lessor of its decision in that regard without delay. Lessee may either pay the agreed price for the additional work directly to Lessor, or, if applicable, to the contractor concerned, or have the agreed additional work included in the Additional Rent in accordance with Section 4.4.1.

5.8 In the event that the construction of Basic Facilities and the realisation of the Additional Improvements agreed prior to the start of the construction has not reached Substantial Completion within seven (7) months of obtaining all of the Permits required hereunder, including the environmental permit, Lessee will forfeit a penalty equal to one (1) time the daily amount of Base Rent and Additional Rent due for each day the Substantial Completion is delayed beyond such time for the first forty-five (45) days of such delay and two (2) times the daily amount of Base Rent and Additional Rent due for each day the Substantial Completion is delayed for any days of delay beyond such forty-five (45) day period. Within 3 business days after establishing an exceeding of the term for Substantial Completion of the Leased Premises Lessor will inform Lessee in writing, well documented, what the causes of the delay have been and within what term and in which manner the Leased Premises may reasonably be expected still to be Substantially Completed. If the aforesaid term is exceeded by 90 days or less, Lessor will not be liable for any damage incurred and costs made by Lessee as a result thereof. In case of an exceeding of the aforesaid term of Substantial Completion that amount to an exceeding of more than 90 days Lessee will be able to use, for the benefit of her interests, all claim and remedy possibilities mentioned in the Dutch Civil Code in relation to an attributable default or a default, notwithstanding naturally the requirements that the Civil Code formulates for use of those possibilities and without prejudice to the defences accruing to

Lessor under the Dutch Civil Code. In case of an exceeding of the term for substantial Completion Lessor will use best endeavours to still Substantially Complete (or cause Substantial Completion of) the Leased Premises as soon as possible.

5.9 Prior to the Completion, Lessee, its agents, contractors or employees shall have the right to enter the construction site for the purpose of installing Lessee's cabling, telecommunications and computer equipment, office furniture, roasting and packaging equipment, racking and other furniture, fixtures and equipment necessary for Lessee's use of the Leased Premises, provided that Lessee shall consult with Lessor about such entry of the construction site and Lessor's construction work is not materially interfered with.

5.10 The building shall be connected to a public sanitary sewer, potable water supply, storm sewer, electricity and gas (the "Utilities"), which must be adequate to serve the needs of Lessee in operation of the business which Lessee intends to operate upon the Leased Premises, as those needs are described in EXHIBIT C.

5.11 Lessor shall comply with all national, state, county, and city laws and ordinances presently affecting or respecting the Leased Premises in the construction of the Basic Facilities and the Additional Improvements.

5.12 Lessor has supplied the plans, documents and specifications required for the building permit meanwhile applied for by Lessor. Lessee has supplied the documents required for the environmental permit meanwhile applied for by Lessee. Lessee may, but shall not be obligated to, terminate this lease if the building permit and/or the environmental permit is denied, or is not finally and irrevocably issued by April 15, 2002. Lessee shall not, however, terminate this lease prior to June 1, 2002, if these permits can be reasonably expected to be finally and irrevocably issued on or before this date. If the building permit and/or environmental permit is not finally and irrevocably issued by June 1, 2002, then Lessee may terminate this Lease. In the event that a governmental agency that is to grant the said Permits requires a modification in the Plans that is reasonably unacceptable to Lessee and/or Lessor, the said permits will be deemed not to have been granted, and Lessee or Lessor may terminate this lease with immediate effect. In the event that this lease is terminated pursuant to this Section 5.12, the parties hereto shall have no further rights or obligations hereunder, unless such delay is a result of any breach of any provision of this lease by Lessor or Lessee and without prejudice to the obligation to compensate costs or damage as referred to in Section 5.4.

5.13 Lessor has good title of ground lease to the Leased Premises free and clear of all liens per the date of signing this agreement, and per the date of signing this agreement free from special charges and restrictions in the sense of Article 7:15 of the Dutch Civil Code, other than described in EXHIBIT E and other than knowledgeable from the public registers of the land register. For the avoidance of doubt: after the date of signing this agreement Lessor is entirely free to create security rights in respect of the Leased Premises, which will be subordinated to this Lease Agreement and will not (cannot) infringe on the continuity of this Lease Agreement.

5.14 At any time during the term hereof, Lessee may give Lessor written notice that Lessor should undertake completion of the unfinished Office Space. Upon receipt of such written notice, Lessor shall, at Lessor's sole cost and expense, undertake the said completion and shall complete the work within one hundred and twenty (120) days after Lessor's receipt of Lessee's notice, on the basis of a completion level and a division of work or costs involved between Lessee and Lessor as set out in and arising from the documents attached hereto as EXHIBIT B and EXHIBIT C. The realisation and substantial completion and the Commencement Date of the office space referred to above are otherwise subject to the provisions of Section 5 above, in so far as relevant to that completion .

Turnover Tax

6.1 All amounts mentioned in this lease are exclusive of turnover tax. Lessee is required to pay turnover tax on the Base Rent and the Additional Rent and the fee for additional supplies and services. Turnover tax will be charged by Lessor and is required to be paid together with the rent and the fee for additional supplies and services, or the advance payment for these.

6.2 Referring to the Decision of 10 April 1996, no. VB 96/354, amended by the Decision of 24 March 1999, no. VB 99/571, parties agree that Lessor will charge Lessee turnover tax on the rent as from the commencement of the lease. Referring to above-mentioned Decision, Lessor and lessee waive the submission of a joint request opting for taxed rent as referred to in Article 11, paragraph 1, subparagraph b, under 5, of the Turnover Tax Act 1968.

6.3 The stipulations in Article 15.1, 15.2 and 15.3 of the general conditions do not apply to this lease.

6.4 Lessee hereby declares that its financial year commences on 1 October and ends on 30 September.

6.5 Lessor explicitly states that it will include this lease in its administration in accordance with the provisions of Section 34a of the Turnover Tax Act 1968.

Amenities and Services

7.1 The Parties agree that Lessor provides the additional amenities and services set out in EXHIBIT I to Lessee.

Guarantee by the Group of Companies

8.1 Lessee is not obliged to furnish any bank guarantee because Starbucks Corporation provides surety vis-a-vis Lessor for the obligations of Lessee under this agreement in accordance with EXHIBIT J.

Administrator and representation during the construction

9.1 Lessor is to act as the administrator until further notice.

9.2 Lessee has designated Mr D. Organ as its sole representative with respect to the matters set forth in this lease with respect to the construction and realisation of the Basic Facilities and the Additional Improvements, who shall have full authority and responsibility to act on behalf of Lessee as required in this lease with respect to the construction and realisation of the Basic Facilities and the Additional Improvements until further notice by Lessee. Lessee may at any time appoint a new representative as referred to above, after written notice to Lessor.

9.3 Lessor has designated Mr A.C. Ramselaar as its sole representative with respect to the matters set forth in this lease with respect to the construction and realisation of the Basic Facilities and the Additional Improvements, who, until further notice by Lessor, shall have full authority and responsibility to act on behalf of Lessor as required in this lease with respect to the construction and realisation of the Basic Facilities and the Additional Improvements. Lessor may at any time appoint a new representative as referred to above, after written notice to Lessee.

Appendices

10.1 All of the appendices listed at the end of this agreement form part of the present agreement.

Proviso

11.1 Lessee is aware of the fact that the project of which the Leased Premises are a part is still under construction. Lessor reserves the right to (instruct a third party) to introduce any changes in the plans and/or any alterations to the project and the Leased Premises are reasonably necessary and related to the construction of the adjacent parts of the building and adjacent industrial park known as Westpoint II, provided, however, that the said changes in the plans or alterations may not impair the quality and/or the utility of the Leased Premises.

Delivery of the Leased Premises at the end of this Lease Agreement

12.1 Upon delivery, the condition of the Leased Premises shall be laid down in a dated delivery report drawn up in duplicate and signed by both parties, with each of the parties retaining a copy of the said delivery report.

12.2 In the event of termination of this Lease Agreement the two parties to the agreement are to act in accordance with the provisions set out in Article 5 of the General Terms and Conditions, on the understanding that the reference to Article 1, clause 2, should read "the delivery report as referred to in the
Section 12, paragraph 1, of the Lease Agreement." With regard to the silo building, the provisions of Section 13, paragraph 11, of the Lease Agreement apply. With regard to the sprinkler system and the sprinkler provisions as referred to in EXHIBIT G, only the provisions of the last sentence of Section 4.4.2 apply.

Special Terms and Conditions

13.1 In the event that and to the extent that there are pipelines, cables, cables ducts and/or meter cabinets (serving other industrial Units) in or only accessible via the Leased Premises, Lessee hereby warrants vis-a-vis Lessor that the said pipelines, cables, cables ducts and/or meter cabinets are and shall continue to be freely accessible at all times. With regard to inspections and/or work in or on the said pipelines, cables, cables ducts and/or meter cabinets or any other such items, the provisions set out in Article 10 of the General Terms and Conditions and any other relevant provisions apply.

13.2 Value Added Tax Clause

(a) Lessee and Lessor declare explicitly that the rent level was set on the basis that Lessee will continue to use the Leased Premises, or have it used, for activities of which at least the legally determined percentage or percentage yet to be determined is eligible for deduction of BTW on the grounds of which rent subject to turnover tax can be opted for.

(b) Lessee declares that it will use the Leased Premises for purposes for which the right exists to make a complete or practically complete (at least 90%) deduction of BTW pursuant to Section 15 of the Turnover Tax Act 1968 and that Lessee belongs to one of the branches of industry indicated by the State Secretary in order of 19 December 1995, no. VB 95/3796 and subsequently amended, being employer's organisations, estate agents, travel agents and working conditions services with an independent legal status.

(c) If Lessee does not use or no longer uses the Leased Premises for activities which entitle it to deduct turnover tax as referred to above, Lessee will no longer owe Lessor turnover tax on the rent, but Lessee will owe Lessor in addition to the rent exclusive of turnover tax commencing on the date on which the rent is exempted from turnover tax by way of a separate payment to Lessor such an amount that the latter is fully compensated for:

(i) The turnover tax which is no longer deductible as a result of the cancellation of the possibility to deduct turnover tax from the operating costs of and/or from investments in the Leased Premises.

(ii) The turnover tax which Lessor has to pay to the tax authorities and/or can no longer reclaim from the tax authorities as a result of the cancellation of the possibility to deduct turnover tax due to a recalculation of the taxed rent as referred to in Clause 15, subsection 4 of the Wet op de omzetbelasting 1968 (Turnover Tax Act 1968) or revision as referred to in Sections 11, 12 and 13 of the Uitvoeringsbeschikking omzetbelasting 1968 (Turnover Tax Implementation) Decree 1968).

(iii) All other loss which Lessor incurs as a result of the cancellation of the possibility to deduct turnover tax.

(d) If a situation as referred to in (c) occurs, Lessor will inform Lessee what amounts must be paid by Lessor to the tax authorities and provide insight into the other losses as referred to in (c).

Lessor will give its co-operation if Lessee wishes to have Lessor's specification checked by an independent registered accountant. The costs of this will be at Lessee's expense.

The financial loss incurred by Lessor as a result of the cancellation of the taxed rent must be paid by Lessee on Lessor's first demand.

(e) Lessee will be obliged to inform Lessor by means of a signed statement within four (4) weeks of the end of its financial year in which it started to lease the Leased Premises (also if it has been made available wholly of partially to a third party), whether or not it has used the Leased Premises in the past financial year for purposes for which a right, as laid down in Clause 15 of the Wet op de omzetbelasting 1968, to make a complete or practically complete (at least 90%) deduction of turnover tax exists and belongs to one of the branches of industry designated by the State Secretary in his decree of 19 December 1995, no. VB 95/3796 and subsequently amended, being employer's organisations, estate agents, travel agents and working conditions services with an independent legal status.

Lessee shall furthermore be obliged to inform Lessor after each successive financial year by means of a signed statement within four weeks following the end of the financial year concerned if the Leased Premises (also if it has been made available wholly or partially to a third party) were not used for purposes for which a right, as laid down in Clause 15 of the Wet op de omzetbelasting 1968, to make a complete or practically complete (at least 90%) deduction of turnover tax exists and belongs to one of the branches of industry designated by the State Secretary in his decree of 19 December 1995, no. VB 95/3796 and subsequently amended, being employer's organisations, estate agents, travel agents and working conditions services with an independent legal status. In both cases Lessee will be obliged to send a copy of the statement to the tax authorities within the same period.

(f) If Lessee does not fulfil the aforementioned obligation to provide information or if it turns out in retrospect that its assumptions were incorrect, and it turns out in retrospect that Lessor has wrongly charged turnover tax on the rent, Lessee shall be in default, and Lessor shall be entitled to recover the resulting financial disadvantage from Lessee. This disadvantage concerns the full turnover tax still due by Lessor to the tax authorities plus interest, as well as the turnover tax which Lessor cannot deduct. The stipulations in this Section contain an arrangement for compensation in the event that the taxed rent ceases to be applicable with retroactive effect, in addition to the arrangement set out in this Section 13.2. The additional loss which results for Lessor from the retroactive effect, will be payable by Lessee immediately, in full and as a lump sum. Lessor will give its co-operation if Lessee wishes to have Lessor's specification of this additional loss checked by an independent registered accountant. The costs of this will be at Lessee's expense.

(g) The stipulations set out in this Section will also apply if Lessor is confronted with a loss after the termination of the lease, whether premature or not, due to the cancellation of the taxed rent agreed upon by the parties. This loss will then be payable by Lessee to Lessor immediately, in full and as a lump sum.

13.3 Option to Expand the Leased Premises. Lessor hereby grants to Lessee an option to expand the Leased Premises in accordance with the terms described herein (the "Expansion Option"). During the term of the Expansion Option, Lessee may expand the Leased Premises by electing to amend the terms of this lease, so that one or two (2) similar Units directly adjacent to the Leased Premises, which Units are more particularly shown on EXHIBIT K attached hereto, will form part of the Leased Premises. Any time that Lessee exercises the Expansion Option with respect to either one or both of the two (2) Units described above, such Unit(s) shall be replaced with additional adjacent Unit(s), which additional Unit(s) shall be subject to the rights contained in this Section 13.3 (the "Expansion Replacement Unit(s)"), in so far as such additional units are actually still available or will become available at that time. If no such additional units are or will become available, the expansion option will not apply at that time. The procedure for the replacement of Unit(s) described in the preceding sentence shall be reapplied any time that Lessee exercises its right to lease Unit(s) under this Section 13.3. The term of the Expansion Option shall commence as of the date of the signing of the present agreement and expire three (3) years from the Commencement Date referred to in Section 3.1 (the "3-Year Date"). During this period, Lessee shall not be required to pay any fee or compensation to Lessor in connection with the Expansion Option. Lessee shall have the option to extend the term of the Expansion Option up to three (3) consecutive times for a period of twelve (12) months each, provided that Lessee and Lessor then reach an agreement about the conditions to be attached thereto. In the event that Lessee exercises its rights under this Section 13.3, this lease shall be amended to include the additional Units into the definition of the Leased Premises. Such amendment(s) to the lease shall be on the same material terms and conditions that apply to the existing Lease Agreement at the moment of exercising (including but not limited to the then applicable Rent), with the exception of the 7-months construction period referred to in Section 5. Upon exercise of the expansion option, Lessor shall start the construction of the additional unit(s) and/or the Additional Improvements without delay and complete same within a reasonable term. The lease of the additional Unit(s) shall expire co-terminously with the existing lease, as such may be extended.

13.4 First Right of Refusal to Lease Additional Space. Without limiting the provisions of Section 13.3 above, Lessor hereby grants to Lessee a first right of refusal to lease the four (4) adjacent units more particularly described in EXHIBIT K attached hereto and made a part hereof (collectively the "Units" and individually a "Unit") for the term of the lease, as may be extended. In the event that Lessor, or Lessor's heirs, executors, successors or assigns, at any time during the term of this lease or any extension thereof, intends or intend to conclude a lease agreement with regard to the Unit with a third party, Lessor or Lessor's heirs, executors, successors or assigns shall provide written notice to Lessee, which notice shall set forth the rent and all other terms and conditions of the intention concerned (the "Notice of Lease"). At Lessee's first request, Lessor shall furnish plausible proof to Lessee, evidencing that a concrete third party actually wishes to lease the Unit(s) concerned at the rent and subject to other the terms and conditions set out in the Notice of Lease. Within 10 days of receipt of the Notice of Lease, Lessee shall inform Lessor by registered letter of whether it wishes to lease the unit referred to in the Notice of Lease on the conditions set out in the Notice of Lease. If Lessee timely exercises this first right of refusal in accordance with the conditions accepted by Lessee, as set out in the Notice of Lease, a lease agreement with regard to the unit concerned will be effected. If Lessee fails to respond within the said term or informs Lessor within the said term that it does not intend to exercise its right of first refusal, Lessor will be authorised to lease the unit referred to in the Notice of Lease to third parties, provided not on conditions more favourable to the said third parties than those set out in the Notice of Lease. In the event that any material term of the Notice of Lease is subsequently modified to the detriment of Lessee, the process described in this
Section 13.4 shall be reapplied. Each time when a Unit or Units is (are) leased to a third party or to Lessee pursuant to this Section 13.4, the unit(s) concerned shall be replaced by additional adjacent unit(s), which additional unit(s) shall be subject to rights contained in this Section 13.4, in so far as such additional units are or will become actually available at that time. If no such units are or will be available, the right of first refusal set out in this
Section 13.4 does not apply at that time. The lease of the unit(s) ends simultaneously with the existing lease agreement or extensions thereof.

13.5 Option to Purchase The Leased Premises. As from the signing of the present agreement up to and including 3 years after the Commencement Date, Lessor shall not sell or offer for sale the Leased Premises and the ground lease in respect of the Leased Premises. Lessor hereby grants to Lessee an exclusive and irrevocable option (the "Option") - commencing at the date of signing this Agreement and valid for the term of the Agreement - to purchase the Leased Premises and the ground lease in respect of the Leased Premises for the price and upon the terms and conditions specified in this Article. The Option shall be exclusive for a term of 3 years after the Commencement Date. During the term of the present agreement, Lessee may exercise the Option by giving Lessor notice of its intent to exercise the Option. Upon exercising the Option, Lessor shall be obligated to sell and convey to Lessee and Lessee shall be obligated to purchase from Lessor the Leased Premises and the ground lease in respect of the Leased Premises for a purchase price equal to (i) eleven and one half times the annual Base Rent, minus the annual ground rent Lessee will become payable as soon as it has become the leaseholder (formula: 11.5 x (annual base rent minus annual ground rent)), (ii) increased by the unamortized value of the Additional Improvement and increased by any costs involved in the early repayment of the financing arrangement concerned, (iii) increased by any transfer tax and/or turnover tax and notarial charges due. In the event of exercise of the purchase option, the parties will agree a provisional date for the conveyance not later than 3 months after the date on which Lessor received notice from Lessee that the latter intended to exercise the purchase option, such also on account of Lessor's ground lease. The parties will then jointly contact the Municipality of Amsterdam in order to effect a division and conveyance of lessor's current right of ground lease, in so far as pertaining to the Leased Premises, or creation of a new ground lease in respect of the Leased Premises for the benefit of Lessee. The terms (including the ground rent) of the divided right of ground lease or the new right of ground lease shall be reasonably acceptable to Lessor and Lessee. Failing which the purchase option will be deemed not exercised or no purchase agreement will be deemed concluded and the Lease Agreement will be continued unchanged. The terms set out in EXHIBITS E AND F are at any rate deemed to be reasonably acceptable to the parties. The terms of the conveyance or the creation of the new ground lease shall otherwise be consistent with the terms of such deeds and commercial customs in the area in which the Property is located. Lessor and Lessee agree that immediately after the signing of this agreement, the option as regulated in this Section 13.5 will be entered in the public registers of the Land Register, subject to co-operation of the Land Register, such for Lessee's account.

13.6 Right of First Refusal to Purchase the Leased Premises. In the event that Lessor, or Lessor's heirs, executors, successors or assigns, during the term of this lease intends or intend to sell the Leased Premises or any portion thereof to a third party, Lessor or Lessor's heirs, executors, successors or assigns shall provide written notice to Lessee, which notice shall set forth purchase price, as well as all other terms and conditions of such intention (the "Notice of Sale"). At Lessee's first request, Lessor shall furnish plausible proof to Lessee, evidencing that a concrete third party actually wishes to purchase the Leased Premises and the Ground Lease in respect of the Leased Premises at the price and subject to the other terms and conditions set out in the Notice of Sale. Lessee shall inform Lessor by registered letter of whether it wishes to purchase the Leased Premises and the Ground Lease pertaining to the Leased Premises within 30 days of receipt of the Notice of Sale. Lessee may choose to purchase the Leased Premises (and the Ground Lease) at the same price and on the same terms of the offer set forth in the Notice of Sale or - such until 3 years after the Commencement Date - per the terms of the Option set forth in section 13.5. If Lessee fails to respond within the 30-days term or informs Lessor within the said term that it does not intend to exercise its right of first refusal referred to in this Section or its purchase option referred to in Section 13.5 (until 3 years after the Commencement Date), Lessor will be authorised to sell the Leased Premises and the Ground Lease pertaining to the Leased Premises to third parties, provided not on conditions more favourable to the said third parties than those set out in the Notice of Sale or - if applicable - set out in Section 13.5. If any substantial term of the Notice of Sale is changed afterwards to the detriment of Lessee, the procedure set out in this Section 13.6 shall be re-applied. If Lessee does timely inform Lessor that it intends to exercise its right of first refusal referred to in this Section or - if applicable - its purchase option referred to in Section 13.5, a purchase agreement with regard to the leased premises and the ground lease will arise between lessor and lessee, on the terms set out in the Notice of Sale or - if applicable - the terms set out in Section 13.5. In addition, the parties will agree a provisional date for the transfer not later than 3 months after the date on which Lessor received notice from Lessee that the latter intended to exercise its right of first refusal or - if applicable - the purchase option, such also on account of Lessor's ground lease. The parties will then jointly contact the Municipality of Amsterdam in order to effect transfer of the Leased Premises/the current ground lease of lessor, in so far as pertaining to the Leased Premises, or creation of a new ground lease in respect of the Leased Premises for the benefit of Lessee. The conditions of the division/transfer of the existing ground lease in respect of the Leased Premises or the conditions of the creation of a new ground lease in respect of the Leased Premises shall be reasonably acceptable to Lessee and Lessor. The conditions set out in EXHIBITS E AND F shall at any rate be deemed to be reasonably acceptable. In the event that any material term of the Notice of Sale is subsequently modified to the detriment of Lessee, the process set out in this Section 13.6 shall be reapplied. The rights contained in this Section 13.6 shall be applicable to any and all intended sales of the Leased Premises for the duration of the term of this lease. If the Leased Premises (and the Ground Lease) are transferred to a third party, the option to purchase the leased premises referred to in Section 13.5 will expire, but Lessee's right of first refusal to purchase the Leased Premises referred to in this Section 13.6 will continue to have effect for a period of no more than ten (10) years after the Commencement Date as referred to in Section 3.1. A third party in the sense of this Section does not refer to a legal entity of the group of companies to which Lessor belongs.

If 3 years after the Commencement Date a situation arises of apparently simultaneous receipt by Lessor of the notice of Lessee that it exercises the Purchase Option in Section 13.5 and receipt by Lessee of the Notice of Sale, and if there is reasonable doubt with regard to which event occurred first, Section 13.6 will prevail.

13.7 Parking Space. Lessor will provide for (paved) parking facilities for 50 passenger cars reasonably adjacent to the Leased Premises, designated to be exclusively used by Lessee, as situated and indicated in the drawings attached to this Lease Agreement as EXHIBIT A. The use of these parking facilities by Lessee is included in the agreed lease price. Lessee cannot enforce any claims against Lessor if third parties without authorisation make use of the parking spaces. Lessee may place signs with its brand/name on or near the parking spaces.

13.8 Signage's. Lessor has given approval to Lessee to establish signage's to or near the Leased Premises, in order to make clearly visible that Starbucks is established at Westpoint. The design of these signage's will be handed to Lessor for prior review. This approval will primarily focus on the question whether the intended signage's are not out of tune, in size or nature, with the existing signage's of all Lessees on Westpoint II. The signage's must be in accordance with statutory and local regulations. It is the responsibility of Lessee to obtain all the necessary permits for the signage's.

13.9 Exclusivity. Lessor will not lease space at Amsterdam Westpoint I and Westpoint II to third parties that roast coffee at the location and Lessor will impose the same obligation on its legal successor in the form of a perpetual clause.

13.10 Sensitivity of Coffee to Odours. In order to prevent damages to the coffee as a result of odour emissions by other lessees of Lessor, Lessor will include in all new lease agreements with respect to Units at Westpoint II, the obligation for those lessees to refrain from causing any repeatedly recurring emission of odours, that may adversely affect the coffee of Starbucks, which means that those lessees would at least would have to refrain from the following activities:

(a) Coffee roasting

(b) Manufacturing of perfumeries or other scented products (cosmetics, scented household products, etc.)

(c) Paint manufacturing or paint application operations

(d) Private or municipal waste treatment

(e) Operations that raise, slaughter or process livestock or fish

(f) Activities involving heavy use of solvents, degreasers or lubricants

(g) Chemical manufacturing or petroleum refining or processing

In addition, Lessor guarantees that any existing lease agreements with respect to the Units mentioned here above do not permit the forbidden activities as described in this clause and that Lessor will not provide consent under any of these lease agreements to change activities towards the forbidden activities as described in this clause. For the avoidance of doubt the parties expressly agree that logistic activities with respect to the odorous goods indicated above and cocoa storage and distribution will not be forbidden and furthermore, that this clause only refers to repeatedly recurring emission of odours in relation to manufacturing activities.

13.11 Silo building. During the lease term Lessor will, at Lessee's first written request, construct and build the silo building, subject to the conditions laid down in Section 5 of the present Agreement, with the exception of the 7-months construction period, and furthermore in accordance with requirements yet to be worked out by the parties. The costs of the concrete structure of the silo building until a height of 13.1m will be for account of Lessor and will be included in the Base Rent, whereby the Base Rent rate per m2 for the silo building - assuming the same specification level as the warehouse space - will be equal to the base rent per m2 for the warehouse space of the Leased Premises, to be increased by indexation pursuant to Section 4.3. A steel structure will bring the silo building to a height of 22 m. The costs of this steel structure will be considered Additional Improvements and the Additional Rent related to this improvement shall be calculated as described in Section
4.4. It is agreed that the parties will make further agreements about the amortization term when Lessee has requested the construction of a silo building. Upon expiry of the present Lease Agreement, Lessor shall attempt to lease the silo building to a third party.

Lessee will receive 50% of any amount in excess of the annually indexed Base Rent that Lessor generates from the lease of the silo building in the period of ten (10) years after termination of this lease. Upon expiry of such ten (10) year period, Lessor (and its successors) will be under no restriction any more with respect to exploiting the silo building and all the income stemming from the silo building will be fully for the account of Lessor. If the steel top structure would have to be demolished on reasonable grounds, then Lessee would have to pay the costs thereof (but not the costs of closing the roof again).

13.12 Where the present agreement or the General Terms and Conditions require Lessor's consent, Lessor shall not unreasonably withhold its consent.

13.13 Lessee accepts that future building activities will take place at Westpoint II. Lessor will start building new Units at the other end of the Westpoint II site, in order to reserve for expansion by Lessee for as long as possible. Lessor must use best endeavours not to hinder the activities of Lessee as a result of the building activities. In any event the normal course of business of Lessee must be able to be continued.

13.14 Lessee is aware that Lessor intends to realise a container debarking terminal at the quayside alongside the Leased Premises, with a stacking area for containers. This will not restrict normal operations of Lessee and access of trucks to the loading docks. The containers will not block the view to the water from the offices.

13.15 Changes to the General Conditions

Article 2.2. The second and third sentence of this Article are replaced by the following:

"Lessee shall also observe the instructions given in writing or by word of mouth by or on behalf of Lessor in the interests of the proper use of the Leased Premises and of the inside and outside areas, the installations and fixtures in the building or complex which the Leased Premises are part of, if and insofar as Lessee has been consulted properly by Lessor in advance about the content of these instructions and if and insofar as these instructions can be considered to be reasonable and necessary. Lessee will - in principle - not be bound to unreasonable instructions by or on behalf of Lessor which have an adverse effect on the justified interests of Lessee, on the rights of Lessee stemming from this Lease Agreement or on the activities of Lessee. The instructions by Lessor may inter alia relate to maintenance, image, noise level, order, fire regulations, parking behaviour and the good functioning of the installations, the building or the complex which the Leased Premises are part of."

Articles 2.6.1 to 2.6.3 of the General Conditions are replaced by the following:

Article 2.6.1. "Lessee knows that Lessor had a soil survey report prepared by Omegam, called Nulonderzoek "Westpoint II", Ruigoordweg in Amsterdam-Westpoint, reference 1106311/VO1, dated 17 May 2001. The said report is attached to the present

agreement as EXHIBIT L. To Lessor's knowledge, the report gives a true, accurate and complete description of the condition of the soil of the parcel of land on which the Basic Facilities and the Additional Improvements are to be constructed. As the report dates from 17 May 2001, the Parties agree to instruct Omegam to conduct an additional soil survey and prepare a report thereon, the costs of which will be shared by the parties (on a 50/50 basis). The said survey and report shall be based on sampling of the soil of the parcel of land on which the Basic Facilities and the Additional Improvements are to be constructed, after slags and/or other levelling-up materials have been applied but just prior to the start of the construction of the foundation. Lessee shall receive the report timely before the start of the work on the foundation. If Lessee has reasonable doubts about the accuracy of the report it may have a further soil survey carried out for its own account. If same leads to a delay, the seven-months term referred to in Sections 5.3 and 5.8 will be extended. The parties shall consult with each other about the term of the extension.

Lessee is neither liable nor responsible for any (environmentally) hazardous materials, the condition of the environment or other circumstances as described in the aforementioned reports. The term "hazardous materials" refers to (environmentally) hazardous materials, (environmentally) hazardous waste substances or (environmentally) hazardous substances set out in or regulated by applicable laws or regulations, in particular the Wet Bodembescherming (Soil Protection Act) and the Wet Milieubeheer (Environmental Control Act)

Any contamination of the leased premises established in the aforementioned reports shall be cleaned up for Lessor's risk and account, if Lessor is obligated thereto under current regulations. The cleaning up shall be executed in the manner prescribed by relevant applicable acts and regulations. In the event of "serious soil contamination", as defined in the Soil Protection Act and located on the place where the building under consideration is to be built, Lessor shall clean up that contamination before the start of construction work and the seven-months (7) building term will be extended by the term required for the cleaning up. If the consequences of the said contamination are reasonably unacceptable to Lessor and/or Lessee, the parties will seek a solution in mutual consultation, taking into account the interests of both parties.

At the end of the lease as well as in the event of transfer of the Leased Premises (and the ground rent) to Lessee, a similar soil survey will be carried out. If higher concentrations of one or more of the substances to which Omegam's previous surveys pertained are then found in, on or around the Leased Premises, same will be deemed an indication of Lessee having caused that contamination.

Article 2.6.2. "It is forbidden to Lessee, its personnel or persons or goods under its control to contaminate in any way (the soil of) the Leased Premises and Lessee shall compensate the damage arising from contamination caused by Lessee, its personnel or persons or goods under its control and he shall be liable to Lessor and third parties for expenses relating to the removal of such contamination or for the taking of other measures.

Article 2.6.3. "Lessor does not indemnify Lessee against (Government) orders for further investigation or the taking of measures, unless those orders are related to a contamination that has been caused by Lessor or pollution that was already present on or in the Leased Premises prior to the Commencement Date."

Article 2.10.2. Article 2.10.2 of the General Conditions is not applicable:

1. with respect to Lessee's construction plans described in EXHIBIT M;

2. interior alteration that are non-structural, if and insofar these alterations do not adversely affect the Leased Premises;

3. structural alterations, subject to prior written approval of Lessor, which approval can only be withheld on reasonable grounds.

Articles 3.1 and 3.2. Contrary to the provisions in Articles
3.1. and 3.2 of the General Conditions it was agreed that:

1. sublease is permitted after prior written approval of Lessor, which approval can only be withheld on reasonable grounds;

2. transfer of the rights and obligations under the lease agreement to a company of which all shares are directly or indirectly held by Starbuck Corporation is permitted

Article 6.5. The words "gross" and "serious" in this Article are considered to be deleted.

Article 6.6. The words "gross" and "serious" in this Article are considered to be deleted.

Article 9.3. In addition to this Article 9.3 it is agreed that Lessee is entitled to a 30 days cure period after written notice by Lessor to cure the concerned defaults, before the lessor can conduct the maintenance as described in this Article himself.

13.18 Environmental Testing. At any time during the term hereof, Lessee may undertake such environmental testing with respect to the Leased Premises and the Land as Lessee deems desirable, including, without limitation, soil and ground water testing.

14.1 Choice of law. The parties declare that the present agreement as well as the guarantee attached as EXHIBIT J are governed by Dutch law.

14.2 Dutch version. The parties declare that only the Dutch version of the present agreement will be binding. The English version of the agreement, attached as an appendix to the present agreement, is for information purposes only and in no way relevant to the legal relationship between the parties or the parties' intent.

14.3 The Dutch Court has jurisdiction. The civil court in Amsterdam will have exclusive jurisdiction to adjudicate any disputes arising from or related to the present agreement, both in the first instance and on appeal.

[Signature Page Follows]

Drawn up and signed in Amsterdam on ______________________________.

Lessor:	Lessee:
-------------------------------	-------------------------------
Name: --------------------------	Name: --------------------------
Title: --------------------------	Title: --------------------------
Date: --------------------------	Date: --------------------------

LIST OF APPENDICES AND EXHIBITS

EXHIBITS:	
Exhibit A:	the Leased Premises (indicated by means of hatching)
Exhibit B:	Preliminary Plans (as attached to the application for the Building Permit)
Exhibit C:	Technical Description (as to be provided by the contractor)
Exhibit D:	reinforced floor area (increased maximum floor load)
Exhibit E:	deeds of temporary issue of leasehold land
Exhibit F:	letter for the Gemeentelijk Havenbedrijf Amsterdam, dated 31 October 2001 (reference: 01.06923)
Exhibit G:	Sprinkler system proposal
Exhibit H:	letter about the piling equipment and materials required
Exhibit I:	list of addition amenities and services
Exhibit J:	guarantee
Exhibit K:	expansion option and first right of refusal to lease additional space
Exhibit L:	soil survey report "Nulonderzoek "Westpoint II", Ruigoordweg in Amsterdam-Westpoint, prepared by Omegam, dated 17 May 2001, project number 1106311
Exhibit M:	Lessee's construction drawings

APPENDICES:

General Terms and Conditions lease of office space and other industrial Units not in accordance with Article 7A: 1624 of the Dutch Civil Code

Power of attorney Westpoint

English translation of the present agreement

EXHIBIT 13

SELECTED FINANCIAL DATA

In thousands, except earnings per share and store operating data

The following selected financial data have been derived from the consolidated financial statements of the Company. The data set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Company's consolidated financial statements and notes thereto.

As of and for the fiscal year ended (1)	Sept 29, 2002 (52 Wks)	Sept 30, 2001 (52 Wks)	Oct 1, 2000 (52 Wks)	Oct 3, 1999 (53 Wks)	Sept 27, 1998 (52 Wks)
RESULTS OF OPERATIONS DATA					
Net revenues:					
Retail	$ 2,792,904	$ 2,229,594	$ 1,823,607	$ 1,423,389	$ 1,102,574
Specialty	496,004	419,386	354,007	263,439	206,128
Total net revenues	3,288,908	2,648,980	2,177,614	1,686,828	1,308,702
Merger expenses (2)	--	--	--	--	8,930
Operating income	318,725	281,094	212,252	156,711	109,216
Internet-related investment losses (3)	--	2,940	58,792	--	--
Gain on sale of investment (4)	13,361	--	--	--	--
Net earnings	$ 215,073	$ 181,210	$ 94,564	$ 101,693	$ 68,372
Net earnings per common share - diluted (5)	$ 0.54	$ 0.46	$ 0.24	$ 0.27	$ 0.19
Cash dividends per share	--	--	--	--	--
BALANCE SHEET DATA					
Working capital	$ 310,048	$ 148,661	$ 146,568	$ 135,303	$ 157,805
Total assets	2,292,736	1,846,519	1,491,546	1,252,514	992,755
Long-term debt (including current portion)	5,786	6,483	7,168	7,691	1,803
Shareholders' equity	1,726,638	1,375,927	1,148,399	961,013	794,297
STORE OPERATING DATA					
Percentage change in comparable store sales (6)					
North America	7%	5%	9%	6%	5%
International	(3)%	2%	23%	20%	28%
Consolidated	6%	5%	9%	6%	5%
Systemwide retail store sales (7)	$ 3,796,000	$ 2,950,000	$ 2,250,000	$ 1,633,000	$ 1,190,000
Systemwide stores opened during the year: (8)					
Continental North America					
Company-operated stores	525	525	408	416	352
Licensed stores	269	279	351	46	39
International					
Company-operated stores	89	122	76	31	35
Licensed stores	294	282	168	119	48
Total	1,177	1,208	1,003	612	474
Systemwide stores open at year end:					
Continental North America					
Company-operated stores	3,496	2,971	2,446	2,038	1,622
Licensed stores	1,078	809	530	179	133
International					
Company-operated stores	384	295	173	97	66
Licensed stores	928	634	352	184	65
Total	5,886	4,709	3,501	2,498	1,886

(1) The Company's fiscal year ends on the Sunday closest to September 30. All fiscal years presented include 52 weeks, except fiscal 1999, which includes 53 weeks.

(2) Merger expenses relate to the business combination with Seattle Coffee Holdings Limited.

(3) See Notes to Consolidated Financial Statements (Notes 4 and 7).

(4) See Notes to Consolidated Financial Statements (Note 7).

(5) See Notes to Consolidated Financial Statements (Note 1). Earnings per share data for fiscal years presented have been restated to reflect the two-for-one stock splits in fiscal 2001 and 1999.

(6) Includes only Company-operated stores open 13 months or longer.

(7) Systemwide retail store sales include sales at Company-operated and licensed stores and are believed by management to measure global

penetration of Starbucks retail stores.

(8) Systemwide store openings are reported net of closures.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

Starbucks Corporation's fiscal year ends on the Sunday closest to September 30. Fiscal years 2002, 2001 and 2000 each had 52 weeks. The fiscal year ending on September 28, 2003, will also include 52 weeks.

Starbucks Corporation (together with its subsidiaries, "Starbucks" or the "Company") is organized into a number of business units that correspond to the Company's operating segments:

North American Retail

North American Retail, which represents 92.5% of total retail revenues and 78.6% of total net revenues, sells coffee and other beverages, whole bean coffees, complementary food, coffee brewing equipment and merchandise through Company-operated retail stores in the United States and Canada.

Business Alliances

At the beginning of fiscal 2001, the Company's North American foodservice and retail store licensing operations were combined into a single business unit due to their common customer universe and the determination that separate segment reporting of Business Alliances was appropriate under Statement of Financial Accounting Standards ("SFAS") No. 131, "Disclosures about Segments of an Enterprise and Related Information."

Business Alliances, which represents 44.8% of total specialty revenues and 6.8% of total net revenues, sells whole bean and ground coffees through foodservice accounts. In addition, Business Alliances sells coffee and related products for resale through North American retail store licensing agreements and receives license fees and royalties.

All other business units

The remainder of the Company's business units individually represent less than 10% of total net revenues. These include International Retail (comprised of international Company-operated retail stores), international retail store licensing, grocery channel licensing, warehouse club accounts, interactive operations, equity investees and other initiatives related to the Company's core businesses. These business units are managed and evaluated independently and do not meet the quantitative threshold of a reportable segment under SFAS No. 131.

Segment information is prepared using a management approach that is consistent with the basis and manner in which the Company's management internally reviews financial information for operational decision making purposes. However, intersegment transactions have been eliminated for Management's Discussion & Analysis to comply with accounting principles generally accepted in the United States of America.

The following table sets forth the percentage relationship to total net revenues, unless otherwise indicated, of certain items included in the Company's consolidated statements of earnings:

Fiscal year ended	Sept 29, 2002 (52 Wks)	Sept 30, 2001 (52 Wks)	Oct 1, 2000 (52 Wks)
STATEMENTS OF EARNINGS DATA			
Net revenues:			
Retail	84.9%	84.2%	83.7%
Specialty	15.1	15.8	16.3
Total net revenues	100.0	100.0	100.0
Cost of sales and related occupancy costs	41.0	42.0	44.2
Store operating expenses (1)	40.1	39.3	38.7
Other operating expenses (2)	25.6	22.3	22.2
Depreciation and amortization expenses	6.3	6.2	6.0
General and administrative expenses	6.1	5.7	5.1
Income from equity investees	1.1	1.1	0.9
Operating income	9.7	10.6	9.7
Interest and other income, net	0.3	0.4	0.3
Internet-related investment losses	-	0.1	2.7
Gain on sale of investment	0.4	-	-
Earnings before income taxes	10.4	10.9	7.3
Income taxes	3.9	4.1	3.0
Net earnings	6.5%	6.8%	4.3%

(1) Shown as a percentage of retail revenues.
(2) Shown as a percentage of specialty revenues.

BUSINESS COMBINATIONS

During fiscal 2000, Starbucks acquired the outstanding stock of Tympanum, Inc. (d/b/a "Hear Music"), a music retailer, and Coffee Partners Co. Ltd., the company licensed to operate Starbucks stores in Thailand. The combined purchase price for these two acquisitions was $14.1 million. The acquisitions were accounted for under the purchase method of accounting, and the results of operations of the acquired companies are included on the accompanying consolidated financial statements from the dates of acquisition. There were no business combinations during fiscal 2001 and 2002.

RESULTS OF OPERATIONS -- FISCAL 2002 COMPARED TO FISCAL 2001

SYSTEMWIDE RETAIL STORE SALES

Systemwide retail store sales, which include net sales for both Company-operated and licensed retail stores, were $3.8 billion in fiscal 2002, an increase of 29% from $3.0 billion in fiscal 2001, primarily due to the opening of 1,177 new stores and strong comparable store sales growth in North America.

During fiscal 2003, Starbucks expects to open at least 1,200 new stores, including approximately 525 Company-operated and 225 licensed stores in North America, and 75 Company-operated and 375 licensed stores internationally.

CONSOLIDATED NET REVENUES

During the fiscal year ended September 29, 2002, Starbucks derived approximately 85% of net revenues from its Company-operated retail stores. Retail revenues include the North American Retail and International Retail business units. The remaining 15% of net revenues was derived from the Company's Specialty Operations, which includes Business Alliances and all other non-retail business units.

Net revenues increased 24% from $2.6 billion in fiscal 2001 to $3.3 billion in fiscal 2002, primarily due to the Company's store expansion program and comparable store sales increases. Comparable store sales increased by 6%, 5%, and 9% in fiscal 2002, 2001 and 2000, respectively. As a result of its expansion strategy of clustering stores in existing markets, Starbucks has experienced a certain level of cannibalization of sales of existing stores by new stores as store concentration has increased. However, management believes such cannibalization has been justified by the incremental sales and return on new store investments. This cannibalization, as well as increased competition, slowing economies and other factors, may put downward pressure on the Company's comparable store sales growth in future periods.

The table below reconciles revenues by operating segment to revenues on the accompanying consolidated statements of earnings (in thousands):

Fiscal year ended	Sept 29, 2002	Sept 30, 2001	Oct 1, 2000
North American Retail	$ 2,583,756	$ 2,086,354	$ 1,734,929
International Retail	209,148	143,240	88,678
Subtotal - Retail revenues	2,792,904	2,229,594	1,823,607
Business Alliances	222,410	193,574	160,812
All other business units (excluding International Retail)	344,425	276,603	216,402
Intersegment revenues (1)	(70,831)	(50,791)	(23,207)
Subtotal - Specialty revenues	496,004	419,386	354,007
Total net revenues	$ 3,288,908	$ 2,648,980	$ 2,177,614

(1) Intersegment revenues consist primarily of product sales to and from subsidiaries and equity method investees.

NET REVENUES BY SEGMENT

North American Retail

North American Retail revenues increased by $497.4 million, or 24%, to $2.6 billion in fiscal 2002, from $2.1 billion in fiscal 2001, primarily due to the opening of 525 new retail stores in fiscal 2002 and comparable store sales growth of 7% for the period. The increase in comparable store sales was due to higher transaction volume. Management believes increased customer traffic was driven by new product innovation, which continues to broaden the customer base during non-peak hours of operation, and by expanding the Company's capacity to satisfy customer demand through enhanced technology, training and execution at retail stores.

Business Alliances

Business Alliances revenues increased by $28.8 million, or 15%, to $222.4 million in fiscal 2002, from $193.6 million in fiscal 2001, primarily due to the opening of 269 new licensed stores in fiscal 2002 and the resulting increase in royalty revenues from and product sales to those licensees.

All other business units (including International Retail, net of Intersegment revenues)

Revenues for all other business units increased by $113.6 million, or 31%, to $482.7 million for fiscal 2002, from $369.1 million in the corresponding period in fiscal 2001. This increase was mainly related to growth in the number of international Company-operated and licensed retail stores.

CONSOLIDATED RESULTS OF OPERATIONS

Cost of sales and related occupancy costs decreased to 41.0% of net revenues in fiscal 2002, from 42.0% in fiscal 2001. The decrease was primarily due to a shift in sales mix to higher margin products, such as hand-crafted beverages, as well as lower green coffee costs. Starbucks does not expect a benefit from lower green coffee costs in fiscal 2003, as the Company has moved away from formula-based commodity exchange pricing contracts, and is instead basing most contracts on higher, fixed prices to encourage the continuing supply of high quality green coffee. Improvements in cost of sales were partially offset by higher occupancy costs due to increased repair and maintenance activities on Company-operated retail stores and the continuing trend of higher retail rent expense.

Store operating expenses as a percentage of retail revenues increased to 40.1% in fiscal 2002, from 39.3% in fiscal 2001. The restaurant portion of retail revenues, which is comprised of made-to-order beverages and fresh food, was a higher proportion of total retail revenues in fiscal 2002. This resulted in higher payroll-related expenditures due to the continuing shift in sales to more labor-intensive handcrafted beverages as well as higher average wage rates. Higher provisions for retail store asset impairment and disposals of $26.0 million in fiscal 2002 compared to $7.3 million in fiscal 2001 also contributed to the unfavorable variance.

Starbucks regularly monitors the financial results of its Company-operated retail stores and accumulates historical operating measures to identify performance trends in various markets. Provisions for asset impairment are recorded when, among other things, retail stores are unable to generate current and future estimated undiscounted cash flows in excess of asset carrying values. Gains and losses on disposals are generated primarily through renovation activities.

Other operating expenses (expenses associated with non-retail operations) were 25.6% of specialty revenues in fiscal 2002, compared to 22.3% in fiscal 2001. The increase was a result of continued development of the Company's international infrastructure, including additional regional offices and employees supporting global expansion, as well as higher advertising expenditures from the Company's interactive operations.

Depreciation and amortization expenses increased to $205.6 million in fiscal 2002, from $163.5 million in fiscal 2001. The increase was primarily due to the opening of 525 new North American and 89 new international Company-operated retail stores.

General and administrative expenses increased to $202.2 million in fiscal 2002, compared to $151.4 million in fiscal 2001. The increase was primarily due to higher payroll-related expenditures and an $18.0 million litigation settlement charge related to two class action lawsuits.

Operating income increased 13.4% to $318.7 million in fiscal 2002, from $281.1 million in fiscal 2001. The operating margin decreased to 9.7% of total net revenues in fiscal 2002, compared to 10.6% in fiscal 2001 primarily due to higher operating expenses partially offset by cost of sales improvements, as discussed above.

RESULTS OF OPERATIONS BY SEGMENT

The table below reconciles results of operations on the accompanying consolidated statements of earnings to operating income by operating segment (in thousands):

Fiscal year ended September 29, 2002:	Consolidated	Intersegment	Segment Results
North American Retail	$ 432,513	$ --	$ 432,513
Business Alliances	56,605	--	56,605
All other business units	62,914	107	63,021
Intersegment eliminations (1)	--	(107)	(107)
Unallocated corporate expenses	(233,307)	--	(233,307)
Operating income	$ 318,725	$ --	$ 318,725
Fiscal year ended September 30, 2001:			
North American Retail	$ 336,434	$ --	$ 336,434
Business Alliances	50,165	--	50,165
All other business units	68,783	1,333	70,116
Intersegment eliminations (1)	--	(1,333)	(1,333)
Unallocated corporate expenses	(174,288)	--	(174,288)
Operating income	$ 281,094	$ --	$ 281,094
Fiscal year ended October 1, 2000:			
North American Retail	$ 249,924	$ --	$ 249,924
Business Alliances	43,777	--	43,777
All other business units	53,453	(130)	53,323
Intersegment eliminations (1)	--	130	130
Unallocated corporate expenses	(134,902)	--	(134,902)
Operating income	$ 212,252	$ --	$ 212,252

(1) Intersegment eliminations consist primarily of product sales and related cost of sales to and from subsidiaries and equity investees.

North American Retail

Operating income for North American Retail increased by 28.6% to $432.5 million in fiscal 2002, from $336.4 million in fiscal 2001. Operating margin increased to 16.7% of related revenues from 16.1% in the prior year, primarily due to improvements in cost of sales related to the shift to higher margin products and lower green coffee and dairy costs, partially offset by increased payroll-related expenditures resulting from the continuing shift in sales to more labor-intensive handcrafted beverages and higher average wage rates.

Business Alliances

Operating income for Business Alliances increased by 12.8% to $56.6 million in fiscal 2002, from $50.2 million in fiscal 2001. Operating margin decreased to 25.5% of related revenues from 25.9% in the prior year primarily due to the significant amount of infrastructure investment made in fiscal 2002 to grow the domestic licensee channel.

All other business units

Operating income for all other business units decreased 8.5% to $62.9 million in fiscal 2002, from $68.8 million in fiscal 2001. Operating margin decreased to 13.0% of related revenues from 18.6% in the prior year, primarily due to increased international store maintenance and rent costs for Company-operated stores, as well as provisions for asset impairment.

Unallocated corporate expenses

Unallocated corporate expenses pertain to corporate functions that are not specifically attributable to the Company's operating segments and include "General and administrative expenses" and related depreciation and amortization expenses. Depreciation and amortization expenses of $31.1 million and $22.9 million are included in unallocated corporate expenses for fiscal 2002 and 2001, respectively.

INCOME FROM EQUITY INVESTEES

Income from equity investees was $35.8 million in fiscal 2002, compared to $28.6 million in fiscal 2001. The increase was primarily due to the improved profitability of the North American Coffee Partnership as a result of increased sales volume from extensions of its product line and expansion of geographic distribution, as well as improvements in its cost of goods sold primarily due to manufacturing efficiencies. Additionally, the net earnings of Starbucks Coffee Korea Co., Ltd. improved as a result of an increase in retail stores to 53 in fiscal 2002, compared to 24 in fiscal 2001. These increases were partially offset by slightly lower contributions from Starbucks Coffee Japan, Ltd. due to lower profitability as well as the reduction of our ownership interest from 50.0% to 40.1% at the beginning of fiscal 2002. See "Gain on Sale of Investment" discussion for additional information.

INTEREST AND OTHER INCOME, NET

Net interest and other income, which primarily consists of investment income, decreased to $9.3 million in fiscal 2002, from $10.8 million in fiscal 2001, primarily as a result of lower interest rates on cash, cash equivalents and short-term securities.

GAIN ON SALE OF INVESTMENT

On October 10, 2001, the Company sold 30,000 of its shares of Starbucks Coffee Japan, Ltd. ("Starbucks Japan") at approximately $495 per share, net of related costs. In connection with this sale, the Company received cash proceeds of $14.8 million and recorded a gain of $13.4 million on the accompanying consolidated statement of earnings. The Company's ownership interest in Starbucks Japan was reduced from 50.0% to 47.5% following the sale of the shares.

Also on October 10, 2001, Starbucks Japan issued 220,000 shares of common stock at approximately $495 per share, net of related costs, in an initial public offering in Japan. In connection with this offering, the Company's ownership interest in Starbucks Japan was reduced from 47.5% to 40.1%. The Company recorded "Other additional paid-in capital" on the accompanying consolidated balance sheet of $39.4 million, reflecting the increase in value of its share of the net assets of Starbucks Japan related to the stock offering. As of September 29, 2002, the quoted closing price of Starbucks Japan shares was approximately $203 per share.

INCOME TAXES

The Company's effective tax rates were 37.0% in fiscal 2002 and 37.3% in fiscal 2001. The effective tax rate in fiscal 2001 was impacted by the establishment of valuation allowances against deferred tax benefits resulting from losses from investments in majority-owned foreign subsidiaries and Internet-related investment losses. Management determined that a portion of these losses may not be realizable for tax purposes within the allowable carryforward period. Excluding the impact of these allowances, the effective tax rate would have been 37.0% in fiscal 2001.

RESULTS OF OPERATIONS -- FISCAL 2001 COMPARED TO FISCAL 2000

SYSTEMWIDE RETAIL STORE SALES

Systemwide retail store sales were $3.0 billion in fiscal 2001, an increase of 31% from $2.3 billion in fiscal 2000, primarily due to the opening of 1,208 stores.

CONSOLIDATED NET REVENUES

During the fiscal year ended September 30, 2001, Starbucks derived approximately 84% of net revenues from its Company-operated retail stores. The remaining 16% of net revenues was derived from the Company's Specialty Operations. Total net revenues in fiscal 2001 increased 22% to $2.6 billion from $2.2 billion in fiscal 2000.

NET REVENUES BY SEGMENT

North American Retail

North American Retail revenues increased by $351.4 million, or 20%, to $2.1 billion in fiscal 2001, from $1.7 billion in fiscal 2000, primarily due to the addition of new Company-operated retail stores and comparable store sales growth of 5%. The increase in comparable store sales resulted from a 2% increase in the number of transactions and a 3% increase in the average dollar value per transaction.

Business Alliances

Business Alliances revenues increased by $32.8 million, or 20%, to $193.6 million in fiscal 2001, from $160.8 million in fiscal 2000, primarily due to the opening of new licensed stores and the resulting increase in royalty revenues from and product sales to those licensees.

All other business units (including International Retail, net of Intersegment revenues)

Revenues for all other business units increased by $87.2 million, or 31%, to $369.1 million in fiscal 2001, from $281.9 million in fiscal 2000. This increase was mainly related to growth in the number of international Company-operated and licensed retail stores.

CONSOLIDATED RESULTS OF OPERATIONS

Cost of sales and related occupancy costs decreased to 42.0% of net revenues in fiscal 2001, from 44.2% in the corresponding period in fiscal 2000. The decrease resulted from several factors, including lower green coffee costs, the impact of retail beverage sales price increases, continued cost savings from procurement initiatives and shifts in sales mix to higher margin products. These factors were partially offset by higher occupancy costs as a result of higher average rent expense per square foot as well as the expansion of Company-operated stores in international markets that have higher occupancy costs as a percentage of revenues than North American retail operations.

Store operating expenses as a percentage of retail revenues increased to 39.3% in fiscal 2001, from 38.7% in fiscal 2000. The increase was primarily due to higher payroll-related expenditures resulting from higher average wage rates and the continuing shift to more labor-intensive handcrafted beverages, partially offset by leverage gained from regional overhead expenses distributed over an expanded revenue base and reductions in advertising expenses.

Other operating expenses were 22.3% of specialty revenues in fiscal 2001, compared to 22.2% in fiscal 2000. The increase was attributable to the Company's licensee channels, both international and domestic, as the Company expands these businesses geographically and continues to develop its internal resources for future growth. These costs were partially offset by lower advertising expenses for the Company's interactive operations.

Depreciation and amortization expenses increased to $163.5 million in fiscal 2001, from $130.2 million in fiscal 2000. The increase was mainly the result of opening new North American and international retail stores.

General and administrative expenses increased to $151.4 million in fiscal 2001, compared to $110.2 million in fiscal 2000. The increase was primarily due to higher payroll-related expenditures, professional fees, provisions for obsolete software, charitable donations and uninsured expenses resulting from the Nisqually earthquake in fiscal 2001.

Operating income increased 32.4% to $281.1 million in fiscal 2001, from $212.3 million in fiscal 2000. The operating margin increased to 10.6% of total net revenues in fiscal 2001, compared to 9.7% in the same period in fiscal 2000 primarily due to growth of total net revenues and improvements in cost of sales, as discussed above.

RESULTS OF OPERATIONS BY SEGMENT

North American Retail

Operating income for North American Retail increased by 34.6% to $336.4 million in fiscal 2001, from $249.9 million in fiscal 2000. Operating margin increased to 16.1% of related revenues from 14.4% in the prior year, primarily due to the shift in sales to higher margin products and benefits from lower green coffee costs.

Business Alliances

Operating income for Business Alliances increased by 14.6% to $50.2 million in fiscal 2001, from $43.8 million in fiscal 2000. Operating margin decreased to 25.9% of related revenues from 27.2% in the prior year primarily due to increased operating expenses resulting from the build up of infrastructure to support the expansion of the domestic licensee channel.

All other business units

Operating income for all other business units increased by 28.7% to $68.8 million in fiscal 2001, from $53.4 million in fiscal 2000. Operating margin decreased slightly to 18.6% of related revenues from 19.0% in the prior year, primarily due to higher International Retail payroll-related expenditures partially offset by reductions in advertising expenses for the Company's interactive operations.

Unallocated corporate expenses

Unallocated corporate expenses pertain to corporate functions that are not specifically attributable to the Company's operating segments and include "General and administrative expenses" and certain depreciation and amortization expenses. Depreciation and amortization expenses of $22.9 million and $24.7 million are included in unallocated corporate expenses for fiscal 2001 and 2000, respectively.

INCOME FROM EQUITY INVESTEES

Income from equity investees was $28.6 million in fiscal 2001, compared to $20.3 million in fiscal 2000. The increase was primarily due to the improved profitability of the North American Coffee Partnership that resulted from increased sales volume from extensions of its product line and expansion of geographic distribution, as well as improvements in its cost of goods sold primarily due to manufacturing efficiencies. The increase was also due to improved operating results of Starbucks Coffee Japan, Ltd., attributable to additional profitable store locations as well as the distribution of infrastructure and administrative costs over an expanded revenue base. Starbucks Coffee Japan, Ltd. had 289 stores open as of September 30, 2001, compared to 154 stores open as of October 1, 2000.

INTERNET-RELATED INVESTMENT LOSSES

During fiscal 2001, the Company determined that its investments in Internet-related companies had suffered declines in value. The Company's management deemed these declines as other than temporary due to the sustained weak conditions in the Internet industry as reflected in the bankruptcy or liquidation proceedings of numerous comparable companies and the significant decline in stock market valuation of the sector, the declining financial condition of each company in which the Company had invested, the unfavorable prospects of such companies obtaining additional funding and the length of time and extent to which the quoted market values had been less than cost for publicly traded companies. As a result, the Company recognized losses totaling $2.9 million to write off the Company's remaining investment in Kozmo.com, which was liquidated during fiscal 2001, and to reduce its investment in Liveworld, Inc. (previously known as Talk City, Inc.).

INCOME TAXES

The Company's effective tax rates of 37.3% in fiscal 2001 and 41.1% in fiscal 2000 were both impacted by the establishment of valuation allowances against deferred tax benefits resulting from Internet-related investment losses. Management determined that a portion of these losses may not be realizable for tax purposes within the allowable carryforward period. Excluding the impact of these allowances, the effective tax rates would have been 37.0% and 37.6% in fiscal 2001 and 2000, respectively. The decrease to 37.0% in fiscal 2001 from 37.6% in fiscal 2000 was due to tax planning efforts.

LIQUIDITY AND CAPITAL RESOURCES

The Company had $402.2 million in cash and cash equivalents and short-term investments at the end of fiscal 2002. Working capital as of September 29, 2002, totaled $310.0 million compared to $148.7 million as of September 30, 2001. Cash and cash equivalents increased by $61.3 million during fiscal 2002 to $174.6 million. This increase was in addition to an increase in short-term investments of $120.4 million during the same period. The Company intends to use its available cash resources to invest in its core businesses and other new business opportunities related to its core businesses. Depending on market conditions, Starbucks may acquire additional shares of its common stock pursuant to its stock repurchase plan.

Cash provided by operating activities in fiscal 2002 totaled $477.7 million and resulted primarily from net earnings and non-cash charges of $465.8 million. The increase in accrued compensation and related costs contributed $24.1 million primarily due to an increase in the number of employees. In addition, the increase in other accrued expenses provided $34.0 million, $18.0

million of which was for the litigation settlement charge recorded in fiscal 2002, and the remaining change is due to the growth of the Company's operations. Inventory purchases to supply a larger number of retail stores used $41.4 million.

Cash used by investing activities in fiscal 2002 totaled $485.3 million. This included capital additions to property, plant and equipment of $375.5 million mainly related to opening 614 new Company-operated retail stores, remodeling certain existing stores, and purchasing land and constructing the Company's new roasting and distribution facility in Nevada. The net activity in the Company's marketable securities portfolio during fiscal 2002 used $116.9 million of cash. Excess cash was invested primarily in short-term, investment-grade securities. An increase in other assets used $24.5 million, mainly relating to an increase in long-term receivables. During fiscal 2002, the Company made equity investments of $6.1 million in its international investees, excluding the effects of foreign currency fluctuations. The Company received $22.8 million in distributions mainly from the North American Coffee Partnership. Proceeds from the sale of a portion of the Company's shares in Starbucks Japan provided $14.8 million.

Cash provided by financing activities in fiscal 2002 totaled $67.4 million. This included $91.3 million generated from the exercise of employee stock options and $16.2 million generated from the Company's employee stock purchase plan. As options granted under the Company's stock option plans are exercised, the Company will continue to receive proceeds and a tax deduction; however, neither the amounts nor the timing thereof can be predicted. The increase in checks issued but not presented for payment provided $12.9 million. During fiscal 2002, the Company purchased 2.6 million shares of its common stock in accordance with authorized repurchase plans using $52.2 million of cash. Of this amount, $10.2 million was used to repurchase 515,000 shares to complete the $60.0 million repurchase plan initiated in September 2001. $42.0 million was used to repurchase 2.1 million shares in accordance with the 10.0 million share repurchase plan introduced in June 2002. There were approximately 7.9 million additional shares authorized for repurchase under this plan as of September 29, 2002. Share repurchases are at the discretion of management, in accordance with the terms of each plan, and depend on market conditions, capital requirements and such other factors as the Company may consider relevant.

Cash requirements in fiscal 2003, other than normal operating expenses, are expected to consist primarily of capital expenditures related to the addition of new Company-operated retail stores. Starbucks plans to open at least 600 Company-operated stores during fiscal 2003. The Company also anticipates incurring additional expenditures for remodeling certain existing stores and enhancing its production capacity and information systems. While there can be no assurance that current expectations will be realized, management expects capital expenditures in fiscal 2003 to be approximately $425 million.

Management believes that existing cash and investments as well as cash generated from operations should be sufficient to finance capital requirements for its core businesses through 2003. New joint ventures, other new business opportunities or store expansion rates substantially in excess of those presently planned may require outside funding.

COFFEE PRICES, AVAILABILITY AND GENERAL RISK CONDITIONS

The supply and price of coffee are subject to significant volatility. Although most coffee trades in the commodity market, coffee of the quality sought by Starbucks tends to trade on a negotiated basis at a substantial premium above commodity coffee prices, depending upon the supply and demand at the time of purchase. Supply and price can be affected by multiple factors in the producing countries, including weather, political and economic conditions. In addition, green coffee prices have been affected in the past, and may be affected in the future, by the actions of certain organizations and associations that have historically attempted to influence commodity prices of green coffee through agreements establishing export quotas or restricting coffee supplies worldwide. The Company's ability to raise sales prices in response to rising coffee prices may be limited, and the Company's profitability could be adversely affected if coffee prices were to rise substantially.

The Company enters into fixed-price purchase commitments in order to secure an adequate supply of quality green coffee and bring greater certainty to the cost of sales in future periods. As of September 29, 2002, the Company had approximately $242.2 million in fixed-price purchase commitments which, together with existing inventory, is expected to provide an adequate supply of green coffee through 2003. The Company believes, based on relationships established with its suppliers in the past, that the risk of non-delivery on such purchase commitments is low.

In addition to fluctuating coffee prices, management believes that the Company's future results of operations and earnings could be significantly impacted by other factors such as increased competition within the specialty coffee industry, fluctuating dairy prices, the Company's ability to find optimal store locations at favorable lease rates, increased costs associated with opening and operating retail stores and the Company's continued ability to hire, train and retain qualified personnel.

FINANCIAL RISK MANAGEMENT

The Company is exposed to market risk related to foreign currency exchange rates, equity security prices and changes in interest rates.

FOREIGN CURRENCY EXCHANGE RISK

The majority of the Company's revenue, expense and capital purchasing activities are transacted in United States dollars. However, because a portion of the Company's operations consists of activities outside of the United States, the Company has transactions in other currencies, primarily the Canadian dollar, British pound and Japanese yen. As part of its risk management strategy, the Company frequently evaluates its foreign currency exchange risk by monitoring market data and external factors that may influence exchange rate fluctuations. As a result, Starbucks may engage in transactions involving various derivative instruments, with maturities generally not exceeding five years, to hedge assets, liabilities, revenues and purchases denominated in foreign currencies. During fiscal 2002, the Company entered into forward foreign exchange contracts that qualify as cash flow hedges under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," to hedge a portion of anticipated international revenue. In addition, Starbucks entered into a forward foreign exchange contract that qualifies as a hedge of its net investment in a foreign operation. These contracts expire within 24 months.

EQUITY SECURITY PRICE RISK

The Company has minimal exposure to price fluctuations on equity mutual funds within the trading portfolio. The trading securities are designated to approximate the Company's liability under the Management Deferred Compensation Plan ("MDCP"). A corresponding liability is included in "Accrued compensation and related costs" on the accompanying consolidated balance sheets. These investments are recorded at fair value with unrealized gains and losses recognized in "Interest and other income, net." The offsetting changes in the MDCP liability are recorded in "General and administrative expenses" on the accompanying consolidated statements of earnings.

INTEREST RATE RISK

The Company's diversified available-for-sale portfolio consists mainly of fixed income instruments. The primary objectives of these investments are to preserve capital and liquidity. Available-for-sale securities are of investment grade and are recorded on the balance sheet at fair value with unrealized gains and losses reported as a separate component of ((Accumulated other comprehensive income/loss.)) The Company does not hedge its interest rate exposure.

SEASONALITY AND QUARTERLY RESULTS

The Company's business is subject to seasonal fluctuations. Significant portions of the Company's net revenues and profits are realized during the first quarter of the Company's fiscal year, which includes the December holiday season. In addition, quarterly results are affected by the timing of the opening of new stores, and the Company's rapid growth may conceal the impact of other seasonal influences. Because of the seasonality of the Company's business, results for any quarter are not necessarily indicative of the results that may be achieved for the full fiscal year.

APPLICATION OF CRITICAL ACCOUNTING POLICIES

Critical accounting policies are those that management believes are both most important to the portrayal of the Company's financial condition and results, and require management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Judgments and uncertainties affecting the application of those policies may result in materially different amounts being reported under different conditions or using different assumptions.

Starbucks considers its policy on impairment of long-lived assets to be most critical in understanding the judgments that are involved in preparing its consolidated financial statements.

Impairment of Long-Lived Assets

When facts and circumstances indicate that the carrying values of long-lived assets, including intangibles, may be impaired, an evaluation of recoverability is performed by comparing the carrying value of the assets to projected future cash flows in addition to other quantitative and qualitative analyses. Upon indication that the carrying value of such assets may not be recoverable, the Company recognizes an impairment loss as a charge against current operations. Property, plant and equipment assets are grouped at the lowest level for which there are identifiable cash flows when assessing impairment. Cash flows for retail assets are identified at the individual store level. Long-lived assets to be disposed of are reported at the lower of their carrying amount or fair value, less estimated costs to sell. Judgments made by the Company related to the expected useful lives of long-lived assets and the ability of the Company to realize undiscounted cash flows in excess of the carrying amounts of such assets are affected by factors such as the ongoing maintenance and improvements of the assets, changes in economic conditions and changes in operating performance. As the Company assesses the ongoing expected cash flows and carrying amounts of its long-lived assets, these factors could cause the Company to realize material impairment charges.

NEW ACCOUNTING STANDARDS

In July 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 requires, among other things, the use of a nonamortization approach for purchased goodwill and certain intangibles. Goodwill and certain intangibles with indefinite lives will not be amortized but instead will be reviewed for impairment at least annually. Remaining intangibles with finite useful lives will continue to be amortized. As of September 29, 2002, the Company had goodwill and other intangible assets, net of accumulated amortization, of $19.9 million and $9.9 million, respectively, which are subject to the transitional assessment provisions of SFAS No. 142. The adoption of SFAS No. 142 on September 30, 2002, will not have a material impact on future results of operations or the Company's financial position.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which supercedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." SFAS No. 144 retains the fundamental provisions of SFAS No. 121, but sets forth new criteria for asset classification and broadens the scope of qualifying discontinued operations. The Company's adoption of SFAS No. 144 on September 30, 2002 will not have a material impact on the Company's consolidated financial position and results of operations.

In November 2001, FASB issued Emerging Issues Task Force ("EITF") No. 01-14, "Income Statement Characterization of Reimbursements Received for `Out-of-Pocket' Expenses Incurred." This Issue clarifies the FASB staff's position that all reimbursements received for incidental expenses incurred in conjunction with providing services as part of a company's central on-going operations should be characterized as revenue in the income statement. The Company adopted EITF No. 01-14 on December 31, 2001, and it did not have a material impact on the Company's consolidated results of operations.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," which elaborates on existing disclosure of most guarantees, and clarifies when a company must recognize an initial liability for the fair value of obligations it assumes under guarantee agreements. The initial recognition and measurement provisions apply on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure requirements of the Interpretation are effective for the Company's fiscal year 2003. Starbucks does not expect the adoption of this Interpretation to have a material impact on the Company's financial position or disclosures.

CONSOLIDATED STATEMENTS OF EARNINGS

In thousands, except earnings per share

Fiscal year ended	Sept 29, 2002	Sept 30, 2001	Oct 1, 2000
Net revenues:			
Retail	$ 2,792,904	$ 2,229,594	$ 1,823,607
Specialty	496,004	419,386	354,007
Total net revenues	3,288,908	2,648,980	2,177,614
Cost of sales and related occupancy costs	1,350,011	1,112,785	961,885
Store operating expenses	1,121,108	875,473	704,898
Other operating expenses	127,178	93,326	78,445
Depreciation and amortization expenses	205,557	163,501	130,232
General and administrative expenses	202,161	151,416	110,202
Income from equity investees	35,832	28,615	20,300
Operating income	318,725	281,094	212,252
Interest and other income, net	9,300	10,768	7,110
Internet-related investment losses	--	2,940	58,792
Gain on sale of investment	13,361	--	--
Earnings before income taxes	341,386	288,922	160,570
Income taxes	126,313	107,712	66,006
Net earnings	$ 215,073	$ 181,210	$ 94,564
Net earnings per common share - basic	$ 0.56	$ 0.48	$ 0.25
Net earnings per common share - diluted	$ 0.54	$ 0.46	$ 0.24
Weighted average shares outstanding:			
Basic	385,575	380,566	371,191
Diluted	397,526	394,349	385,999

See Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

In thousands, except share data

	Sept 29, 2002	Sept 30, 2001
ASSETS		
Current assets:		
Cash and cash equivalents	$ 174,572	$ 113,237
Short-term investments - Available-for-sale securities	217,302	101,399
Short-term investments - Trading securities	10,360	5,913
Accounts receivable, net of allowances of $3,680 and $4,590, respectively	97,573	90,425
Inventories	263,174	221,253
Prepaid expenses and other current assets	42,351	29,829
Deferred income taxes, net	42,206	31,869
Total current assets	847,538	593,925
Equity and other investments	105,986	63,097
Property, plant and equipment, net	1,265,756	1,135,784
Other assets	53,554	31,868
Goodwill, net	19,902	21,845
TOTAL ASSETS	$ 2,292,736	$ 1,846,519
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 135,994	$ 127,905
Checks drawn in excess of bank balances	74,895	61,987
Accrued compensation and related costs	105,899	81,458
Accrued occupancy costs	51,195	35,835
Accrued taxes	54,244	70,346
Other accrued expenses	72,289	40,117
Deferred revenue	42,264	26,919
Current portion of long-term debt	710	697
Total current liabilities	537,490	445,264
Deferred income taxes, net	22,496	19,133
Long-term debt	5,076	5,786
Other long-term liabilities	1,036	409
Shareholders' equity:		
Common stock and additional paid-in capital - Authorized, 600,000,000 shares; issued and outstanding, 388,228,592 and 380,044,042 shares, respectively (includes 1,697,100 common stock units in both years)	891,040	791,622
Other additional paid-in capital	39,393	--
Retained earnings	804,786	589,713
Accumulated other comprehensive loss	(8,581)	(5,408)
Total shareholders' equity	1,726,638	1,375,927
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 2,292,736	$ 1,846,519

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

In thousands

Fiscal year ended	Sept 29, 2002	Sept 30, 2001	Oct 1, 2000
OPERATING ACTIVITIES:			
Net earnings	$ 215,073	$ 181,210	$ 94,564
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	221,141	177,087	142,171
Gain on sale of investment	(13,361)	--	--
Internet-related investment losses	--	2,940	58,792
Provision for impairment and asset disposals	26,852	11,044	5,753
Deferred income taxes, net	(6,088)	(6,068)	(18,252)
Equity in income of investees	(21,972)	(15,713)	(15,139)
Tax benefit from exercise of non-qualified stock options	44,199	30,899	31,131
Cash provided/(used) by changes in operating assets and liabilities:			
Net purchases of trading securities	(5,699)	(4,032)	(1,414)
Accounts receivable	(6,703)	(20,399)	(25,013)
Inventories	(41,379)	(19,704)	(19,495)
Prepaid expenses and other current assets	(12,460)	(10,919)	885
Accounts payable	5,463	54,117	15,561
Accrued compensation and related costs	24,087	12,098	25,415
Accrued occupancy costs	15,343	6,797	6,007
Accrued taxes	(16,154)	34,548	5,026
Deferred revenue	15,321	19,594	6,836
Other accrued expenses	34,022	2,806	5,746
Net cash provided by operating activities	477,685	456,305	318,574
INVESTING ACTIVITIES:			
Purchase of available-for-sale securities	(339,968)	(184,187)	(118,501)
Maturity of available-for-sale securities	78,349	93,500	58,750
Sale of available-for-sale securities	144,760	46,931	49,238
Purchase of businesses, net of cash acquired	--	--	(13,522)
Additions to equity and other investments	(6,137)	(12,874)	(43,930)
Proceeds from sale of equity investment	14,843	--	--
Distributions from equity investees	22,834	16,863	14,279
Additions to property, plant and equipment	(375,474)	(384,215)	(316,450)
Additions to other assets	(24,547)	(4,550)	(3,096)
Net cash used by investing activities	(485,340)	(428,532)	(373,232)
FINANCING ACTIVITIES:			
Increase/(decrease) in cash provided by checks drawn in excess of bank balances	12,908	5,655	(7,479)
Proceeds from sale of common stock under employee stock purchase plan	16,191	12,977	10,258
Proceeds from exercise of stock options	91,276	46,662	58,463
Principal payments on long-term debt	(697)	(685)	(1,889)
Repurchase of common stock	(52,248)	(49,788)	--
Net cash provided by financing activities	67,430	14,821	59,353
Effect of exchange rate changes on cash and cash equivalents	1,560	(174)	(297)
Net increase in cash and cash equivalents	61,335	42,420	4,398
CASH AND CASH EQUIVALENTS:			
Beginning of year	113,237	70,817	66,419
End of year	$ 174,572	$ 113,237	$ 70,817
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid during the year for:			
Interest	$ 303	$ 432	$ 411
Income taxes	105,339	47,690	51,856

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

In thousands, except share data

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total
Balance, October 3, 1999	366,564,190	$ 366	$ 650,654	$ 313,939	$ (3,946)	$ 961,013
Net earnings	--	--	--	94,564	--	94,564
Unrealized holding losses, net	--	--	--	--	(163)	(163)
Translation adjustment	--	--	--	--	(6,867)	(6,867)
Comprehensive income						87,534
Exercise of stock options, including tax benefit of $31,131	8,943,570	9	89,585	--	--	89,594
Sale of common stock	807,542	1	10,257	--	--	10,258
Balance, October 1, 2000	376,315,302	376	750,496	408,503	(10,976)	1,148,399
Net earnings	--	--	--	181,210	--	181,210
Unrealized holding gains, net	--	--	--	--	2,087	2,087
Translation adjustment	--	--	--	--	3,481	3,481
Comprehensive income						186,778
Exercise of stock options, including tax benefit of $ 30,899	6,289,892	6	77,555	--	--	77,561
Sale of common stock	813,848	1	12,976	--	--	12,977
Repurchase of common stock	(3,375,000)	(3)	(49,785)	--	--	(49,788)
Balance, September 30, 2001	380,044,042	380	791,242	589,713	(5,408)	1,375,927
Net earnings	--	--	--	215,073	--	215,073
Unrealized holding losses, net	--	--	--	--	(1,509)	(1,509)
Translation adjustment	--	--	--	--	(1,664)	(1,664)
Comprehensive income						211,900
Equity adjustment related to equity investee transaction	--	--	39,393	--	--	39,393
Exercise of stock options, including tax benefit of $44,199	9,830,136	10	135,465	--	--	135,475
Sale of common stock	991,742	1	16,190	--	--	16,191
Repurchase of common stock	(2,637,328)	(3)	(52,245)	--	--	(52,248)
Balance, September 29, 2002	388,228,592	$ 388	$ 930,045	$ 804,786	$ (8,581)	$ 1,726,638

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended September 29, 2002, September 30, 2001, and October 1, 2000

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Starbucks Corporation (together with its subsidiaries, "Starbucks" or the "Company") purchases and roasts high-quality whole bean coffees and sells them, along with fresh, rich-brewed coffees, Italian-style espresso beverages, cold blended beverages, a variety of pastries and confections, coffee-related accessories and equipment, a selection of premium teas and a line of compact discs primarily through its Company-operated retail stores. Starbucks sells coffee and tea products through other channels of distribution, and, through certain of its equity investees, Starbucks also produces and sells bottled Frappuccino(R) and Starbucks DoubleShot(TM) coffee drinks and a line of premium ice creams. These non-retail channels are collectively known as "Specialty Operations." The Company's objective is to establish Starbucks as the most recognized and respected brand in the world. To achieve this goal, the Company plans to continue rapid expansion of its retail operations, grow its Specialty Operations and selectively pursue other opportunities to leverage the Starbucks brand through the introduction of new products and the development of new distribution channels.

Principles of Consolidation

The consolidated financial statements reflect the financial position and operating results of Starbucks, which includes wholly owned subsidiaries and investees controlled by the Company.

Investments in entities which the Company does not control, but has the ability to exercise significant influence over operating and financial policies, are accounted for under the equity method. Investments in entities in which Starbucks does not have the ability to exercise significant influence are accounted for under the cost method.

All significant intercompany transactions have been eliminated.

Fiscal Year-End

The Company's fiscal year ends on the Sunday closest to September 30. The fiscal years ended September 29, 2002, September 30, 2001, and October 1, 2000, each included 52 weeks.

Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from these estimates.

Cash and Cash Equivalents

The Company considers all highly liquid instruments with a maturity of three months or less at the time of purchase to be cash equivalents.

Cash Management

The Company's cash management system provides for the reimbursement of all major bank disbursement accounts on a daily basis. Checks issued but not presented for payment to the bank are reflected as "Checks drawn in excess of bank balances" on the accompanying consolidated financial statements.

Short-term Investments

The Company's short-term investments, which generally have maturities of more than three months and less than one year, consist primarily of investment-grade marketable debt and equity securities as well as bond and equity mutual funds, all of which are classified as trading or available-for-sale. Trading securities are recorded at fair value with unrealized holding gains and losses included in net earnings. Available-for-sale securities are recorded at fair value, and unrealized holding gains and losses are recorded, net of tax, as a separate component of accumulated other comprehensive income. Unrealized losses are charged against net earnings when a decline in fair value is determined to be other than temporary. Realized gains and losses are accounted for on the specific identification method. Purchases and sales are recorded on a trade date basis.

Fair Value of Financial Instruments

The carrying value of cash and cash equivalents approximates fair value because of the short-term maturity of those instruments. The fair value of the Company's investments in marketable debt and equity securities as well as bond and equity mutual funds is based upon the quoted market price on the last business day of the fiscal year.

For equity securities of companies that are privately held, or where an observable quoted market price does not exist, the Company estimates fair value using a variety of valuation methodologies. Such methodologies include comparing the security with securities of publicly traded companies in similar lines of business, applying revenue multiples to estimated future operating results for the private company and estimating discounted cash flows for that company. For further information on investments, see Notes 4 and 7. The carrying value of long-term debt approximates fair value.

Derivative Instruments

The Company manages its exposure to foreign currency risk within the consolidated financial statements according to a hedging policy. Under the policy, Starbucks may engage in transactions involving various derivative instruments with maturities generally not longer than five years, to hedge assets, liabilities, revenues and purchases denominated in foreign currencies.

The Company follows Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended and interpreted, which requires that all derivatives be recorded on the balance sheet at fair value. The accounting for changes in the fair value of derivative instruments depends on the intended use and resulting designation. The Company designates its derivatives based upon the criteria established by SFAS No. 133. For a derivative designated as a fair value hedge, the gain or loss generated from the change in fair value is recognized in net earnings in the period of change together with the offsetting loss or gain on the hedged item. For a derivative designated as a cash flow hedge, the effective portion of the derivative's gain or loss is initially reported as a component of other comprehensive income ("OCI") and subsequently reclassified into net earnings when the hedged exposure affects net earnings. For a derivative designated as a net investment hedge, the effective portion of the derivative's gain or loss is reported as a component of the foreign currency translation adjustment, a component of OCI. For a derivative not designated as a hedging instrument, the gain or loss is recognized in net earnings in the period of change.

Cash flow hedges related to anticipated transactions are designated and documented at the inception of each hedge by matching the terms of the contract to the underlying transaction. Once established, cash flow hedges are generally not removed until maturity. The Company classifies the cash flows from hedging transactions in the same category as the cash flows from the respective hedged items.

Forward contract effectiveness for cash flow hedges is calculated by comparing the fair value of the contract to the change in value of the anticipated transaction using forward rates on a monthly basis. For net investment hedges, the spot-to-spot method is used to calculate effectiveness. Any ineffectiveness is recognized immediately in "Interest and other income, net" on the accompanying consolidated statements of earnings.

Inventories

Inventories are stated at the lower of cost (primarily moving average cost) or market.

Property, Plant and Equipment

Property, plant and equipment are carried at cost less accumulated depreciation. Depreciation of property, plant and equipment, which includes assets under capital leases, is provided on the straight-line method over estimated useful lives, generally ranging from two to seven years for equipment and 30 to 40 years for buildings. Leasehold improvements are amortized over the shorter of their estimated useful lives or the related lease life, generally ten years. The portion of depreciation expense related to production and distribution facilities is included in "Cost of sales and related occupancy costs" on the accompanying consolidated statements of earnings. The costs of repairs and maintenance are expensed when incurred, while expenditures for refurbishments and improvements that significantly add to the productive capacity or extend the useful life of an asset are capitalized. When assets are retired or sold, the asset cost and related accumulated depreciation are eliminated with any remaining gain or loss reflected in net earnings.

Goodwill and Other Intangible Assets

The Company's intangible assets mainly consist of goodwill, trademarks, patents and copyrights. These assets are amortized on a straight-line basis over the period of expected benefit, which ranges from ten to twenty years. Starbucks will adopt SFAS No. 142, "Goodwill and Other Intangible Assets" in fiscal 2003. Accordingly, goodwill and certain intangibles with indefinite lives will not be amortized but instead will be reviewed for impairment at least annually. Remaining intangibles with finite useful lives will continue to be amortized. As of September 29, 2002, Starbucks had goodwill and other intangible assets, net of accumulated amortization, of $19.9 million and $9.9 million, respectively, which are subject to the transitional assessment provisions of SFAS No. 142. The Company's management has determined that the adoption of SFAS No. 142 will not have a material impact on results of operations or the Company's consolidated financial position.

Long-lived Assets

When facts and circumstances indicate that the carrying values of long-lived assets, including intangibles, may be impaired, an evaluation of recoverability is performed by comparing the carrying value of the assets to projected future cash flows in addition to other quantitative and qualitative analyses. Upon indication that the carrying value of such assets may not be recoverable, the Company recognizes an impairment loss by a charge against current operations. Property, plant and equipment assets are grouped at the lowest level for which there are identifiable cash flows when assessing impairment. Cash flows for retail assets are identified at the individual store level.

Revenue Recognition

In most instances, retail store revenues are recognized when payment is tendered at the point of sale. Revenues from stored value cards are recognized upon redemption. Until the redemption of stored value cards, outstanding customer balances on such cards are included in "Deferred revenue" on the accompanying consolidated balance sheets. Specialty revenues, consisting mainly of product sales, are generally recognized upon receipt by customers. Initial non-refundable fees required under licensing agreements are earned upon substantial performance of services. Royalty revenues based upon a percentage of sales and other continuing fees are recognized when earned. All revenues are recognized net of any discounts.

Advertising

The Company expenses costs of advertising the first time the advertising campaign takes place, except for direct-to-consumer advertising, which is capitalized and amortized over its expected period of future benefit, generally six to twelve months. Net capitalized direct-to-consumer advertising costs were $0.8 million and $0.9 million as of September 29, 2002, and September 30, 2001, respectively, and are included in "Prepaid expenses and other current assets" on the accompanying consolidated balance sheets. Total advertising expenses, recorded in "Store operating expenses" and "Other operating expenses," on the accompanying consolidated statements of earnings were $25.6 million, $28.8 million and $32.6 million in 2002, 2001 and 2000, respectively.

Store Preopening Expenses

Costs incurred in connection with the start-up and promotion of new store openings are expensed as incurred.

Rent Expense

Certain of the Company's lease agreements provide for scheduled rent increases during the lease terms or for rental payments commencing at a date other than the date of initial occupancy. Minimum rental expenses are recognized on a straight-line basis over the terms of the leases.

Stock-based Compensation

The Company accounts for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees." Compensation cost for stock options, if any, is measured by the excess of the quoted market price of the Company's stock at the date of grant over the amount an employee must pay to acquire the stock. SFAS No. 123, "Accounting for Stock-Based Compensation," established accounting and disclosure requirements using a fair-value based method of accounting for stock-based employee compensation plans. The Company follows the disclosure requirements of SFAS No. 123, see Note 12, and intends to disclose stock-based compensation information quarterly in fiscal 2003.

Foreign Currency Translation

The Company's international operations use their local currency as their functional currency. Assets and liabilities are translated at exchange rates in effect at the balance sheet date. Income and expense accounts are translated at the average monthly exchange rates during the year. Resulting translation adjustments are recorded as a separate component of accumulated other comprehensive income.

Income Taxes

The Company computes income taxes using the asset and liability method, under which deferred income taxes are provided for the temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities.

Stock Split

On April 27, 2001, the Company effected a two-for-one stock split of its $0.001 par value common stock for holders of record on March 30, 2001. All applicable share and per-share data in these consolidated financial statements have been restated to give effect to this stock split.

Earnings Per Share

The computation of basic earnings per share is based on the weighted average number of shares and common stock units outstanding during the period. The computation of diluted earnings per share includes the dilutive effect of common stock equivalents consisting of certain shares subject to stock options.

Recent Accounting Pronouncements

In August 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which supercedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." SFAS No. 144 retains the fundamental provisions of SFAS No. 121, but sets forth new criteria for asset classification and broadens the scope of qualifying discontinued operations. The Company's adoption of SFAS No. 144 on September 30, 2002 will not have a material impact on the Company's consolidated financial position and results of operations.

In November 2001, FASB issued Emerging Issues Task Force ("EITF") No. 01-14, "Income Statement Characterization of Reimbursements Received for `Out-of-Pocket' Expenses Incurred." This Issue clarifies the FASB staff's position that all reimbursements received for incidental expenses incurred in conjunction with providing services as part of a company's central on-going operations should be characterized as revenue in the income statement. The Company adopted EITF No. 01-14 on December 31, 2001, and it did not have a material impact on the Company's consolidated results of operations.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," which elaborates on existing disclosure of most guarantees, and clarifies when a company must recognize an initial liability for the fair value of obligations it assumes under guarantee agreements. The initial recognition and measurement provisions apply on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure requirements of the Interpretation are effective for the Company's fiscal year 2003. Starbucks does not expect the adoption of this Interpretation to have a material impact on the Company's consolidated financial position or disclosures.

Reclassifications

Certain reclassifications of prior years' balances have been made to conform to the fiscal 2002 presentation.

NOTE 2: BUSINESS COMBINATIONS

During fiscal 2000, Starbucks acquired the outstanding stock of Tympanum, Inc. (d/b/a "Hear Music"), a music retailer, and Coffee Partners Co. Ltd., the company licensed to operate Starbucks stores in Thailand. The combined purchase price for these two acquisitions was $14.1 million. The acquisitions were accounted for under the purchase method of accounting. Results of operations of the acquired companies are included on the accompanying consolidated financial statements from the dates of acquisition. There were no business combinations during fiscal 2001 and 2002.

NOTE 3: CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following (in thousands):

	Sept 29, 2002	Sept 30, 2001
Operating funds and interest-bearing deposits	$ 163,592	$ 51,164
Commercial paper	--	1,698
Money market funds	10,980	60,375
Total	$ 174,572	$ 113,237

NOTE 4: SHORT-TERM INVESTMENTS

The Company's short-term investments consist of the following (in thousands):

September 29, 2002:	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Short-term investments - available-for-sale securities:				
State and local government obligations	$ 155,471	$ 244	$ (16)	$ 155,699
U.S. government obligations	2,406	4	--	2,410
Mutual funds	32,000	211	--	32,211
Commercial paper	26,982	--	--	26,982
Total	$ 216,859	$ 459	$ (16)	$ 217,302
Short-term investments - trading securities	13,210			10,360
Total short-term investments	$ 230,069			$ 227,662

September 30, 2001:	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Short-term investments - available-for-sale securities:				
U.S. government obligations	$ 1,999	$ 18	$ --	$ 2,017
Commercial paper	98,000	1,332	--	99,332
Marketable equity securities	250	--	(200)	50
Total	$ 100,249	$ 1,350	$ (200)	$ 101,399
Short-term investments - trading securities	7,448			5,913
Total short-term investments	$ 107,697			$ 107,312

In fiscal 2002, 2001 and 2000, proceeds from the sale of investment securities were $144.8 million, $46.9 million and $49.2 million, respectively. Gross realized gains from the sale of securities were $1.7 million in 2002. There were no gross realized losses in 2002, and gross realized gains and losses from the sale of securities were not material in 2001 and 2000.

During fiscal 2001 and 2000, the Company recognized losses of $0.9 million and $6.8 million, respectively, on its investment in the common stock of Liveworld, Inc. (previously known as Talk City, Inc.), due to impairments that were determined by management to be other than temporary.

The trading securities are comprised mainly of marketable equity mutual funds designated to approximate the Company's liability under the Management Deferred Compensation Plan. The corresponding deferred compensation liability of $10.4 million in fiscal 2002 and $6.0 million in fiscal 2001 is included in "Accrued compensation and related costs" on the accompanying consolidated balance sheets. In fiscal 2002 and 2001, the changes in net unrealized holding losses in the trading portfolio included in earnings were $1.3 million and $1.9 million, respectively.

NOTE 5: DERIVATIVE FINANCIAL INSTRUMENTS

Cash Flow Hedges

During fiscal 2001 and 2002, the Company entered into forward foreign exchange contracts that qualify as cash flow hedges under SFAS No. 133 to hedge portions of anticipated product and royalty revenues denominated in Japanese yen and Canadian dollars. These contracts expire within 24 months. The Company had accumulated net derivative gains of $0.8 million, net of taxes, in other comprehensive income as of September 29, 2002, related to cash flow hedges. Of this amount, $0.3 million of net derivative losses will be reclassified into net earnings within 12 months. There was no ineffectiveness related to cash flow hedges for the fiscal years ended September 29, 2002, and September 30, 2001.

Net Investment Hedges

During fiscal 2001 and 2002, the Company entered into forward foreign exchange contracts that qualify as hedges of the Company's net investment in Starbucks Coffee Japan, Ltd. These contracts expire within 19 months and are intended to minimize foreign currency exposure to fluctuations in the Japanese yen. As a result of using the spot-to-spot method, the Company recognized net gains of $1.8 million and $1.4 million during the fiscal years ended September 29, 2002, and September 30, 2001, respectively. In addition, the Company had accumulated net derivative losses of $0.5 million, net of taxes, in other comprehensive income as of September 29, 2002.

NOTE 6: INVENTORIES

Inventories consist of the following (in thousands):

	Sept 29, 2002	Sept 30, 2001
Coffee:		
Unroasted	$ 128,173	$ 98,557
Roasted	35,770	33,958
Other merchandise held for sale	65,403	63,458
Packaging and other supplies	33,828	25,280
Total	$ 263,174	$ 221,253

The increase in inventories is consistent with the Company's overall retail store growth.

As of September 29, 2002, the Company had fixed-price inventory purchase contracts for green coffee totaling approximately $242.2 million. The Company believes, based on relationships established with its suppliers in the past, that the risk of non-delivery on such purchase commitments is low.

NOTE 7: EQUITY AND OTHER INVESTMENTS

The Company's equity and other investments consist of the following (in thousands):

	Sept 29, 2002	Sept 30, 2001	Oct 1, 2000
Equity method investments	$ 94,698	$ 57,758	$ 51,268
Cost method investments	9,086	3,118	783
Other investments	2,202	2,221	3,788
Total	$ 105,986	$ 63,097	$ 55,839

Equity Method

The Company's equity investees and ownership interests are as follows:

	Sept 29, 2002	Sept 30, 2001	Oct 1, 2000
North American Coffee Partnership	50.0%	50.0%	50.0%
The Starbucks Ice Cream Partnership	50.0%	50.0%	50.0%
Starbucks Coffee Japan, Ltd.	40.1%	50.0%	50.0%
Starbucks Coffee Korea Co., Ltd.	50.0%	50.0%	-
Coffee Partners Hawaii	5.0%	5.0%	5.0%

The Company has two partnerships to produce and distribute Starbucks branded products. The North American Coffee Partnership with the Pepsi-Cola Company develops and distributes bottled Frappuccino and Starbucks DoubleShot coffee drinks. The Starbucks Ice Cream Partnership with Dreyer's Grand Ice Cream, Inc. develops and distributes premium ice creams.

The Company is an equity owner in several other entities that operate licensed Starbucks retail stores, including Starbucks Coffee Japan, Ltd., Starbucks Coffee Korea Co., Ltd., and Coffee Partners Hawaii, a general partnership.

On October 10, 2001, the Company sold 30,000 of its shares of Starbucks Coffee Japan, Ltd. ("Starbucks Japan") at approximately $495 per share, net of related costs. In connection with this sale, the Company received cash proceeds of $14.8 million and recorded a gain of $13.4 million on the accompanying consolidated statement of earnings. The Company's ownership interest in Starbucks Japan was reduced from 50.0% to 47.5% following the sale of the shares.

Also on October 10, 2001, Starbucks Japan issued 220,000 shares of common stock at approximately $495 per share, net of related costs, in an initial public offering in Japan. In connection with this offering, the Company's ownership interest in Starbucks Japan was reduced from 47.5% to 40.1%. Starbucks recorded "Other additional paid-in capital" on the accompanying consolidated balance sheet of $39.4 million, reflecting the increase in value of its share of the net assets of Starbucks Japan related to the stock offering. As of September 29, 2002, the quoted closing price of Starbucks Japan shares was approximately $203 per share.

The Company's share of income and losses is included in "Income from equity investees" on the accompanying consolidated statements of earnings. Also included is the Company's proportionate share of gross margin resulting from coffee and other product sales to, and royalty and license fee revenues generated from, equity investees. Revenues generated from these related parties, net of eliminations, were $57.1 million, $40.6 million and $27.0 million in fiscal 2002, 2001 and 2000, respectively. Related costs of sales, net of eliminations, were $32.8 million, $25.9 million and $19.4 million in fiscal 2002, 2001 and 2000, respectively.

Cost Method

Starbucks has equity interests in entities to develop Starbucks retail stores in Taiwan, China, Austria, Switzerland, Puerto Rico, Germany, Spain, Mexico, Greece and Israel. Starbucks has the ability to acquire additional interests in its cost method investees at certain intervals during each respective development period. Depending on the Company's total percentage ownership interest and its ability to exercise significant influence, additional investments may require the retroactive application of the equity method of accounting.

Other Investments

Starbucks has investments in privately held equity securities that are recorded at their estimated fair values.

In fiscal 1999 and 2000, the Company invested $20.3 million in living.com, Inc. ("living.com"), an online furniture retailer, $10.0 million in Cooking.com, Inc. ("Cooking.com"), a privately held Web-based retailer of cookware, accessories and specialty foods and provider of information about cooking, and $25.0 million in Kozmo.com, an Internet-to-door delivery service for food, entertainment and convenience items. During fiscal 2000 and 2001, the Company determined that these investments had suffered declines in value that were other than temporary. As a result, the Company recognized losses of $52.0 million to reduce its investments in living.com, Cooking.com and Kozmo.com to their aggregate fair value as of October 1, 2000. During fiscal 2001, Starbucks recognized a loss totaling $2.0 million to write off its remaining investment in Kozmo.com. There were no investment write-offs in fiscal 2002.

NOTE 8: PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at cost and consist of the following (in thousands):

	Sept 29, 2002	Sept 30, 2001
Land	$ 11,310	$ 6,023
Buildings	30,961	19,795
Leasehold improvements	1,131,382	960,732
Roasting and store equipment	516,129	421,150
Furniture, fixtures and other	282,068	239,900
	1,971,850	1,647,600
Less accumulated depreciation and amortization	(814,427)	(605,247)
	1,157,423	1,042,353
Work in progress	108,333	93,431
Property, plant and equipment, net	$ 1,265,756	$ 1,135,784

The increase in property, plant and equipment from September 30, 2001, to September 29, 2002, is mainly a result of opening new Company-operated retail stores, remodeling certain existing stores, and purchasing land and constructing the Company's new roasting and distribution facility in Nevada.

NOTE 9: LONG-TERM DEBT

In September 1999, the Company purchased the land and building comprising its York County, Pennsylvania, roasting plant and distribution facility. The total purchase price was $12.9 million. In connection with this purchase, the Company assumed loans totaling $7.7 million from the York County Industrial Development Corporation. The remaining maturities of these loans range from 7 to 8 years, with interest rates from 0.0% to 2.0%.

Scheduled principal payments on long-term debt are as follows (in thousands):

Fiscal year ending	
2003	$ 710
2004	722
2005	735
2006	748
2007	762
Thereafter	2,109
Total principal payments	$5,786

NOTE 10: LEASES

The Company leases retail stores, roasting and distribution facilities and office space under operating leases expiring through 2025. Most lease agreements contain renewal options and rent escalation clauses. Certain leases provide for contingent rentals based upon gross sales.

Rental expense under these lease agreements was as follows (in thousands):

Fiscal year ended	Sept 29, 2002	Sept 30, 2001	Oct 1, 2000
Minimum rentals - Retail	$ 200,827	$ 150,510	$ 114,239
Minimum rentals - Other	19,143	16,033	12,910
Contingent rentals	5,415	4,018	3,743
Total	$ 225,385	$ 170,561	$ 130,892

Minimum future rental payments under non-cancelable lease obligations as of September 29, 2002, are as follows (in thousands):

Fiscal year ending	
2003	$ 248,016
2004	243,519
2005	232,641
2006	219,384
2007	203,395
Thereafter	863,874
Total minimum lease payments	$ 2,010,829

NOTE 11: SHAREHOLDERS' EQUITY

During fiscal 2001, the Company amended and restated its Articles of Incorporation to, among other things, change the par value of the Company's common stock and preferred stock from no par value per share to $0.001 par value per share.

In addition to 600.0 million shares of authorized common stock, the Company has authorized 7.5 million shares of preferred stock, none of which was outstanding at September 29, 2002.

In September 2001, the Company's Board of Directors approved a plan to repurchase up to $60.0 million of its common stock in the open market. This plan was completed through the acquisition of 515,000 shares and 3.4 million shares during fiscal years 2002 and 2001, respectively.

In June 2002, the Board of Directors authorized the repurchase of up to an additional 10.0 million shares of common stock. During fiscal year 2002, the Company acquired 2.1 million shares at a cost of $42.0 million, leaving 7.9 million additional shares authorized for repurchase under this plan as of September 29, 2002.

Comprehensive Income

Comprehensive income includes all changes in equity during the period, except those resulting from transactions with shareholders and subsidiaries of the Company. It has two components: net earnings and other comprehensive income. Accumulated other comprehensive loss reported on the Company's consolidated balance sheets consists of foreign currency translation adjustments and the unrealized gains and losses, net of applicable taxes, on available-for-sale securities and on derivative instruments designated and qualifying as cash flow and net investment hedges. Comprehensive income, net of related tax effects, is as follows (in thousands):

Fiscal year ended	Sept 29, 2002	Sept 30, 2001	Oct 1, 2000
Net earnings	$ 215,073	$ 181,210	$ 94,564
Unrealized holding gains/(losses) on available-for-sale securities, net of tax benefit/(provision) of ($231), ($434) and $52 in 2002, 2001 and 2000, respectively	394	738	(85)
Unrealized holding gains on cash flow hedges, net of tax provision of $1,066, $683 and $0 in 2002, 2001 and 2000, respectively	1,815	1,163	--
Unrealized holding gains/(losses) on net investment hedges, net of tax benefit/(provision) of $415, ($109) and $0 in 2002, 2001 and 2000, respectively	(706)	186	--
Reclassification adjustment for gains realized in net income, net of tax provision of $1,769, $0 and $48 in 2002, 2001 and 2000, respectively	(3,012)	--	(78)
Net unrealized gain/(loss)	(1,509)	2,087	(163)
Translation adjustment	(1,664)	3,481	(6,867)
Total comprehensive income	$ 211,900	$ 186,778	$ 87,534

NOTE 12: EMPLOYEE STOCK AND BENEFIT PLANS

Stock Option Plans

The Company maintains several stock option plans under which the Company may grant incentive stock options and non-qualified stock options to employees, consultants and non-employee directors. Stock options have been granted at prices at or above the fair market value on the date of grant. Options vest and expire according to terms established at the grant date.

The following summarizes all stock option transactions from October 3, 1999, through September 29, 2002:

	Shares Subject to Options	Weighted Average Exercise Price Per Share	Shares Subject to Exercisable Options	Weighted Average Exercise Price Per Share
Outstanding, October 3, 1999	45,141,102	$ 8.42	24,161,650	$ 6.78
Granted	9,410,330	12.42		
Exercised	(8,943,570)	6.54		
Cancelled	(3,718,136)	10.71		
Outstanding, October 1, 2000	41,889,726	9.55	20,330,740	7.82
Granted	9,907,292	20.48		
Exercised	(6,289,892)	7.45		
Cancelled	(2,496,195)	14.22		
Outstanding, September 30, 2001	43,010,931	12.13	24,407,135	9.16
Granted	10,262,709	15.79		
Exercised	(9,830,136)	9.29		
Cancelled	(2,983,701)	15.15		
Outstanding, September 29, 2002	40,459,803	$ 13.55	20,975,598	$ 11.07

As of September 29, 2002, there were 34.8 million shares of common stock available for issuance pursuant to future stock option grants.

Additional information regarding options outstanding as of September 29, 2002, is as follows:

Range of Exercise Prices			Options Outstanding: Shares	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Options Exercisable: Shares	Weighted Average Exercise Price
$ 2.84	-	$ 9.20	9,762,067	4.05	$ 7.45	9,250,255	$ 7.36
9.21	-	11.63	9,577,220	6.47	11.07	6,768,224	10.95
11.88	-	14.80	9,991,522	8.50	14.37	1,539,580	13.00
15.34	-	20.19	8,546,478	8.10	19.70	2,389,383	19.67
20.25	-	25.11	2,582,516	8.70	22.34	1,028,156	22.26
$ 2.84	-	$ 25.11	40,459,803	6.87	$ 13.55	20,975,598	$ 11.07

Employee Stock Purchase Plans

The Company has an employee stock purchase plan which provides that eligible employees may contribute up to 10% of their base earnings towards the quarterly purchase of the Company's common stock. The employee's purchase price is 85% of the lesser of the fair market value of the stock on the first business day or the last business day of the quarterly offering period. Employees may purchase shares having a fair market value of up to $25,000 (measured as of the first day of each quarterly offering period for each calendar year). No compensation expense is recorded in connection with the plan. The total number of shares issuable under the plan is 16.0 million. There were 991,742 shares issued under the plan during fiscal 2002 at prices ranging from $12.58 to $19.81. There were 813,635 shares issued under the plan during fiscal 2001 at prices ranging from $12.70 to $18.28. There were 807,542 shares issued under the plan during fiscal 2000 at prices ranging from $10.19 to $16.36. The plan has purchased a total of 4.9 million shares since inception, leaving 11.1 million shares available for future issuance. Of the 32,950 employees eligible to participate, 9,126 were participants in the plan as of September 29, 2002.

Starbucks has an additional employee stock purchase plan which allows eligible United Kingdom employees to save towards the purchase of the Company's common stock. The plan is in compliance with applicable tax laws in the United Kingdom. The employee's purchase price is 85% of the fair value of the stock on the first business day of a three-year offering period. No compensation expense was recorded in connection with the plan during fiscal 2002. The total number of shares issuable under the plan is 600,000, none of which have been issued as of September 29, 2002.

Deferred Stock Plan

The Company has a deferred stock plan for certain key employees that enables participants in the plan to defer receipt of ownership of common shares from the exercise of non-qualified stock options. The minimum deferral period is five years. As of September 29, 2002, receipt of 1,697,100 shares was deferred under the terms of this plan. The rights to receive these shares, represented by common stock units, are included in the calculation of basic and diluted earnings per share as common stock equivalents.

Accounting for Stock-based Compensation

As permitted under SFAS No. 123, "Accounting for Stock-Based Compensation," the Company accounts for stock-based compensation in accordance with APB Opinion No. 25, "Accounting for Stock Issued to Employees," and its related interpretations. Accordingly, because the grant price equals the market price on the date of grant, no compensation expense is recognized for stock options issued to employees.

Had compensation cost for the Company's stock options been recognized based upon the estimated fair value on the grant date under the fair value methodology prescribed by SFAS No. 123, the Company's net earnings and earnings per share would have been as follows (in thousands, except earnings per share):

Fiscal year ended	As Reported	Pro Forma Under SFAS No. 123
September 29, 2002:		
Net earnings	$ 215,073	$ 177,627
Net earnings per common share:		
Basic	$ 0.56	$ 0.46
Diluted	$ 0.54	$ 0.45
September 30, 2001:		
Net earnings	$ 181,210	$ 140,675
Net earnings per common share:		
Basic	$ 0.48	$ 0.37
Diluted	$ 0.46	$ 0.36
October 1, 2000:		
Net earnings	$ 94,564	$ 66,241
Net earnings per common share:		
Basic	$ 0.25	$ 0.18
Diluted	$ 0.24	$ 0.17

The fair value of stock-based awards to employees is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	Employee Stock Options			Employee Stock Purchase Plan		
	2002	2001	2000	2002	2001	2000
Expected life (years)	2 - 5	2 - 5	2 - 6	0.25	0.25	0.25
Expected volatility	43 - 54%	57%	55%	33 - 51%	41 - 49%	42 - 82%
Risk-free interest rate	1.63 - 4.96%	2.37 - 5.90%	5.65 - 6.87%	1.93 - 2.73%	2.35 - 4.68%	5.97 - 6.40%
Expected dividend yield	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

The Company's valuations are based upon a multiple option valuation approach, and forfeitures are recognized as they occur. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock-price volatility. The Company's employee stock options have characteristics significantly different from those of traded options, and changes in the subjective input assumptions can materially affect the fair value estimate. Because Company stock options do not trade on a secondary exchange, employees can receive no value nor derive any benefit from holding stock options under these plans without an increase, above the grant price, in the market price of the Company's stock. Such an increase in stock price would benefit all stockholders commensurately.

As required by SFAS No. 123, the Company has determined that the weighted average estimated fair values of options granted during fiscal 2002, 2001 and 2000 were $6.48, $8.98 and $5.37 per share, respectively.

In applying SFAS No. 123, the impact of outstanding stock options granted prior to 1996 has been excluded from the pro forma calculations; accordingly, the 2002 pro forma adjustments are not necessarily indicative of future period pro forma adjustments.

Defined Contribution Plans

Starbucks maintains voluntary defined contribution plans covering eligible employees as defined in the plan documents. Participating employees may elect to defer and contribute a portion of their compensation to the plan up to plan limits of approximately 19%, not to exceed the dollar amounts set by applicable laws. Effective January 1, 2003, participating employees may elect to defer and contribute up to 50% of their compensation. For certain plans, the Company matched 25% of each employee's eligible contribution up to a maximum of the first 4% of each employee's compensation. Beginning April 1, 2002, the Company's matching contributions for the majority of its plans were increased to a maximum of 150%, depending on participants' years of service.

The Company's matching contributions to all plans were approximately $3.1 million, $1.6 million and $1.1 million in fiscal 2002, 2001 and 2000, respectively.

NOTE 13: INCOME TAXES

A reconciliation of the statutory federal income tax rate with the Company's effective income tax rate is as follows:

Fiscal year ended	Sept 29, 2002	Sept 30, 2001	Oct 1, 2000
Statutory rate	35.0%	35.0%	35.0%
State income taxes, net of federal income tax benefit	3.4	3.8	3.7
Valuation allowance change from prior year	(0.9)	0.9	3.5
Other, net	(0.5)	(2.4)	(1.1)
Effective tax rate	37.0%	37.3%	41.1%

The provision for income taxes consists of the following (in thousands):

Fiscal year ended	Sept 29, 2002	Sept 30, 2001	Oct 1, 2000
Currently payable:			
Federal	$ 109,154	$ 91,750	$ 70,157
State	16,820	17,656	12,500
Foreign	5,807	3,198	1,601
Deferred tax asset, net	(5,468)	(4,892)	(18,252)
Total	$ 126,313	$ 107,712	$ 66,006

Deferred income taxes or tax benefits reflect the tax effect of temporary differences between the amounts of assets and liabilities for financial reporting purposes and amounts as measured for tax purposes. The Company will establish a valuation allowance if it is more likely than not these items will either expire before the Company is able to realize their benefits, or that future deductibility is uncertain. Periodically, the valuation allowance is reviewed and adjusted based on management's assessments of realizable deferred tax assets. The valuation allowance as of September 29, 2002, was related to losses from investments in majority-owned foreign subsidiaries; the valuation allowance as of September 30, 2001, was related to losses from investments in majority-owned foreign subsidiaries and from Internet-related companies. The tax effect of temporary differences and carryforwards that cause significant portions of deferred tax assets and liabilities is as follows (in thousands):

	Sept 29, 2002	Sept 30, 2001
Deferred tax assets:		
Equity and other investments	$ 14,026	$ 3,784
Capital loss carry forwards	6,077	17,448
Accrued occupancy costs	14,597	12,317
Accrued compensation and related costs	12,726	9,898
Other accrued expenses	16,608	7,245
Foreign tax credits	10,199	5,199
Other	6,971	164
Total	81,204	56,055
Valuation allowance	(5,476)	(8,704)
Total deferred tax asset, net of valuation allowance	75,728	47,351
Deferred tax liabilities:		
Property, plant and equipment	(50,819)	(34,260)
Other	(5,199)	(355)
Total	(56,018)	(34,615)
Net deferred tax asset	$ 19,710	$ 12,736

As of September 29, 2002, the Company had foreign tax credit carryforwards of $10.2 million with expiration dates between fiscal years 2004 and 2008. The Company also had capital loss carryforwards of $15.8 million expiring in 2006.

Taxes currently payable of $32.8 million and $50.3 million are included in "Accrued taxes" on the accompanying consolidated balance sheets as of September 29, 2002, and September 30, 2001, respectively.

NOTE 14: EARNINGS PER SHARE

The following table represents the calculation of net earnings per common share - basic (in thousands, except earnings per share):

Fiscal year ended	Sept 29, 2002	Sept 30, 2001	Oct 1, 2000
Net earnings	$ 215,073	$ 181,210	$ 94,564
Weighted average common shares and common stock units outstanding	385,575	380,566	371,191
Net earnings per common share - basic	$ 0.56	$ 0.48	$ 0.25

The following table represents the calculation of net earnings per common and common equivalent share - diluted (in thousands, except earnings per share):

Fiscal year ended	Sept 29, 2002	Sept 30, 2001	Oct 1, 2000
Net earnings	$ 215,073	$ 181,210	$ 94,564
Weighted average common shares and common stock units outstanding	385,575	380,566	371,191
Dilutive effect of outstanding common stock options	11,951	13,783	14,808
Weighted average common and common equivalent shares outstanding	397,526	394,349	385,999
Net earnings per common and common equivalent share - diluted	$ 0.54	$ 0.46	$ 0.24

Options with exercise prices greater than the average market price were not included in the computation of diluted earnings per share. These options totaled 1.8 million, 0.9 million and 0.3 million in fiscal 2002, 2001 and 2000, respectively.

NOTE 15: COMMITMENTS AND CONTINGENCIES

In connection with various yen denominated bank loans entered into by Starbucks Coffee Japan, Ltd., the Company guaranteed approximately $11.8 million of the outstanding debt in the event of default by Starbucks Coffee Japan, Ltd.

On June 20, 2001, and July 2, 2001, two purported class action lawsuits against the Company entitled James Carr, et al. v. Starbucks Corporation and Olivia Shields, et al. v. Starbucks Corporation, were filed in the Superior Courts of California, Alameda and Los Angeles Counties, respectively. On April 19, 2002, Starbucks announced that it had reached an agreement to settle both lawsuits and fully resolve all claims brought by the plaintiffs without engaging in protracted litigation. Accordingly, Starbucks recorded an $18.0 million charge, which is included in "General and administrative expenses" on the accompanying consolidated financial statement of earnings, for the estimated payment of claims to eligible class members, attorney's fees and costs, and costs to a third-party claims administrator, as well as applicable employer payroll taxes. On December 17, 2002, the settlement was approved. Claims under the settlement agreement will be paid on a "claims made" basis. The Company expects most claims will be paid in the second quarter of fiscal 2003.

In addition to the California lawsuits described above, the Company is party to various legal proceedings arising in the ordinary course of its business, but it is not currently a party to any legal proceeding that management believes would have a material adverse effect on the consolidated financial position or results of operations of the Company.

NOTE 16: SEGMENT REPORTING

The Company is organized into a number of business units, which correspond to the Company's operating segments.

North American Retail

North American Retail, which represents 92.5% of total retail revenues and 78.6% of total net revenues, sells coffee and other beverages, whole bean coffees, complementary food, coffee brewing equipment and merchandise through Company-operated retail stores in the United States and Canada.

Business Alliances

At the beginning of fiscal 2001, the Company's North American foodservice and retail store licensing operations were combined into a single business unit due to their common customer universe and the determination that separate segment reporting of Business Alliances was appropriate under SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information."

Business Alliances, which represents 44.8% of total specialty revenues and 6.8% of total net revenues, sells whole bean and ground coffees through foodservice accounts. In addition, Business Alliances sells coffee and related products for resale through North American retail store licensing agreements and receives license fees and royalties.

All other business units

The remainder of the Company's business units individually represent less than 10% of total net revenues. These include International Retail (comprised of international Company-operated retail stores), international retail store licensing, grocery channel licensing, warehouse club accounts, interactive operations, equity investees and other initiatives related to the Company's core businesses. These business units are managed and evaluated independently and do not meet the quantitative thresholds of a reportable segment under SFAS No. 131.

Revenues from these segments include both sales to unaffiliated customers and sales between segments, which are accounted for on a basis consistent with sales to unaffiliated customers. Segment information has been prepared using a management approach that is consistent with the basis and manner in which the Company's management internally reviews financial information for operational decision making purposes. However, intersegment revenues, consisting primarily of product sales to and from subsidiaries and equity method investees, and other intersegment transactions, which are included in the information presented below, have been eliminated on the accompanying consolidated financial statements.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies in Note 1. Operating income represents earnings before "Interest and other income, net," "Internet-related investment losses," "Gain on sale of investment" and "Income taxes." No allocations of overhead, interest or income taxes are made to the segments. Identifiable assets by segment are those assets used in the Company's operations in each segment. General corporate assets include cash and investments, unallocated assets of the corporate headquarters and roasting facilities, deferred taxes and certain intangibles. Management evaluates performance of the segments based on direct product sales and operating costs.

The table below presents information by operating segment (in thousands):

Fiscal year ended	North American Retail(1)	Business Alliances	All other business units(1)	Intersegment eliminations/ Unallocated corporate(2)	Total
Fiscal 2002:					
Total net revenues	$2,583,756	$ 222,410	$ 553,573	$ (70,831)	$ 3,288,908
Earnings before income taxes (1) (2)	432,513	56,605	63,021	(210,753)	341,386
Depreciation and amortization expenses	143,337	6,153	27,331	28,736	205,557
Income from equity investees	-	-	22,014	13,818	35,832
Identifiable assets	897,651	51,662	357,997	985,426	2,292,736
Fiscal 2001:					
Total net revenues	$2,086,354	$ 193,574	$ 419,843	$ (50,791)	$ 2,648,980
Earnings before income taxes (1) (2)	336,434	50,165	70,116	(167,793)	288,922
Depreciation and amortization expenses	115,061	5,278	17,768	25,394	163,501
Income from equity investees	-	-	17,556	11,059	28,615
Identifiable assets	873,306	57,578	217,027	698,608	1,846,519
Fiscal 2000:					
Total net revenues	$1,734,929	$ 160,812	$ 305,080	$ (23,207)	$ 2,177,614
Earnings before income taxes (1) (2)	249,924	43,777	53,323	(186,454)	160,570
Depreciation and amortization expenses	94,312	3,547	10,117	22,256	130,232
Income from equity investees	-	-	15,139	5,161	20,300
Identifiable assets	664,773	52,596	111,521	659,434	1,488,324

(1) North American Retail and International Retail regularly monitor the financial results of their Company-operated retail stores and accumulate historical operating measures to identify performance trends in various markets. Provisions for long-lived asset impairment are recorded when, among other things, retail stores are unable to generate current and future estimated undiscounted cash flows in excess of asset carrying values, consisting primarily of leasehold improvements. Gains and losses on disposals are generated primarily through renovation activities. As a result of these activities, Starbucks recorded provisions and net losses of $26.0 million, $7.3 million and $4.4 million in fiscal 2002, 2001 and 2000, respectively.

(2) Unallocated corporate includes general and administrative expenses, certain depreciation expenses on general and administrative related assets, as well as amounts included in "Interest and other income, net," "Internet-related investment losses," and "Gain on sale of investment" on the accompanying consolidated statements of earnings.

The tables below represent information by geographic area (in thousands):

Fiscal year ended	Sept 29, 2002	Sept 30, 2001	Oct 1, 2000
Net Revenues from external customers:			
United States	$ 2,830,650	$ 2,301,013	$ 1,910,092
Foreign countries	458,258	347,967	267,522
Total	$ 3,288,908	$ 2,648,980	$ 2,177,614

Revenues from foreign countries are based on the location of the customers and consist primarily of retail revenues from Canada and the United Kingdom as well as specialty revenues generated from product sales to international licensees. No customer accounts for 10% or more of the Company's revenues.

Fiscal year ended	Sept 29, 2002	Sept 30, 2001	Oct 1, 2000
Long-lived assets:			
United States	$ 1,206,101	$ 1,065,448	$ 915,762
Foreign countries	239,097	187,146	114,328
Total	$ 1,445,198	$ 1,252,594	$ 1,030,090

Assets attributed to foreign countries are based on the country in which those assets are located.

NOTE 17: QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Summarized quarterly financial information in fiscal 2002 and 2001 is as follows (in thousands, except earnings per share):

	First	Second	Third	Fourth
2002 quarter:				
Net revenues	$ 805,335	$ 783,217	$ 835,158	$ 865,198
Operating income	92,646	48,780	87,709	89,590
Net earnings	68,355	32,077	56,174	58,467
Net earnings per common share - diluted	$ 0.17	$ 0.08	$ 0.14	$ 0.15
2001 quarter:				
Net revenues	$ 667,387	$ 629,288	$ 662,769	$ 689,536
Operating income	76,057	50,854	71,307	82,876
Net earnings	48,995	32,210	46,757	53,248
Net earnings per common share - diluted	$ 0.12	$ 0.08	$ 0.12	$ 0.14

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The management of Starbucks Corporation is responsible for the preparation and integrity of the financial statements included in this Annual Report to Shareholders. The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and include amounts based on management's best estimates and judgments where necessary. Financial information included elsewhere in this Annual Report is consistent with these financial statements.

Management maintains a system of internal controls and procedures designed to provide reasonable assurance that transactions are executed in accordance with proper authorization, transactions are properly recorded in the Company's records, assets are safeguarded and accountability for assets is maintained. The concept of reasonable assurance is based on the recognition that the cost of maintaining our system of internal accounting controls should not exceed benefits expected to be derived from the system. Internal controls and procedures are periodically reviewed and revised, when appropriate, due to changing circumstances and requirements. In addition, the Company's internal audit department assesses the effectiveness and adequacy of internal controls on a regular basis and recommends improvements when appropriate. Management considers the internal auditors' and independent auditors' recommendations concerning the Company's internal controls and takes steps to implement those that are believed to be appropriate in the circumstances.

Independent auditors are appointed by the Company's Board of Directors and ratified by the Company's shareholders to audit the financial statements in accordance with auditing standards generally accepted in the United States of America and to independently assess the fair presentation of the Company's financial position, results of operations and cash flows. Their report appears in this Annual Report.

The Audit Committee, all of whose members are outside directors, is responsible for monitoring the Company's accounting and reporting practices. The Audit Committee meets periodically with management, the independent auditors and the internal auditors, jointly and separately, to review financial reporting matters as well as to ensure that each is properly discharging its responsibilities. The independent auditors and the internal auditors have full and free access to the Committee without the presence of management to discuss the results of their audits, the adequacy of internal accounting controls and the quality of financial reporting.

/s/ ORIN C. SMITH
ORIN C. SMITH
president and
chief executive officer

/s/ MICHAEL CASEY
MICHAEL CASEY
executive vice president,
chief financial officer and
chief administrative officer

INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF STARBUCKS CORPORATION
SEATTLE, WASHINGTON

We have audited the accompanying consolidated balance sheets of Starbucks Corporation and subsidiaries (the Company) as of September 29, 2002, and September 30, 2001, and the related consolidated statements of earnings, shareholders' equity and cash flows for the years ended September 29, 2002, September 30, 2001, and October 1, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of September 29, 2002, and September 30, 2001, and the results of its operations and its cash flows for the years ended September 29, 2002, September 30, 2001, and October 1, 2000, in conformity with accounting principles generally accepted in the United States of America.

/s/ DELOITTE & TOUCHE LLP
DELOITTE & TOUCHE LLP
Seattle, Washington
December 4, 2002

SHAREHOLDER INFORMATION

MARKET INFORMATION AND DIVIDEND POLICY

The Company's common stock is traded on the National Market tier of The Nasdaq Stock Market, Inc. ("Nasdaq"), under the symbol "SBUX." The following table sets forth the quarterly high and low closing sale prices per share of the common stock as reported by Nasdaq for each quarter during the last two fiscal years. All prices shown reflect the two-for-one stock split effected April 27, 2001.

	HIGH	LOW
September 29, 2002:		
Fourth Quarter	$ 24.36	$ 18.63
Third Quarter	25.63	22.02
Second Quarter	24.07	19.51
First Quarter	19.91	14.56
September 30, 2001:		
Fourth Quarter	$ 22.77	$ 14.00
Third Quarter	23.00	18.58
Second Quarter	25.00	20.03
First Quarter	24.94	19.16

As of December 16, 2002, the Company had 11,004 shareholders of record. The Company has never paid any dividends on its common stock. The Company presently intends to retain earnings for use in its business and, therefore, does not anticipate paying a cash dividend in the near future.

The Company's Annual Report on Form 10-K for the fiscal year ended September 29, 2002, without the exhibits thereto, may be obtained without charge by accessing the Company's filings at www.sec.gov or by sending a request to Investor Relations at the address, phone number or email address below.

Quarterly information is available to all shareholders immediately upon its release, free of charge, via fax, by calling 1-800-239-0317 or through access on the Internet at www.businesswire.com/cnn/sbux.htm. To receive a copy by mail, please send your request to:

INVESTOR RELATIONS
Investor Relations -- M/S S-FP1
Starbucks Corporation
P.O. Box 34067
Seattle, WA 98124-1067
(206) 447-1575, ext. 87118
www.starbucks.com/aboutus/investor.asp

CORPORATE SOCIAL RESPONSIBILITY

Starbucks demonstrates its commitment to corporate social responsibility ("CSR") by conducting its business in ways that produce social, environmental and economic benefits to the communities where Starbucks operates. The Company aligns its principles for social responsibility with its overall strategy and business operations. As a result, Starbucks believes it delivers benefits to the Company and its stakeholders - partners, customers, suppliers, shareholders, community members and others - while distinguishing Starbucks as a leader within the coffee industry.

Providing open communication and transparency helps the Company be accountable to its stakeholders. To support this goal, Starbucks publishes a CSR Annual Report. Starbucks fiscal 2002 CSR Annual Report is available online at www.starbucks.com/aboutus/csr.asp. To request a printed copy of the report, call 1-800-STARBUC (1-800-782-7282) and dial "0" to be connected with a service representative, or fax your request to 1-800-782-7286.

EXHIBIT 21

STARBUCKS CORPORATION

Starbucks New Venture Company (a Washington corporation) Starbucks Coffee International, Inc. (a Washington corporation) SBI Nevada, Inc. (a Nevada corporation) Starbucks Coffee France, EURL (a French limited liability company) Starbucks Coffee Asia Pacific Limited (a Hong Kong corporation) SCI Ventures, S.L. (a Spanish limited liability company) SCI Europe I, Inc. (a Washington corporation) SCI Europe II, Inc. (a Washington corporation) Starbucks Coffee Trading Company Sarl (a Swiss C.V.) Rain City C.V. (a Dutch Limited Partnership) Starbucks Coffee EMEA B.V. (a Dutch B.V.) Starbucks Manufacturing EMEA B.V. (a Dutch B.V.) Emerald City C.V. (a Dutch Limited Partnership) Starbucks Manufacturing Corporation (a Washington corporation) Circadia Corporation (a Delaware corporation d/b/a Cafe Starbucks in Washington and Circadia Coffee House in California) Starbucks U.S. Brands Corporation (a California corporation) Starbucks Foreign Sales Corporation (a Barbados corporation) Starbucks Asset Management Corporation (a California corporation) Starbucks Coffee Holdings (UK) Limited (a UK corporation) Starbucks Coffee Company (UK) Limited (a UK corporation d/b/a Starbucks, Starbucks Coffee and Starbucks Coffee Company) Seattle Coffee Company (International) Limited (a UK corporation) Torz & Macatonia Limited (a UK corporation) Tazo Tea Company (a Washington corporation) Starbucks Coffee Company (Australia) Pty. Ltd. (an Australian corporation d/b/a Starbucks, Starbucks Coffee and Starbucks Coffee Company) Starbucks Coffee (Thailand) Ltd. (a Thai corporation d/b/a Starbucks, Starbucks Coffee and Starbucks Coffee Company) Starbucks Coffee Canada, Inc. (a Canadian Corporation) Urban Coffee Opportunities, LLC (a Washington limited liability company d/b/a Starbucks, Starbucks Coffee and Starbucks Coffee Company)

EXHIBIT 23

INDEPENDENT AUDITORS' CONSENT

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement Nos. 33-52524, 33-52526, 33-52528, 33-92208, 33-92184, 333-65181, 333-94987, 333-37442, 333-70648 and 333-101806 of Starbucks Corporation on Forms S-8 of our report dated December 4, 2002, incorporated by reference in and attached as an exhibit to the Annual Report on Form 10-K of Starbucks Corporation for the fiscal year ended September 29, 2002.

/s/ DELOITTE & TOUCHE LLP
Seattle, Washington
December 19, 2002

EXHIBIT 99

CERTIFICATION 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 Annual Report of Starbucks Corporation ("the Company") on Form 10-K for the Fiscal Year ended September 29, 2002, as filed with the Securities and Exchange Commission on the date hereof ("the Report"),

I, Orin C. Smith, president chief executive officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge and belief, that:

(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 the Company.

/s/ORIN C. SMITH
--
Orin C. Smith,
president and chief executive officer

I, Michael Casey, executive vice president, chief financial officer and chief administrative officer (principal financial officer and principal accounting officer) of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge and belief, that:

(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 the Company.

/s/MICHAEL CASEY
--
Michael Casey,
executive vice president, chief
financial officer and chief
administrative officer (principal
financial officer and principal
accounting officer)