To our Shareholders,

We entered the new Millennium with a great sense of accomplishment and excitement, knowing that we were poised to share the *Starbucks Experience* with even more people around the world. Today, the anticipation we experienced as we began fiscal year 2000 has been more than fulfilled, thanks to the passion and dedication of our partners (employees), our unwavering commitment to the highest quality coffee, and the connection that we are fortunate to enjoy with our customers. We believe that the possibilities for our future achievements are virtually limitless, and we are even more inspired to climb to greater heights. These are still the early days of building our company and the Starbucks brand.

Starbucks experienced tremendous success and growth in fiscal year 2000. We had record revenues of $2.2 billion for the year. Our stellar performance included three consecutive quarters of double-digit comparable store sales increases - an amazing achievement for any retail company of our size and maturity, culminating in a 9 percent comparable stores sales growth for the full year, the highest it has been since 1995.

We far exceeded our projected target of 600 new store openings for the year, with 1,035 new company-owned and licensed locations worldwide, including 778 stores in North America alone. We surpassed our goal to open 150 international stores, opening 257 international locations by the end of fiscal year 2000. In the United Kingdom, we opened 63 new locations, well ahead of our target of 50 stores. We also entered a number of international markets including Lebanon, the United Arab Emirates, Qatar, Hong Kong, Shanghai and Australia, bringing our total number of international locations to 525 at the end of the fiscal year. During the year we acquired a majority interest in our Thailand operations. We were also thrilled to announce our plans to enter Switzerland, our first market in continental Europe. Our remarkable success in virtually every international market we have entered to date has inspired us to set ambitious targets for the future. We plan to have 650 Starbucks locations throughout Europe by the end of fiscal year 2003, and we believe that customers in the European market will embrace the *Starbucks Experience*.

Our outstanding growth is testimony to the strength of the Starbucks brand worldwide. When we opened our first store in Tokyo, consultants told us that Japanese customers would never use to-go cups or drink coffee while walking on the street. If you visit Japan today, you will see people proudly holding Starbucks cups with the logo facing out. As the result of our customers' warm acceptance, Starbucks Coffee Japan became profitable in fiscal year 2000 - more than two years ahead of plan. Additionally, we were extremely pleased that *Nikkei Restaurant Magazine*, one of Japan's most respected food service industry publications, recognized Starbucks as the most preferred restaurant chain in Tokyo, just four years after our entry into the market. In addition, Interbrand Corporation, the world's leading brand consultancy, recently ranked Starbucks as one of the top 75 global brands. These accomplishments confirm our belief that we have incredible opportunities ahead.

By the end of fiscal year 2000, Starbucks had more than 3,500 locations worldwide, serving more than 12 million customers per week in 17 countries. We believe that in the past we dramatically underestimated the size of the global market and the power of the Starbucks brand. We now believe that we have the potential to have at least 20,000 locations worldwide, with as many as 10,000 locations in international markets.

Our core retail business in North America continues to thrive. We introduced the sumptuous White Chocolate Mocha and Caramel Apple Cider drinks early in the year, followed by two decadent new blended beverages for summer – Chocolate Brownie Frappuccino® and Orange Mocha Chip Frappuccino®. These popular additions to our menu provided our customers with delightful indulgences for every season. We also introduced the Starbucks Barista Aroma™ coffeemaker and thermal carafe – an instant hit with customers. And our positioning for Holiday 2000, "Home for the Holidays," offered simple, traditional messaging designed to capture our customers' hearts. In addition to festive favorites such as the Eggnog Latte and our unique Christmas Blend coffee, we introduced the delectable Gingerbread Latte to bring alive the flavor of the season. We also created and unveiled the revolutionary Starbucks Barista Utopia™ vacuum coffee brewing system. This stylish, innovative machine brews the perfect cup of Starbucks® coffee for our customers to savor at home. Customers gave the Utopia a very enthusiastic reception, and we were delighted by its success.

This was a pivotal year for two Starbucks brands that complement the coffeehouse experience – Tazo® tea and Hear Music™. In fiscal year 2000, Tazo Tea crafted and introduced a new line of filter bag and full-leaf teas to tempt customers' palates. Our customers also enjoyed an enhanced music program through Hear Music's displays and branded compilation discs. These two emerging brands are positioned for strong growth, and they add to the richness and texture of the *Starbucks Experience*.

One mark of a great company is its ability to choose business partners who reflect its core values and guiding principles. Our Business Alliances group, part of our specialty operations, created and nurtured relationships that reach more than 20 million customers per month by providing increased access and visibility to the Starbucks brand. During the year, we signed licensing agreements with several key accounts, including Albertson's, Inc., Safeway Inc., Dayton Hudson Corporation (Super Target stores) and Marriott International, Inc. Our achievements to date have extended the Starbucks brand and created significant momentum for our future growth. We are confident that we have the potential to open many more licensed locations in grocery stores, airports and other convenient venues.

We also announced an exciting alliance with *The New York Times*, which recently became the exclusive nationwide newspaper sold in all of our company-owned locations in the United States. As part of this strategic three-year agreement, *The Times* will use its advertising resources to promote the Starbucks brand. We are proud to team up with *The Times* to provide our customers with one of the world's most widely read and respected newspapers.

Even in the best years, we face challenges. In the fourth quarter, we took a non-cash write-down of our entire investment in living.com Inc. and the majority of our equity positions in Kozmo.com, Inc., Cooking.com, Inc. and Talk City, Inc. to reflect fair value. We have learned from this experience and we believe this knowledge will benefit our business going forward. Starbucks is an entrepreneurial company, and we have achieved extraordinary benefits from courageous and innovative business practices. That spirit and practice of innovation will continue. However, we remain focused on our core business, and we realize that the growth potential within that core business is far greater than even we previously imagined. Going forward, we will pursue only those opportunities that we feel will complement our core operations.

Our people are crucial to ensuring that we deliver the *Starbucks Experience* every day. The passion they bring to our customers is one of our greatest assets. To ensure that our partners share in Starbucks success, we provided stock option grants to eligible partners under the Bean Stock Plan for the 10th consecutive year. Our ongoing commitment to providing a great work environment has also had many positive impacts on our partners and customers. One indication of our collective passion is the dedication and team spirit displayed by partners at our LaBrea & San Vicente store (opened through our alliance with Earvin "Magic" Johnson). The morning after these outstanding partners won the fourth largest lottery jackpot in California history, they chose to come to work and cheerfully opened the store at 5:30 a.m. to serve their customers.

Starbucks long-term success as a company will be measured in part by our ability to be a responsible global citizen. As part of our ongoing efforts to address social and environmental issues in coffee-origin countries, we committed to a year-round offering of shade grown, organic or Fair Trade certified coffees. We launched this Commitment to Origins™ category with Shade Grown Mexico coffee in collaboration with Conservation International, and we were proud to introduce Fair Trade Certified coffee to our customers through a new alliance with TransFair USA. In addition, we significantly increased our commitment to provide financial support for Conservation International's work to protect global biodiversity. Starbucks also continues to be one of the largest North American contributors to CARE, the international aid and development organization, and we are honored to support their work to improve the lives of people in coffee origin countries.

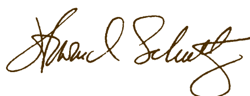
We are also deeply committed to bringing the joy of reading to people around the world. The Starbucks Foundation assisted more than 100 organizations in fiscal year 2000 by providing more than $1 million in literacy grants in North America. We also extended the program to include initiatives in New Zealand, Thailand and the Philippines. In addition, we held our fourth annual All Books for Children drive, through which we collected more than 335,000 books for schools and literacy programs.

Our joint venture with Earvin "Magic" Johnson's Johnson Development Corporation to open Starbucks Coffee stores in under-served urban neighborhoods continues to enrich lives and contribute positively to the communities in which the stores operate. During fiscal year 2000 we opened 11 new stores in six states in the United States through this unique joint venture.

We each assumed new leadership roles in fiscal year 2000 that were designed to leverage our respective skills and experience in our growing and dynamic company. We feel that our transition has been seamless, and we are more confident than ever that the Starbucks brand has tremendous opportunities ahead. We are humbled by Starbucks success. The achievements of the past inspire us to continue this amazing journey together as we strive towards our goal of becoming a great, enduring global brand.

For all of you who bring Starbucks to life, thank you for your ongoing support.

Warm regards,



HOWARD SCHULTZ
chairman and chief global strategist

ORIN C. SMITH
president and chief executive officer

Business

Starbucks Corporation and its subsidiaries (collectively "Starbucks" or the "Company") purchases and roasts high quality whole bean coffees and sells them, along with fresh, rich-brewed coffee, Italian-style espresso beverages, cold blended beverages, a variety of pastries and confections, coffee-related accessories and equipment, and a line of premium teas, primarily through its Company-operated retail stores. In addition to sales through its Company-operated retail stores, Starbucks sells coffee and tea products through other channels of distribution (collectively, "specialty operations"). Starbucks, through its joint venture partnerships, also produces and sells bottled Frappuccino® coffee drink and a line of premium ice creams. 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 to rapidly expand 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.

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 furtherance of this strategy, the Company opened 490 new stores during the fiscal year ended October 1, 2000 ("fiscal 2000"). At fiscal year end, Starbucks had 2,619 Company-operated stores in 34 states, the District of Columbia and five Canadian provinces (which comprise the Company-operated North American retail operations), as well as the United Kingdom, Thailand and Australia (which comprise the Company-operated international retail operations). Company-operated retail stores accounted for approximately 84% of net revenues during fiscal 2000. The Company intends to finance additional growth in the number of Company-operated retail stores with cash flow from operations.

Starbucks specialty operations strive to develop the Starbucks brand outside the Company-operated retail store environment through a number of channels. Starbucks strategy for expanding its specialty operations is to reach customers where they work, travel, shop and dine by establishing relationships with prominent third parties who share Starbucks values and commitment to quality. These relationships take various forms, including retail store licensing agreements, wholesale accounts, grocery channel licensing agreements and joint ventures. Starbucks specialty operations also include direct-to-consumer marketing channels. In certain licensing situations, the licensee is a joint venture in which Starbucks has an equity ownership interest. During fiscal 2000, specialty revenues (which include royalties and fees from licensees as well as product sales) accounted for approximately 16% of the Company's net revenues.

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)*	Oct 1, 2000 (52 Wks)	Oct 3, 1999 (53 Wks)	Sept 27, 1998 (52 Wks)	Sept 28, 1997 (52 Wks)	Sept 29, 1996 (52 Wks)
RESULTS OF OPERATIONS DATA					
Net revenues:					
Retail	$ 1,823,607	$ 1,423,389	$ 1,102,574	$ 836,291	$ 601,458
Specialty	345,611	256,756	206,128	139,098	96,414
Total net revenues	2,169,218	1,680,145	1,308,702	975,389	697,872
Merger expenses (2)	-	-	8,930	-	-
Operating income	212,252	156,711	109,216	86,199	56,575
Internet-related investment losses (3)	58,792	-	-	-	-
Gain on sale of investment (4)	-	-	-	-	9,218
Net earnings	$ 94,564	$ 101,693	$ 68,372	$ 55,211	$ 41,710
Net earnings per common share -diluted (5)	$ 0.49	$ 0.54	$ 0.37	$ 0.33	$ 0.27
Cash dividends per share	-	-	-	-	-
BALANCE SHEET DATA					
Working capital	$ 146,568	$ 135,303	$ 157,805	$ 172,079	$ 239,365
Total assets	1,493,131	1,252,514	992,755	857,152	729,227
Long-term debt (including current portion)	7,168	7,691	1,803	168,832	167,980
Shareholders' equity	1,148,399	961,013	794,297	533,710	454,050
STORE OPERATING DATA					
Comparable store sales (6)	9%	6%	5%	5%	7%
Stores open at year-end:					
Continental North America:					
Company-operated stores	2,446	2,038	1,622	1,270	929
Licensed stores	530	179	133	94	75
International:					
Company-operated stores	173	97	66	31	9
Licensed stores	352	184	65	17	2
Total stores	3,501	2,498	1,886	1,412	1,015

(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 in fiscal 1998.

(3) Internet-related investment losses consist of write-downs of investments in Kozmo.com, Inc., living.com Inc., Cooking.com, Inc. and Talk City, Inc.

(4) Gain on sale of investment relates to the sale of Noah's New York Bagels, Inc. stock in fiscal 1996.

(5) Diluted earnings per share is based on the weighted average number of shares and common stock units outstanding during the period. In addition, the presentation of diluted earnings per share includes the dilutive effect of common stock equivalents consisting of certain shares subject to stock options and assumes conversion of the Company's formerly outstanding convertible subordinated debentures using the "if converted" method when such securities were dilutive, with net income adjusted for the after-tax interest expense and amortization applicable to these debentures. Earnings per share data for fiscal years 1996 through 1998 have been restated to reflect the two-for-one stock split in fiscal 1999.

(6) Percentage growth of comparable store sales includes only Company-operated stores open 13 months or longer.

Cautionary Statement Pursuant to the Private Securties Litigation Reform Act of 1995

Certain statements set forth in this Annual Report, including anticipated store and market openings, planned capital expenditures 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 impact of competition, the effect of legal proceedings and other risks detailed herein and in the Company's annual and quarterly filings with the Securities and Exchange Commission.

Management's Discussion and Analysis of Financial Condition and Results of Operations

GENERAL

Starbucks presently derives approximately 84% of net revenues from its Company-operated retail stores. The remaining 16% of net revenues is derived from the Company's specialty operations, which include sales to wholesale accounts and licensees, royalty and license fee income and sales through its direct-to-consumer business. The Company's fiscal year ends on the Sunday closest to September 30. Fiscal year 2000 had 52 weeks, fiscal 1999 had 53 weeks, and fiscal year 1998 had 52 weeks. The fiscal year ending on September 30, 2001, will include 52 weeks.

The Company's consolidated net revenues increased 29% from $1.7 billion in fiscal 1999 (53 weeks) to $2.2 billion in fiscal 2000 (52 weeks), primarily due to the Company's store expansion program and comparable store sales increases. Comparable store sales increased by 9%, 6% and 5% in fiscal 2000, 1999 and 1998, respectively. As part of its expansion strategy of clustering stores in existing markets, Starbucks has experienced a certain level of cannibalization 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 and other factors, may put downward pressure on the Company's comparable store sales growth in future periods.

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	Oct 1, 2000 (52 Wks)	Oct 3, 1999 (53 Wks)	Sept 27, 1998 (52 Wks)
STATEMENTS OF EARNINGS DATA			
Net revenues:			
Retail	84.1%	84.7%	84.2%
Specialty	15.9	15.3	15.8
Total net revenues	100.0	100.0	100.0
Cost of sales and related occupancy costs	44.0	44.1	44.2
Gross margin	56.0	55.9	55.8
Joint venture income	0.9	0.2	0.1
Store operating expenses (1)	38.7	38.2	38.0
Other operating expenses (2)	22.7	21.3	21.6
Depreciation and amortization	6.0	5.8	5.5
General and administrative expenses	5.1	5.3	5.9
Merger expenses	–	–	0.7
Operating income	9.8	9.3	8.3
Interest and other income, net	0.3	0.5	0.6
Internet-related investment losses	2.7	–	–
Earnings before income taxes	7.4	9.8	8.9
Income taxes	3.0	3.7	3.7
Net earnings	4.4%	6.1%	5.2%

(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 of Coffee Partners Co. Ltd., the company licensed to operate Starbucks stores in Thailand ("Thailand Operations"). The combined purchase price for these two acquisitions was $14.1 million. During fiscal 1999, Starbucks acquired the net assets of Tazo, L.L.C., a Portland, Oregon-based tea company that produces premium tea products, and the stock of Pasqua Inc., a San Francisco, California-based roaster and retailer of specialty coffee. The combined purchase price for these two acquisitions was $16.5 million. All of the above 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. During fiscal 1998, Starbucks acquired the United Kingdom-based Seattle Coffee Holdings Limited ("Seattle Coffee Company") in a pooling-of-interests transaction (the "Transaction"). In conjunction with the Transaction, Starbucks recorded pre-tax charges of $8.9 million in direct merger costs and $6.6 million in other charges associated with the integration of Seattle Coffee Company. The historical financial statements for the periods prior to the Transaction were restated as though the companies had always been combined.

RESULTS OF OPERATIONS — FISCAL 2000 COMPARED TO FISCAL 1999

Systemwide Retail Store Sales

Systemwide retail store sales, which include net sales for both Company-operated and licensed retail stores, were $2.3 billion for fiscal 2000 (52 weeks) an increase of 38% from $1.6 billion in fiscal 1999 (53 weeks), primarily due to the opening of an additional 1,035 stores. Systemwide retail store sales provides a broader perspective of global brand sales; however, it excludes net revenues from non-retail channels.

Revenues

Consolidated net revenues increased 29% to $2.2 billion for fiscal 2000, compared to $1.7 billion for fiscal 1999. Retail revenues increased 28% to $1.8 billion from $1.4 billion. The increase in retail revenues was due to the addition of new Company-operated stores and comparable store sales growth of 9%. The increase in comparable store sales resulted from a 5% increase in the number of transactions and a 4% increase in the average dollar value per transaction. During fiscal 2000, the Company opened 417 stores in continental North America, 63 stores in the United Kingdom, eight in Thailand and two in Australia. As of fiscal year-end, there were 2,446 Company-operated stores in continental North America, 156 in the United Kingdom, 15 in Thailand and two in Australia. During fiscal 2001, the Company expects to open at least 450 Company-operated stores in North America and 75 in international markets.

Specialty revenues increased 35% to $346 million for fiscal 2000 from $257 million for fiscal 1999. The increase was driven primarily by higher sales to licensees, grocery channel and food service accounts. Licensees (including those in which the Company is a joint venture partner) opened 361 stores in continental North America, of which over 280 stores related to the Company's expansion into grocery stores, and 184 stores in international markets. The Company ended the year with 530 licensed stores in continental North America and 352 licensed stores in international markets. During fiscal 2001, the Company expects to open at least 575 licensed stores.

Gross Margin

Gross margin increased to 56.0% of net revenues for fiscal 2000 from 55.9% in fiscal 1999. The positive impact on gross margin of lower green coffee costs and retail beverage sales price increases was partially offset by higher retail occupancy costs. Occupancy costs, which are primarily fixed costs, were higher as a percentage of revenue due, in part, to one less week of sales in fiscal 2000. Also, occupancy costs have increased as a result of higher average rent expense per square foot as well as the expansion of Company-operated stores into international markets that have higher occupancy costs as a percentage of revenue than North American retail operations.

Joint Venture Income

The Company has two joint ventures to produce and distribute Starbucks branded products. The North American Coffee Partnership is a 50/50 joint venture partnership with the Pepsi-Cola Company to develop and distribute bottled Frappuccino® coffee drink. The Starbucks Ice Cream Partnership is a 50/50 joint venture partnership with Dreyer's Grand Ice Cream, Inc. to develop and distribute premium ice creams.

The Company is a partner in several other joint ventures that operate licensed Starbucks retail stores, including Starbucks Coffee Japan Limited, a 50/50 joint venture partnership with a Japanese retailer and restauranteur, SAZABY Inc., to develop Starbucks retail stores in Japan.

Joint venture income was $20.3 million for fiscal 2000, compared to $3.2 million for fiscal 1999. The increase was primarily due to the crossover from losses to profitability of Starbucks Coffee Japan Limited as a result of an increase in scale, and due to the improved profitability of the North American Coffee Partnership.

Expenses

Store operating expenses as a percentage of retail revenues increased to 38.7% for fiscal 2000 from 38.2% for fiscal 1999. The increase was due to a number of factors. Higher average wage rates combined with a continuing shift in retail sales to more labor-intensive handcrafted beverages resulted in higher payroll-related expenditures. This shift in retail sales mix also resulted in increased maintenance on store equipment. Provision for losses on asset disposals increased due to store remodel costs associated with the expansion of lunch programs and computer system upgrades. These increases were partially offset by leverage gained from retail beverage sales price increases and reductions in advertising expenses.

Other operating expenses (expenses associated with all operations other than Company-operated retail stores) were 22.7% of specialty revenues during fiscal 2000, compared to 21.3% for fiscal 1999. This increase was primarily due to higher payroll-related expenditures for accelerating the growth of the Company's specialty businesses.

Depreciation and amortization was 6.0% of net revenues, compared to 5.8% of net revenues for fiscal 1999. Excluding the extra week of sales in fiscal 1999, depreciation and amortization would have been 5.9% of net revenues in fiscal 1999.

General and administrative expenses were 5.1% of net revenues during fiscal 2000, compared to 5.3% for fiscal 1999 primarily due to lower payroll-related expenses as a percentage of net revenues.

Internet-Related Investment Losses

During fiscal 2000 and 1999, the Company made several minority investments in companies that derive the majority of their revenue from Internet-related activities.

In fiscal 1999, the Company invested $8 million in Talk City, Inc. ("Talk City"), a publicly traded interactive online chat site. The Company also invested $20 million in living.com Inc. ("living.com"), an online furniture retailer. Also in fiscal 1999, the Company established an alliance with Cooking.com, Inc. ("Cooking.com"), a privately held web-based retailer of cookware, accessories and specialty foods and provider of information about cooking. As part of this alliance, the Company made a $10 million investment in Cooking.com.

In the second quarter of fiscal 2000, the Company invested $25 million in Kozmo.com, Inc. ("Kozmo.com"), an Internet-to-door delivery service for food, entertainment and convenience items. Starbucks and Kozmo.com also entered into a commercial agreement to provide in-store return boxes in Starbucks stores in exchange for cash, a channel for selling the Company's products and other marketing opportunities. In connection with this agreement, Starbucks received a $15 million payment that is being recognized as revenue on a straight-line basis over twelve months. The Company does not expect to continue recording revenue from the current Kozmo.com relationship after February 2001.

During the fourth quarter of fiscal 2000, the Company determined that its investments in Internet-related companies had experienced declines in value that were other than temporary. As a result, the Company recognized losses totaling $59 million to reduce its investments in living.com, Talk City, Cooking.com and Kozmo.com to their aggregate fair value of $5 million as of October 1, 2000.

Income Taxes

The Company's effective tax rate for fiscal 2000 was 41.1% compared to 38.0% for fiscal 1999. The increase was due to the establishment of a valuation allowance against a portion of the Internet-related investment losses which management has determined may ultimately not be realizable for tax purposes. Excluding the effect of these losses, the effective tax rate for fiscal 2000 was 37.6%. Management expects tax planning efforts to lower the effective tax rate to approximately 37.0% in fiscal 2001.

RESULTS OF OPERATIONS — FISCAL 1999 COMPARED TO FISCAL 1998

Systemwide Retail Store Sales

Systemwide retail store sales, which include net sales for both company-operated and licensed retail stores, were $1.6 billion for fiscal 1999 (53 weeks), up 37% from $1.2 billion in fiscal 1998 (52 weeks) primarily due to the opening of an additional 625 stores.

Revenues

Consolidated net revenues increased 28% to $1.7 billion for fiscal 1999, compared to $1.3 billion for fiscal 1998. Retail revenues increased 29% to $1.4 billion from $1.1 billion. The increase in retail revenues was due to the addition of new Company-operated stores, comparable store sales growth of 6% and sales for the 53rd week of the fiscal year. The increase in comparable store sales resulted from a 5% increase in the number of transactions and a 1% increase in the average dollar value per transaction. During fiscal 1999, the Company opened 424 stores in continental North America and 36 stores in the United Kingdom. As of fiscal year-end, there were 2,038 Company-operated stores in continental North America and 97 in the United Kingdom.

Specialty revenues increased 25% to $257 million for fiscal 1999 from $206 million for fiscal 1998. The increase was driven primarily by higher sales to licensees and joint ventures and business dining customers. Licensees (including those in which the Company is a joint venture partner) opened 44 stores in continental North America and 121 stores in international markets. The Company ended the year with 179 licensed stores in continental North America and 184 licensed stores in international markets.

Gross Margin

Gross margin increased to 55.9% for fiscal 1999 from 55.8% in fiscal 1998. The positive impact on gross margin of lower green coffee costs was partially offset by lower gross margins associated with a change in the Company's strategy for the grocery channel. In late fiscal 1998, the Company signed a long-term licensing agreement with Kraft Foods, Inc. ("Kraft") to handle the U.S. distribution, marketing and advertising for Starbucks whole bean and ground coffee in grocery, warehouse club and mass merchandise stores. The transition to Kraft occurred in the first quarter of fiscal 1999.

Joint Venture Income

Joint venture income was $3.2 million for fiscal 1999, compared to $1.0 million for fiscal 1998. The increase was primarily due to the improved profitability from the North American Coffee Partnership and from Starbucks Coffee Japan Limited.

Expenses

Store operating expenses as a percentage of retail sales increased to 38.2% for fiscal 1999 from 37.5% for fiscal 1998, excluding costs associated with the Transaction. This was due primarily to higher payroll-related expenditures resulting from both an increase in average hourly wage rates and a continuing shift in sales to handcrafted beverages, which are more labor intensive. Including the Transaction costs, store operating expenses for fiscal 1998 were 38.0% of retail sales.

Other operating expenses were 21.3% of specialty revenues during fiscal 1999, compared to 21.6% for fiscal 1998. This decrease was attributable to lower operating expenses associated with the grocery channel after the transition to Kraft, partially offset by higher payroll-related expense supporting other channels.

Depreciation and amortization was 5.8% of net revenues, compared to 5.5% of net revenues for fiscal 1998, primarily due to depreciation on new information systems put into service in late fiscal 1998 and during fiscal 1999. General and administrative expenses were 5.3% of net revenues during fiscal 1999 compared to 5.9% for fiscal 1998, primarily due to proportionately lower payroll-related expenses.

Income Taxes

The Company's effective tax rate for fiscal 1999 was 38.0% compared to 41.2% for fiscal 1998. The effective tax rate in fiscal 1998 was impacted by non-deductible losses of Seattle Coffee Company prior to the Transaction. Fiscal 1998's rate was also affected by Transaction-related costs.

Liquidity and Capital Resources

The Company ended fiscal 2000 with $132.2 million in total cash and short-term investments. Working capital as of October 1, 2000, totaled $146.6 million compared to $135.3 million as of October 3, 1999. Cash and cash equivalents increased by $4.4 million during fiscal 2000 to $70.8 million at October 1, 2000. This increase was in addition to an increase in short-term investments of $10.0 million during the same period.

Cash provided by operating activities for fiscal 2000 totaled $318.6 million and resulted primarily from net earnings of $299.0 million before non-cash charges. Accrued compensation and related costs contributed $31.0 million, primarily due to accrued bonus increases resulting from the financial performance of the Company's core businesses. In addition, deferred revenue increased mainly from the commercial agreement with Kozmo.com. Higher international accounts receivable, which are generally outstanding for longer periods of time than domestic receivables, and higher receivables from licensees resulted in an increased use of cash.

Cash used by investing activities for fiscal 2000 totaled $373.2 million. This included capital additions to property, plant and equipment of $316.5 million related to opening 490 new Company-operated retail stores, remodeling certain existing stores, enhancing information systems, purchasing roasting and packaging equipment for the Company's roasting and distribution facilities and expanding existing office space. The Company also used $35.5 million primarily to make minority investments in Kozmo.com and Cooking.com. The purchases of Hear Music and the Thailand operations used $13.5 million. The Company invested excess cash primarily in short-term, investment-grade marketable debt securities. The net activity in the Company's marketable securities portfolio during fiscal 2000 used $10.5 million. During fiscal 2000, the Company made equity investments of $8.5 million in its international joint ventures. The Company received $13.7 million in distributions from the North American Coffee Partnership, $0.5 million in distributions from the Starbucks Ice Cream Partnership and $0.1 million from its international joint ventures.

Cash provided by financing activities for fiscal 2000 totaled $59.4 million. This included $58.5 million generated from the exercise of employee stock options and $10.3 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. Checks issued but not presented for payment used $7.5 million.

Cash requirements for fiscal 2001, other than normal operating expenses, are expected to consist primarily of capital expenditures related to the addition of new Company-operated retail stores. The Company plans to open at least 525 Company-operated stores during fiscal 2001. 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 for fiscal 2001 to be approximately $390 million.

Management believes that existing cash and investments plus cash generated from operations should be sufficient to finance capital requirements for its core businesses through fiscal 2001. New joint ventures, other new business opportunities or store expansion rates substantially in excess of that 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 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 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 October 1, 2000, the Company had approximately $84 million in fixed-price purchase commitments which, together with existing inventory, is expected to provide an adequate supply of green coffee for the majority of fiscal 2001. The Company believes, based on relationships established with its suppliers in the past, that the risk of non-delivery on such purchase commitments is remote.

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, 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 changes in interest rates, equity security prices and foreign currency exchange rates.

INTEREST RATE RISK

The Company's available-for-sale portfolio consists mainly of diversified fixed income instruments with average maturities of three months. The primary objectives of these investments are to preserve capital and liquidity without significantly increasing risk to the Company. 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. As of October 1, 2000, this portfolio comprised 98% of "Short-term investments" on the accompanying consolidated balance sheet. The Company does not hedge its interest rate exposure.

EQUITY SECURITY PRICE RISK

The Company has minimal exposure to price fluctuations on equity mutual funds within the trading portfolio, which comprised the remaining 2% of "Short-term investments" on the accompanying consolidated balance sheet as of October 1, 2000. 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.

The Company also has equity investments in privately held Internet-related companies. These investments are inherently risky as the products and services supplied by these companies could be considered in the start-up or development stages and may never materialize. The Company could lose its entire investment in these companies. During fiscal 2000, the Company recorded other-than-temporary write-downs of $59 million. These investments are recorded on the accompanying consolidated balance sheet at a fair value of $5 million as of October 1, 2000.

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. Historically, this exposure has had a minimal impact on the Company.

The Company did not hedge foreign currency risk or engage in any other hedging transactions during fiscal 2000, 1999 or 1998. The Company has entered into forward foreign exchange contracts to hedge foreign currency risk in fiscal 2001.

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.

New Accounting Standards

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities." In June 2000, the FASB issued SFAS No. 138, which amends certain provisions of SFAS 133 to clarify four areas causing difficulties in implementation. The amendment included expanding the normal purchase and sale exemption for supply contracts, permitting the offsetting of certain intercompany foreign currency derivatives, thereby reducing the number of third party derivatives, permitting hedge accounting for foreign-currency assets and liabilities and redefining interest rate risk to reduce sources of ineffectiveness. The Company has adopted the provisions of SFAS 133/138 as of October 2, 2000, the first day of fiscal 2001. Adoption of SFAS 133/138 will not have a material impact on the Company's consolidated results of operations, financial position or cash flows.

In December 1999, the staff of the Securities and Exchange Commission released Staff Accounting Bulletin No. 101 ("SAB 101"), "Revenue Recognition," to provide guidance on the recognition, presentation and disclosure of revenues in financial statements. The Company believes that its revenue recognition practices are in conformity with the guidelines in SAB 101, as revised, and that this pronouncement will have no material impact on its financial statements.

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In September 2000, the Emerging Issues Task Force ("EITF") reached a consensus regarding Issue 00-10, "Accounting for Shipping and Handling Fees and Costs," which requires any shipping and handling costs billed to customers in a sale transaction to be classified as revenue. The Company will adopt Issue 00-10 as of October 2, 2000, and does not expect it to have a material impact on the Company's consolidated results of operations.

EITF Issue 00-15, "Classification in the Statement of Cash Flows of the Income Tax Benefit Realized by a Company upon Employee Exercise of a Nonqualified Stock Option," was adopted by the Company in fiscal 2000. Issue 00-15 requires the income tax benefit resulting from the exercise of nonqualified stock options to be classified as cash provided by operating activities in the consolidated statements of cash flows.

Consolidated Balance Sheets

In thousands, except share data

	Oct 1, 2000	Oct 3, 1999
ASSETS		
Current assets:		
Cash and cash equivalents	$ 70,817	$ 66,419
Short-term investments	61,336	51,367
Accounts receivable, net of allowances of $2,941 and $1,227, respectively	76,385	47,646
Inventories	201,656	180,886
Prepaid expenses and other current assets	20,321	19,049
Deferred income taxes, net	29,304	21,133
Total current assets	459,819	386,500
Joint ventures	52,051	42,718
Other investments	3,788	25,342
Property, plant and equipment, net	930,759	760,289
Other assets	25,403	23,474
Goodwill, net	21,311	14,191
TOTAL ASSETS	$ 1,493,131	$ 1,252,514
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 73,653	$ 56,108
Checks drawn in excess of bank balances	56,332	63,811
Accrued compensation and related costs	75,250	43,872
Accrued occupancy costs	29,117	23,017
Accrued taxes	35,841	30,752
Other accrued expenses	35,053	32,480
Deferred revenue	7,320	484
Current portion of long-term debt	685	673
Total current liabilities	313,251	251,197
Deferred income taxes, net	21,410	32,886
Long-term debt	6,483	7,018
Minority interest	3,588	400
Shareholders' equity:		
Common stock — Authorized, 300,000,000 shares; issued and outstanding, 188,157,651 and 183,282,095 shares, respectively (includes 848,550 common stock units in both years)	750,872	651,020
Retained earnings	408,503	313,939
Accumulated other comprehensive loss	(10,976)	(3,946)
Total shareholders' equity	1,148,399	961,013
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 1,493,131	$ 1,252,514

See Notes to Consolidated Financial Statements.

Consolidated Statements of Earnings

In thousands, except earnings per share

Fiscal year ended	Oct 1, 2000	Oct 3, 1999	Sept 27, 1998
Net revenues:			
Retail	$ 1,823,607	$ 1,423,389	$ 1,102,574
Specialty	345,611	256,756	206,128
Total net revenues	2,169,218	1,680,145	1,308,702
Cost of sales and related occupancy costs	953,560	741,010	578,483
Gross margin	1,215,658	939,135	730,219
Joint venture income	20,300	3,192	1,034
Store operating expenses	704,898	543,572	418,476
Other operating expenses	78,374	54,566	44,513
Depreciation and amortization	130,232	97,797	72,543
General and administrative expenses	110,202	89,681	77,575
Merger expenses	-	-	8,930
Operating income	212,252	156,711	109,216
Interest and other income, net	7,110	7,315	7,134
Internet-related investment losses	58,792	-	-
Earnings before income taxes	160,570	164,026	116,350
Income taxes	66,006	62,333	47,978
Net earnings	$ 94,564	$ 101,693	$ 68,372
Net earnings per common share — basic	$ 0.51	$ 0.56	$ 0.39
Net earnings per common share — diluted	$ 0.49	$ 0.54	$ 0.37
Weighted average shares outstanding:			
Basic	185,595	181,842	176,110
Diluted	192,999	188,531	183,771

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

In thousands

Fiscal year ended	Oct 1, 2000	Oct 3, 1999	Sept 27, 1998
OPERATING ACTIVITIES:			
Net earnings	$ 94,564	$ 101,693	$ 68,372
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	142,171	107,512	80,901
Internet-related investment losses	58,792	-	-
Provision for losses on asset disposals	5,753	2,456	7,234
Conversion of compensatory options into common stock	-	-	1,158
Deferred income taxes, net	(18,252)	794	2,125
Equity in (income) losses of investees	(15,139)	(2,318)	14
Tax benefit from exercise of nonqualified stock options	31,131	18,621	9,332
Cash provided (used) by changes in operating assets and liabilities:			
Net purchases of trading securities	(1,414)	-	-
Accounts receivable	(28,235)	3,838	(19,790)
Inventories	(19,495)	(36,405)	(23,496)
Prepaid expenses and other current assets	(700)	(7,552)	(2,497)
Accounts payable	15,561	4,711	4,601
Accrued compensation and related costs	30,962	7,586	9,943
Accrued occupancy costs	6,007	5,517	5,342
Accrued taxes	5,026	12,429	7,173
Minority interest	3,188	400	-
Deferred revenue	6,836	(53)	209
Other accrued expenses	1,818	10,366	1,590
Net cash provided by operating activities	318,574	229,595	152,211
INVESTING ACTIVITIES:			
Purchase of available-for-sale investments	(118,501)	(122,800)	(51,354)
Maturity of available-for-sale investments	58,750	85,053	112,080
Sale of available-for-sale investments	49,238	3,633	5,138
Purchase of businesses, net of cash acquired	(13,522)	(15,662)	-
Investments in joint ventures	(8,473)	(10,466)	(12,418)
Purchases of other investments	(35,457)	(20,314)	-
Distributions from joint ventures	14,279	8,983	2,750
Additions to property, plant and equipment	(316,450)	(257,854)	(201,855)
Additions to other assets	(3,096)	(6,866)	(3,184)
Net cash used by investing activities	(373,232)	(336,293)	(148,843)
FINANCING ACTIVITIES:			
Increase/(decrease) in cash provided by checks drawn in excess of bank balances	(7,479)	29,512	4,846
Proceeds from sale of common stock under employee stock purchase plan	10,258	9,386	4,649
Exercise of stock options	58,463	33,799	20,755
Payments on long-term debt	(1,889)	(1,189)	(1,993)
Net cash provided by financing activities	59,353	71,508	28,257
Effect of exchange rate changes on cash and cash equivalents	(297)	(54)	(88)
Net increase/(decrease) in cash and cash equivalents	4,398	(35,244)	31,537
CASH AND CASH EQUIVALENTS:			
Beginning of year	66,419	101,663	70,126
End of year	$ 70,817	$ 66,419	$ 101,663
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid during the year for:			
Interest	$ 411	$ 442	$ 4,130
Income taxes	51,856	35,366	32,643
NONCASH FINANCING AND INVESTING TRANSCATIONS:			
Liabilities assumed in conjunction with the acquisition of land and building	-	7,746	-
Net unrealized holding gains (losses) on investments	(163)	683	(595)
Conversion of convertible debt into common stock, net of unamortized issue costs and accrued interest	-	-	162,036
Common stock tendered in settlement of stock options exercised	-	-	4,859

See Notes to Consolidated Financial Statements.

Consolidated Statements of Shareholders' Equity

In thousands, except share data

	Shares	Common Stock Amount	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, September 28, 1997	161,118,046	$ 391,284	$ 143,874	$ (1,448)	$ 533,710
Net earnings	–	–	68,372	–	68,372
Unrealized holding losses, net	–	–	–	(595)	(595)
Translation adjustment	–	–	–	(5,120)	(5,120)
Comprehensive income					62,657
Conversion of convertible debt into common stock	14,194,054	162,036	–	–	162,036
Common stock units issued under deferred stock plan, net of shares tendered	848,550	–	–	–	–
Exercise of stock options, including tax benefit of $9,332	2,834,528	31,245	–	–	31,245
Sale of common stock	271,778	4,649	–	–	4,649
Balance, September 27, 1998	179,266,956	589,214	212,246	(7,163)	794,297
Net earnings	–	–	101,693	–	101,693
Unrealized holding gains, net	–	–	–	683	683
Translation adjustment	–	–	–	2,534	2,534
Comprehensive income					104,910
Exercise of stock options, including tax benefit of $18,621	3,522,908	52,420	–	–	52,420
Sale of common stock	492,231	9,386	–	–	9,386
Balance, October 3, 1999	183,282,095	651,020	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	4,471,785	89,594	–	–	89,594
Sale of common stock	403,771	10,258	–	–	10,258
Balance, October 1, 2000	188,157,651	$ 750,872	$ 408,503	$ (10,976)	$ 1,148,399

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

Years ended October 1, 2000, October 3, 1999 and September 27, 1998

Note 1: Summary of significant accounting policies

DESCRIPTION OF BUSINESS

Starbucks Corporation and its subsidiaries (collectively "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 and a line of premium teas, primarily through its Company-operated retail stores. In addition to sales through its Company-operated retail stores, Starbucks sells coffee and tea products through other channels of distribution (collectively, "specialty operations"). Starbucks, through its joint venture partnerships, also produces and sells bottled Frappuccino® coffee drink and a line of premium ice creams. 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 to rapidly expand 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, its subsidiaries and investments in joint ventures in which the Company has significant control. All significant intercompany transactions have been eliminated.

The Company has investments in unconsolidated joint ventures that are accounted for under the equity method, as the Company does not exercise control over the operating and financial policies of such joint ventures. The Company also has other investments that are accounted for under the cost method.

FISCAL YEAR-END

The Company's fiscal year ends on the Sunday closest to September 30. The fiscal years ended October 1, 2000 and September 27, 1998 each included 52 weeks. The fiscal year ended October 3, 1999, included 53 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 investments consist primarily of investment-grade marketable debt and equity securities, 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 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.

OTHER INVESTMENTS

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

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 is based upon the quoted market price on the last business day of the fiscal year. The fair value and amortized cost of the Company's investments (short- and long-term) at October 1, 2000, were $61.3 million and $61.0 million, respectively. The fair value and amortized cost of the Company's investments at October 3, 1999, were $56.4 million and $56.2 million, respectively.

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.

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 and amortization. Depreciation of property, plant and equipment, which includes amortization of 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.

GOODWILL

Goodwill resulting from business acquisitions represents the excess purchase price paid over net assets of businesses acquired and is amortized on a straight-line basis over the period of expected benefit, which ranges from ten to twenty years.

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.

REVENUE RECOGNITION

Retail store revenues are recognized when payment is tendered at the point of sale. Specialty revenues, consisting mainly of product sales, are generally recognized upon shipment to 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 $0.2 million and $2.5 million as of October 1, 2000 and October 3, 1999, 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 $32.6 million, $38.4 million and $31.4 million in 2000, 1999, and 1998, 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.

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 March 19, 1999, the Company effected a two-for-one stock split for its holders of record on March 5, 1999. 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. The computation of diluted earnings per share also assumes conversion of the Company's formerly outstanding convertible subordinated debentures using the "if converted" method when such securities were dilutive, with net income adjusted for the after-tax interest expense and amortization applicable to these debentures.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities." In June 2000, the FASB issued SFAS No. 138, which amends certain provisions of SFAS 133 to clarify four areas causing difficulties in implementation. The amendment included expanding the normal purchase and sale exemption for supply contracts, permitting the offsetting of certain inter-company foreign currency derivatives, thereby reducing the number of third party derivatives, permitting hedge accounting for foreign-currency assets and liabilities and redefining interest rate risk to reduce sources of ineffectiveness. The Company has adopted the provisions of SFAS 133/138 as of October 2, 2000, the first day of fiscal 2001. Adoption of SFAS 133/138 will not have a material impact on the Company's consolidated results of operations, financial position or cash flows.

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RECLASSIFICATIONS

Certain reclassifications of prior years' balances have been made to conform to the fiscal 2000 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 of Coffee Partners Co. Ltd., the company licensed to operate Starbucks stores in Thailand ("Thailand Operations"). The combined purchase price for these two acquisitions was $14.1 million. During fiscal 1999, Starbucks acquired the net assets of Tazo, L.L.C., a Portland, Oregon-based tea company that produces premium tea products, and the stock of Pasqua Inc., a San Francisco, California-based roaster and retailer of specialty coffee. The combined purchase price for these two acquisitions was $16.5 million. All of the above 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. During fiscal 1998, Starbucks acquired the United Kingdom-based Seattle Coffee Holdings Limited ("Seattle Coffee Company") in a pooling-of-interests transaction (the "Transaction"). In conjunction with the Transaction, Starbucks recorded pre-tax charges of $8.9 million in direct merger costs and $6.6 million in other charges associated with the integration of Seattle Coffee Company. The historical financial statements for the periods prior to the Transaction were restated as though the companies had always been combined.

The following summarizes the Company's net revenues, net earnings and earnings per share for the periods in fiscal 1998 prior to and following the Transaction (in thousands, except earnings per share):

	STARBUCKS	SEATTLE COFFEE COMPANY	COMBINED
34 Weeks prior to the Transaction:			
Net revenues	$ 805,151	$ 15,675	$ 820,826
Net earnings	45,811	(3,312)	42,499
Net earnings per share — diluted	0.25	(0.02)	0.23
18 Weeks after the Transaction:			
Net revenues			$ 487,876
Net earnings			25,873
Net earnings per share — diluted			0.15

Note 3: Cash and cash equivalents

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

	Oct 1, 2000	Oct 3, 1999
Operating funds and interest-bearing deposits	$ 48,821	$ 39,926
Commercial paper	998	7,980
Money market funds	20,998	18,513
Total	$ 70,817	$ 66,419

Note 4: Short-term investments

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

October 1, 2000:	FAIR VALUE	AMORTIZED COST	GROSS UNREALIZED HOLDING GAINS	GROSS UNREALIZED HOLDING LOSSES
Short-term investments – available-for-sale:				
U.S. Government obligations	$ 10,990	$ 10,996	$ 3	$ (9)
Commercial paper	45,356	45,373	1	(18)
Marketable equity securities	1,227	1,227	–	–
Total	$ 57,573	$ 57,596	$ 4	$ (27)
Short-term investments – trading	3,763			
Total short-term investments	$ 61,336			

October 3, 1999:	FAIR VALUE	AMORTIZED COST	GROSS UNREALIZED HOLDING GAINS	GROSS UNREALIZED HOLDING LOSSES
Short-term investments – available-for-sale:				
Corporate debt securities	$ 17,233	$ 17,123	$ 155	$ (45)
U.S. Government obligations	4,988	4,976	13	(1)
Commercial paper	18,706	18,751	–	(45)
Mutual funds	2,056	2,002	73	(19)
Marketable equity securities	8,384	8,258	313	(187)
Total	$ 51,367	$ 51,110	$ 554	$ (297)
Long-term investments:				
U.S. Government obligations	$ 5,028	$ 5,044	$ –	$ (16)

Available-for-sale securities with remaining maturities of one year or less are classified as short-term investments. Securities with remaining maturities longer than one year are classified as long-term and are included in the line item "Other investments" on the accompanying consolidated balance sheets. The specific identification method is used to determine a cost basis for computing realized gains and losses.

In fiscal 2000, 1999 and 1998, proceeds from the sale of investment securities were $49.2 million, $3.6 million and $5.1 million, respectively. Gross realized gains and losses from the sale of securities were not material in 2000, 1999 and 1998.

During fiscal 2000, the Company recorded a loss of $6.8 million on its investment in the common stock of Talk City, Inc., due to an impairment that was determined by management to be other than temporary. The remaining fair value of the investment was $1.2 million as of October 1, 2000.

Trading securities are classified as short-term investments. The trading securities are marketable equity funds designated to approximate the Company's liability under the Management Deferred Compensation Plan ("MDCP"). The corresponding deferred compensation liability of $3.8 million is included in "Accrued compensation and related costs" on the accompanying consolidated balance sheets. The change in net unrealized holding gains in the trading portfolio included in earnings during the year was $0.3 million. There were no trading securities as of October 3, 1999.

Note 5: Inventories

Inventories consist of the following (in thousands):

	Oct 1, 2000	Oct 3, 1999
Coffee:		
Unroasted	$ 90,807	$ 95,001
Roasted	27,880	28,065
Other merchandise held for sale	59,420	37,564
Packaging and other supplies	23,549	20,256
Total	$ 201,656	$ 180,886

As of October 1, 2000, the Company had fixed-price inventory purchase commitments for green coffee totaling approximately $84 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 remote.

Note 6: Joint ventures

The Company has two joint ventures to produce and distribute Starbucks branded products. The North American Coffee Partnership is a 50/50 joint venture partnership with the Pepsi-Cola Company to develop and distribute bottled Frappuccino® coffee drink. The Starbucks Ice Cream Partnership is a 50/50 joint venture partnership with Dreyer's Grand Ice Cream, Inc. to develop and distribute premium ice creams.

The Company is a partner in several other joint ventures that operate licensed Starbucks retail stores, including Starbucks Coffee Japan Limited, a 50/50 joint venture partnership with a Japanese retailer and restauranteur, SAZABY Inc., to develop Starbucks retail stores in Japan. The Company also has interests in joint ventures to develop Starbucks retail stores in Hawaii, Taiwan, Shanghai, Hong Kong and Switzerland.

The Company accounts for these investments using the equity method when Starbucks is deemed to have significant influence over the investee but is not the controlling or managing partner; otherwise, the investment is accounted for using the cost method. The Company's share of income and losses for equity method joint ventures is included in "Joint venture income" on the accompanying consolidated statements of earnings. This line includes both the Company's proportionate share of gross margin resulting from the sale of coffee and other products to the joint ventures and the Company's proportionate share of royalty and license fee revenues received from the joint ventures.

The Company's investments in these joint ventures are as follows (in thousands):

	EQUITY JOINT VENTURES	COST JOINT VENTURES	TOTAL
Balance, September 28, 1997	$ 29,263	$ -	$ 29,263
Allocated share of losses	(14)	-	(14)
Distributions from joint ventures	(2,750)	-	(2,750)
Capital contributions	12,059	359	12,418
Balance, September 27, 1998	38,558	359	38,917
Allocated share of income	2,318	-	2,318
Distributions from joint ventures	(8,983)	-	(8,983)
Capital contributions	10,466	-	10,466
Balance, October 3, 1999	42,359	359	42,718
Allocated share of income	15,139	-	15,139
Distributions from joint ventures	(14,279)	-	(14,279)
Capital contributions	8,049	424	8,473
Balance, October 1, 2000	$ 51,268	$ 783	$ 52,051

The Company has a consolidated 90/10 joint venture with Starbucks Coffee Company (Australia) Pty Ltd. to develop retail stores in Australia. In addition, the Company has a consolidated 50/50 joint venture, Urban Coffee Opportunities, LLC, with Johnson Development Corporation to develop retail stores in under-served urban communities.

Note 7: Other investments

In fiscal 1999, the Company invested $20.3 million in living.com Inc. ("living.com"), an online furniture retailer. Also in 1999, the Company established an alliance with Cooking.com, Inc. ("Cooking.com"), a privately held web-based retailer of cookware, accessories and specialty foods and provider of information about cooking. As part of this alliance, the Company made a $10.0 million investment in Cooking.com.

During fiscal 2000, the Company invested $25.0 million in Kozmo.com, an Internet-to-door delivery service for food, entertainment and convenience items. Starbucks and Kozmo.com also entered into a commercial agreement to provide in-store return boxes in Starbucks stores in exchange for cash, a channel for selling the Company's products and other marketing opportunities. In connection with this agreement, Starbucks received a $15.0 million payment that is being recognized as revenue on a straight-line basis over twelve months. The Company does not expect to continue recording revenue from the current Kozmo.com relationship after February 2001.

During fiscal 2000, the Company determined that its investments in Internet-related companies had suffered declines in value that were other than temporary. As a result, the Company recognized losses totaling $52.0 million to reduce its investments in living.com, Cooking.com and Kozmo.com to their aggregate fair value of $3.6 million as of October 1, 2000.

The Company also had various other investments recorded at their estimated aggregate fair value of $0.2 million as of October 1, 2000.

Note 8: Property, plant and equipment

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

	Oct 1, 2000	Oct 3, 1999
Land	$ 5,084	$ 5,084
Building	19,795	19,795
Leasehold improvements	736,471	591,640
Roasting and store equipment	369,587	273,612
Furniture, fixtures and other	182,528	130,223
	1,313,465	1,020,354
Less accumulated depreciation and amortization	(446,403)	(320,982)
	867,062	699,372
Work in progress	63,697	60,917
Property, plant and equipment, net	$ 930,759	$ 760,289

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 9 to 10 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	
2001	$ 685
2002	697
2003	710
2004	722
2005	735
Thereafter	3,619
Total principal payments	$ 7,168

Note 10: Leases

The Company leases retail stores, roasting and distribution facilities and office space under operating leases expiring through 2023. 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	Oct 1, 2000	Oct 3, 1999	Sept 27, 1998
Minimum rentals	$ 127,149	$ 95,613	$ 75,912
Contingent rentals	3,743	1,581	1,406
Total	$ 130,892	$ 97,194	$ 77,318

Minimum future rental payments under non-cancelable lease obligations as of October 1, 2000, are as follows (in thousands):

Fiscal year ending	
2001	$ 129,407
2002	129,018
2003	127,604
2004	122,404
2005	112,988
Thereafter	417,874
Total minimum lease payments	$ 1,039,295

Note 11: Shareholders' equity

The Company has authorized 7,500,000 shares of its preferred stock, none of which was outstanding at October 1, 2000.

COMPREHENSIVE INCOME

The Company adopted SFAS No. 130, "Reporting Comprehensive Income," as of the first quarter of fiscal 1999. Comprehensive income includes all changes in equity during the period, except those resulting from transactions with shareholders of the Company. It has two components: net income and other comprehensive income. Accumulated other comprehensive income (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. Comprehensive income, net of related tax effects, is as follows (in thousands):

Fiscal year ended	Oct 1, 2000	Oct 3, 1999	Sept 27, 1998
Net earnings	$ 94,564	$ 101,693	$ 68,372
Unrealized holding gains (losses) on investments, net of tax (provision) benefit of $52, ($155) and $373 in 2000, 1999 and 1998, respectively	(85)	252	(595)
Reclassification adjustment for (gains) losses realized in net income, net of tax provision (benefit) of ($48) and $270, respectively	(78)	431	-
Net unrealized gain (loss)	(163)	683	(595)
Translation adjustment	(6,867)	2,534	(5,120)
Total comprehensive income	$ 87,534	$ 104,910	$ 62,657

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 September 28, 1997, through October 1, 2000:

	SHARES SUBJECT TO OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE PER SHARE	SHARES SUBJECT TO EXERCISABLE OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE PER SHARE
Outstanding, September 28, 1997	17,907,322	$ 9.66	7,427,352	$ 5.43
Granted	6,508,632	18.52		
Exercised	(3,683,078)	6.13		
Cancelled	(1,229,478)	11.79		
Outstanding, September 27, 1998	19,503,398	13.10	7,560,806	8.49
Granted	8,051,998	22.97		
Exercised	(3,522,908)	9.53		
Cancelled	(1,461,937)	18.99		
Outstanding, October 3, 1999	22,570,551	16.84	12,080,825	13.55
Granted	4,705,165	24.84		
Exercised	(4,471,785)	13.07		
Cancelled	(1,859,068)	21.41		
Outstanding, October 1, 2000	20,944,863	$ 19.10	10,165,370	$ 15.65

As of October 1, 2000, there were 16,762,482 shares of common stock available for issuance pursuant to future stock option grants.

Additional information regarding options outstanding as of October 1, 2000, is as follows:

RANGE OF EXERCISE PRICES		OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
		SHARES	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (YEARS)	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE
$ 0.75	$ 9.41	3,046,798	4.04	$ 7.14	2,872,310	$ 7.01
9.69	18.41	6,942,673	6.54	16.92	4,007,553	16.15
19.42	22.69	5,530,507	8.17	21.52	2,681,621	21.48
23.25	35.31	5,197,385	8.93	25.60	603,886	27.49
36.06	40.75	227,500	9.75	38.13	-	-
$ 0.75	$ 40.75	20,944,863	7.23	$ 19.10	10,165,370	$ 15.65

EMPLOYEE STOCK PURCHASE PLAN

The Company has an employee stock purchase plan which provides that eligible employees may contribute up to 10% of their base earnings, up to $25,000 annually, toward the quarterly purchase of the Company's common stock. The employees' 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. No compensation expense is recorded in connection with the plan. The total number of shares issuable under the plan is 8,000,000. There were 403,771 shares issued under the plan during fiscal 2000 at prices ranging from $20.37 to $32.73. There were 492,231 shares issued under the plan during fiscal 1999 at prices ranging from $14.05 to $25.18. There were 271,778 shares issued under the plan during fiscal 1998 at prices ranging from $15.99 to $19.58. Of the 24,465 employees eligible to participate, 6,708 were participants in the plan as of October 1, 2000.

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 October 1, 2000, receipt of 848,550 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

The Company accounts for its stock-based awards using the intrinsic value method in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and its related interpretations. Accordingly, no compensation expense has been recognized in the financial statements for employee stock arrangements.

SFAS No. 123, "Accounting for Stock-Based Compensation," requires the disclosure of pro forma net income and net income per share as if the Company adopted the fair-value method of accounting for stock-based awards as of the beginning of fiscal 1996. The fair value of stock-based awards to employees is calculated using the Black-Scholes option-pricing model with the following weighted average assumptions:

	EMPLOYEE STOCK OPTIONS			EMPLOYEE STOCK PURCHASE PLAN		
	2000	1999	1998	2000	1999	1998
Expected life (years)	2 - 6	1.5 - 6	1.5 - 6	0.25	0.25	0.25
Expected volatility	55%	50%	45%	42 - 82%	44 - 66%	37 - 45%
Risk-free interest rate	5.65 - 6.87%	4.60 - 6.21%	5.28 - 6.05%	5.97 - 6.40%	4.26 - 5.63%	5.26 - 5.74%
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.

As required by SFAS No. 123, the Company has determined that the weighted average estimated fair values of options granted during fiscal 2000, 1999 and 1998 were $10.74, $8.86 and $7.20 per share, respectively. Had compensation costs for the Company's stock-based compensation plans been accounted for using the fair value method of accounting described 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
October 1, 2000:		
Net earnings	$ 94,564	$ 66,241
Net earnings per common share:		
Basic	$ 0.51	$ 0.36
Diluted	$ 0.49	$ 0.35
October 3, 1999:		
Net earnings	$ 101,693	$ 75,326
Net earnings per common share:		
Basic	$ 0.56	$ 0.41
Diluted	$ 0.54	$ 0.40
September 27, 1998:		
Net earnings	$ 68,372	$ 51,595
Net earnings per common share:		
Basic	$ 0.39	$ 0.30
Diluted	$ 0.37	$ 0.28

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 2000, 1999 and 1998 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 percentage of their compensation to the plan, not to exceed the dollar amount set by law. For certain plans, the Company matches 25% of each employee's eligible contribution up to a maximum of the first 4% of each employee's compensation.

The Company's matching contributions to the plans were approximately $1.1 million, $0.9 million and $0.8 million for fiscal 2000, 1999 and 1998, 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	Oct 1, 2000	Oct 3, 1999	Sept 27, 1998
Statutory rate	35.0%	35.0%	35.0%
State income taxes, net of federal income tax benefit	3.7	3.7	3.8
Non-deductible losses and merger costs	–	–	2.6
Valuation allowance change from prior year	3.5	–	–
Other, net	(1.1)	(0.7)	(0.2)
Effective tax rate	41.1%	38.0%	41.2%

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

Fiscal year ended	Oct 1, 2000	Oct 3, 1999	Sept 27, 1998
Currently payable:			
Federal	$ 71,758	$ 52,207	$ 39,267
State	12,500	9,332	6,586
Deferred (asset) liability, net	(18,252)	794	2,125
Total	$ 66,006	$ 62,333	$ 47,978

Deferred income taxes (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. At October 1, 2000, the Company established a valuation allowance of $5.7 million as a result of the losses incurred on Internet-related investments. The tax effect of temporary differences and carryforwards that cause significant portions of deferred tax assets and liabilities is as follows (in thousands):

	Oct 1, 2000	Oct 3, 1999
Deferred tax assets:		
Loss on investments	$ 22,635	$ -
Accrued rent	10,321	8,234
Accrued compensation and related costs	6,710	5,622
Inventory related costs	3,550	2,067
Other	15,222	9,900
Total	58,438	25,823
Valuation allowance	(5,659)	-
Total deferred tax asset, net of valuation allowance	52,779	25,823
Deferred tax liabilities:		
Depreciation	(36,249)	(29,826)
Investments in joint ventures	(4,616)	(3,990)
Other	(4,020)	(3,760)
Total	(44,885)	(37,576)
Net deferred tax asset (liability)	$ 7,894	$ (11,753)

Taxes currently payable of $17.9 million and $16.3 million are included in "Accrued taxes" on the accompanying consolidated balance sheets as of October 1, 2000 and October 3, 1999, 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	Oct 1, 2000	Oct 3, 1999	Sept 27, 1998
Net earnings	$ 94,564	$ 101,693	$ 68,372
Weighted average common shares and common stock units outstanding	185,595	181,842	176,110
Net earnings per common share - basic	$ 0.51	$ 0.56	$ 0.39

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	Oct 1, 2000	Oct 3, 1999	Sept 27, 1998
Net earnings calculation:			
Net earnings	$ 94,564	$ 101,693	$ 68,372
Add after-tax interest expense on debentures	-	-	348
Add after-tax amortization of issuance costs related to the debentures	-	-	30
Adjusted net earnings	$ 94,564	$ 101,693	$ 68,750
Weighted average common shares and common stock units outstanding	185,595	181,842	176,110
Dilutive effect of outstanding common stock options	7,404	6,689	6,257
Assuming conversion of convertible subordinated debentures	-	-	1,404
Weighted average common and common equivalent shares outstanding	192,999	188,531	183,771
Net earnings per common and common equivalent share - diluted	$ 0.49	$ 0.54	$ 0.37

The Internet-related investment losses of 58.8 million during fiscal 2000 negatively impacted the diluted earnings per share calculation by $0.22. Excluding these losses, the diluted net earnings per common and common equivalent share was $0.71. See Notes 4 and 7.

Options with exercise prices greater than the average market price were not included in the computation of diluted earnings per share. These options totaled 0.3 million, 0.6 million and 0.3 million for fiscal 2000, 1999 and 1998, respectively.

Note 15: Commitments and contingencies

In connection with various bank loans entered into by Starbucks Coffee Japan Limited, the Company has guaranteed $25.4 million of the outstanding debt in the event of default by Starbucks Coffee Japan Limited.

In the normal course of business, the Company has various legal claims and other contingent matters outstanding. Management believes that any ultimate liability arising from these actions would not have a material adverse effect on the Company's results of operations or financial condition as of and for the fiscal year ended October 1, 2000.

Note 16: Segment reporting

In fiscal 1999, the Company adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," which establishes reporting and disclosure standards for an enterprise's operating segments. Operating segments are defined as components of an enterprise for which separate financial information is available and regularly reviewed by the Company's senior management.

The Company is organized into a number of business units. The Company's North American retail business sells coffee beverages, whole bean coffees and related hardware and equipment through Company-operated retail stores in the United States and Canada. The Company's international retail business consists of entities that own and operate retail stores in the United Kingdom, Thailand and Australia. These two retail segments are managed by different presidents within the Company and are measured and evaluated separately by senior management.

The Company operates through several other business units, each of which is managed and evaluated independently. These other business units are organized around the strategic relationships that govern the distribution of products to the customer. These relationships include retail store licensing agreements, wholesale accounts, grocery channel licensing agreements, joint ventures and direct-to-consumer marketing channels. Revenues from these segments include both sales to unaffiliated customers and intersegment sales, which are accounted for on a basis consistent with sales to unaffiliated customers. Intersegment sales and other intersegment transactions 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/expense 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 tables below present information by operating segment (in thousands):

Fiscal year ended	Oct 1, 2000	Oct 3, 1999	Sept 27, 1998
REVENUES:			
North American retail	$ 1,734,929	$ 1,375,018	$ 1,076,731
All other business units	457,496	320,604	238,798
Intersegment revenues	(23,207)	(15,477)	(6,827)
Total revenues	$ 2,169,218	$ 1,680,145	$ 1,308,702
OPERATING INCOME:			
North American retail	$ 249,924	$ 209,338	$ 161,334
All other business units	97,100	55,998	45,943
Unallocated corporate expenses	(134,902)	(107,460)	(89,069)
Merger expenses	-	-	(8,930)
Intersegment eliminations	130	(1,165)	(62)
Interest and other income, net	7,110	7,315	7,134
Internet-related investment losses	(58,792)	-	-
Total earnings before income taxes	$ 160,570	$ 164,026	$ 116,350
DEPRECIATION AND AMORTIZATION:			
North American retail	$ 94,312	$ 72,252	$ 56,328
All other business units	13,664	7,766	4,721
Unallocated corporate expenses	22,256	17,779	11,494
Total depreciation and amortization	$ 130,232	$ 97,797	$ 72,543
INCOME (LOSSES) FROM EQUITY METHOD INVESTEES:			
All other business units	$ 15,139	2,318	$ (14)
Intersegment eliminations	5,161	874	1,048
Total income from equity method investees	$ 20,300	$ 3,192	$ 1,034

	Oct 1, 2000	Oct 3, 1999
IDENTIFIABLE ASSETS:		
North American retail	$ 664,773	$ 587,823
All other business units	165,702	97,544
General corporate assets	662,656	567,147
Total assets	$ 1,493,131	$ 1,252,514

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

Fiscal year ended	Oct 1, 2000	Oct 3, 1999	Sept 27, 1998
REVENUES FROM EXTERNAL CUSTOMERS:			
United States	$ 1,940,723	$ 1,490,133	$ 1,173,982
Foreign countries	228,495	190,012	134,720
Total	$ 2,169,218	$ 1,680,145	$ 1,308,702

Revenues from foreign countries are based on the location of the customers and consist primarily of revenues from Canada and the United Kingdom. No customer accounts for 10% or more of the Company's revenues.

	Oct 1, 2000	Oct 3, 1999
LONG-LIVED ASSETS:		
United States	$ 819,200	$ 680,344
Foreign countries	111,559	79,945
Total	$ 930,759	$ 760,289

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 for fiscal years 2000 and 1999 is as follows (in thousands, except earnings per share):

	FIRST	SECOND	THIRD	FOURTH
2000 quarter:				
Net revenues	$ 526,982	$ 504,698	$ 555,546	$ 581,992
Gross margin	288,580	281,449	314,420	331,209
Net earnings	34,749	23,406	34,913	1,496
Net earnings per common share — diluted	$ 0.18	$ 0.12	$ 0.18	$ 0.01
1999 quarter:				
Net revenues	$ 405,638	$ 375,822	$ 423,792	$ 474,893
Gross margin	219,338	205,865	238,772	275,160
Net earnings	26,733	17,957	24,635	32,368
Net earnings per common share — diluted	$ 0.14	$ 0.10	$ 0.13	$ 0.17

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 judgment 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, that transactions are properly recorded in the Company's records, that assets are safeguarded and that 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.

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 and the independent auditors to ensure that each is properly discharging its responsibilities. The independent 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.

Orin C. Smith
president and
chief executive officer

Michael Casey
executive vice president,
chief financial officer and
chief administrative officer

Starbucks Corporation
(Seattle, Washington)

We have audited the accompanying consolidated balance sheets of Starbucks Corporation and subsidiaries (the Company) as of October 1, 2000, and October 3, 1999, and the related consolidated statements of earnings, shareholders' equity and cash flows for each of the three years in the period ended 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 Starbucks Corporation and subsidiaries as of October 1, 2000, and October 3, 1999, and the results of their operations and their cash flows for each of the three years in the period ended October 1, 2000, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

DELOITTE & TOUCHE LLP

Seattle, Washington

December 8, 2000

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 March 19, 1999.

	HIGH	LOW
October 1, 2000:		
First Quarter	$ 30.13	$ 21.56
Second Quarter	44.81	23.88
Third Quarter	43.44	28.31
Fourth Quarter	43.56	35.13
October 3, 1999:		
First Quarter	$ 26.69	$ 16.56
Second Quarter	30.69	23.28
Third Quarter	39.75	28.06
Fourth Quarter	37.56	20.06

As of December 11, 2000, the Company had 8,814 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 October 1, 2000, without the Exhibits thereto, may be obtained without charge by accessing the company's filings at www.sec.gov or sending a request to Investor Relations at the address or phone number below.

Quarterly information is available to all shareholders immediately upon its release, free of charge, via fax, by calling (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

Board of Directors and Senior Officers

Board of Directors

Howard Schultz
Starbucks Corporation
chairman of the board and chief global strategist

Orin C. Smith
Starbucks Corporation
president and chief executive officer

Arlen I. Prentice
Kibble & Prentice
co-chairman and chief executive officer

Barbara Bass
Gerson Bakar Foundation
president

Craig J. Foley
Wickham Capital Corp.
president

Craig E. Weatherup
The Pepsi Bottling Group, Inc.
chairman and chief executive officer

Gregory B. Maffei
360networks inc.
president and chief executive officer

Howard P. Behar
director

James G. Shennan, Jr.
Trinity Ventures
general partner

Senior Officers

Paul D. Davis
president, North America

Peter Maslen
president, Starbucks Coffee International, Inc.

Deidra Wager
executive vice president, Retail

Eduardo R. (Ted) Garcia
executive vice president, Supply Chain and Coffee Operations

Michael Casey
executive vice president, chief financial officer and chief administrative officer

Shelley B. Lanza
executive vice president, Human Resources, Corporate Social Responsibility, general counsel and secretary

Bruce Craig
senior vice president, Retail Operations

Darren Huston
senior vice president, New Ventures

David Olsen
senior vice president, Corporate Social Responsibility

Engle E. Saez
senior vice president, Marketing and Category Management

Howard Wollner
senior vice president, Starbucks Coffee International Strategic Business Systems

James Alling
senior vice president, Business Alliances

John Alderson
senior vice president, Southwest Zone

Lee Gelb
senior vice president, Human Resources

Marcia Adams
senior vice president, Central Zone

Mark McKeon
senior vice president and president, Europe, Middle East and Africa

Mark Wesley
senior vice president, Store Development and Asset Management

Martin Annese
senior vice president, Northeast/Eastern Canada Zone

Mary Williams
senior vice president, Coffee

Paul Twohig
senior vice president, Northwest/Western Canada Zone

Pedro Y.K. Man
senior vice president and president, Starbucks Coffee Asia Pacific Ltd.

Wanda Herndon
senior vice president, Worldwide Public Affairs