STARBUCKS CORP
Form DEF 14A
January 27, 2003

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SCHEDULE 14A INFORMATION

PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE SECURITIES EXCHANGE ACT OF 1934

(AMENDMENT NO.___)

Filed by the Registrant [X]

Filed by a Party other than the Registrant [ ]

Check the appropriate box:

[ ] Preliminary Proxy Statement
[X] Definitive Proxy Statement
[ ] Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
[ ] Definitive Additional Materials
[ ] Soliciting Material Pursuant to sec. 240.14a-11(c) or sec. 240.14a-12

STARBUCKS CORPORATION

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

[X] Fee not required.
[ ] Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.
(1) Title of each class of securities to which transaction

applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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[ ] Fee paid previously with preliminary materials.[ ] Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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Seattle, Washington

January 27, 2003

Dear Shareholders:

You are cordially invited to attend the Starbucks Corporation Annual Meeting of Shareholders on Tuesday, March 25, 2003, at 10:00 a.m. (Pacific Time). The meeting will be held at Benaroya Hall, located at 200 University Street, Seattle, Washington. Directions to Benaroya Hall and transportation information appear on the back cover of this Notice of Annual Meeting and Proxy Statement. *Enclosed with the Proxy Statement are two admission tickets for the Annual Meeting. You must present an admission ticket enclosed with this Proxy Statement.*

The matters to be acted upon are described in the accompanying Notice of Annual Meeting and Proxy Statement. At the meeting, we will also report on Starbucks Corporation s operations and respond to any questions you may have.

As always, we anticipate a large number of attendees at our Annual Meeting of Shareholders. We have taken several steps to accommodate as many people as possible, including providing additional seating in the main auditorium and overflow seating in a second auditorium. There will also be large video monitors in the lobby of Benaroya Hall. Starbucks Corporation is also pleased to offer free parking and shuttle service from the Safeco Field parking structure to and from our Annual Meeting of Shareholders.

While we will make every effort to accommodate all attendees, we cannot guarantee seating availability. We strongly recommend that shareholders arrive at Benaroya Hall at least one hour prior to the event; registration opens at 8:00 a.m. Please bring the enclosed ticket.

YOUR VOTE IS VERY IMPORTANT. Whether or not you plan to attend the Annual Meeting of Shareholders, we urge you to vote and submit your proxy by telephone, the Internet or by mail in order to ensure the presence of a quorum. If you attend the meeting, you will, of course, have the right to revoke the proxy and vote your shares in person. If you hold your shares through an account with a brokerage firm, bank or other nominee, please follow the instructions you receive from them to vote your shares.

Very truly yours,

Howard Schultz
chairman and
chief global strategist

Orin C. Smith
president and
chief executive officer

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STARBUCKS CORPORATION

2401 Utah Avenue South
Seattle, Washington 98134

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

on
March 25, 2003

The Annual Meeting of Shareholders of Starbucks Corporation (the Company) will be held at Benaroya Hall, located at 200 University Street, Seattle, Washington, on Tuesday, March 25, 2003, at 10:00 a.m. (Pacific Time) for the following purposes:

1. To elect four Class 1 directors to serve until the Annual Meeting of Shareholders to be held in early 2006;

2. To ratify the selection of Deloitte & Touche LLP as the Company s independent auditors for the fiscal year ending September 28, 2003;

3. To act on a shareholder proposal to identify and label all food products manufactured or sold by the Company that may contain genetically modified ingredients; and

4. To act on a shareholder proposal requiring the Company to adopt a policy of expensing the costs of all future stock options issued by the Company in the Company s annual income statement.

Only shareholders of record at the close of business on January 27, 2003 will be entitled to notice of and to vote at the Annual Meeting of Shareholders and any adjournments thereof.

The Company s Proxy Statement is attached hereto. Financial and other information concerning the Company is contained in the Annual Report to Shareholders for the fiscal year ended September 29, 2002.

By Order of the Board of Directors,

Paula E. Boggs
secretary

Seattle, Washington
January 27, 2003

YOUR VOTE IS IMPORTANT

WHETHER OR NOT YOU PLAN TO ATTEND THE ANNUAL MEETING OF SHAREHOLDERS, WE URGE YOU TO VOTE AND SUBMIT YOUR PROXY BY TELEPHONE, THE INTERNET OR BY MAIL AS PROMPTLY AS POSSIBLE TO ENSURE THE PRESENCE OF A QUORUM FOR THE MEETING. FOR ADDITIONAL INSTRUCTIONS ON VOTING BY TELEPHONE OR THE INTERNET, PLEASE REFER TO YOUR PROXY CARD. TO VOTE AND SUBMIT YOUR PROXY BY MAIL, PLEASE COMPLETE, SIGN AND DATE THE ENCLOSED PROXY CARD AND RETURN IT IN THE ENCLOSED POSTAGE PRE-PAID ENVELOPE. IF YOU ATTEND THE MEETING, YOU MAY, OF COURSE, REVOKE THE PROXY AND VOTE IN PERSON. IF YOU HOLD YOUR SHARES THROUGH AN ACCOUNT WITH A BROKERAGE FIRM, BANK OR OTHER NOMINEE, PLEASE FOLLOW THE INSTRUCTIONS YOU RECEIVE FROM THEM TO VOTE YOUR SHARES.

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STARBUCKS CORPORATION

2401 Utah Avenue South
Seattle, Washington 98134

PROXY STATEMENT

for the
ANNUAL MEETING OF SHAREHOLDERS

This Proxy Statement is furnished by and on behalf of the Board of Directors of Starbucks Corporation, a Washington corporation (Starbucks or the Company), in connection with the solicitation of proxies for use at the Annual Meeting of Shareholders of the Company to be held at 10:00 a.m. (Pacific Time) on Tuesday, March 25, 2003, (the Annual Meeting) at Benaroya Hall, located at 200 University Street, Seattle, Washington and at any adjournment thereof. Directions to Benaroya Hall are provided on the back cover of this Proxy Statement.

A shareholder who delivers an executed proxy pursuant to this solicitation may revoke it at any time before it is exercised by (i) executing and delivering a later dated proxy card to the secretary of the Company prior to the Annual Meeting, (ii) delivering written notice of revocation of the proxy to the secretary of the Company prior to the Annual Meeting, or (iii) attending and voting in person at the Annual Meeting. Attendance at the Annual Meeting, in and of itself, will not constitute a revocation of a proxy. Proxies will be voted as instructed by the shareholder or shareholders granting the proxy. Unless contrary instructions are specified, if the enclosed proxy is executed and returned (and not revoked) prior to the Annual Meeting, the shares of common stock, $0.001 par value per share (the Common Stock), of the Company represented thereby will be voted: (1) FOR the election of the four directors nominated by the Board of Directors; (2) FOR the ratification of the selection of Deloitte & Touche LLP as the Company s independent auditors for the fiscal year ending September 28, 2003 (fiscal 2003), (3) AGAINST the proposal to identify and label all food products manufactured or sold by the Company that may contain genetically modified ingredients, (4) AGAINST the proposal to adopt a policy of expensing the costs of all future stock options issued by the Company in its annual income statement, and in accordance with the best judgment of the named proxies on any other matters properly brought before the Annual Meeting.

The presence, in person or by proxy, of holders of a majority of the outstanding shares of Common Stock is required to constitute a quorum for the transaction of business at the Annual Meeting. Under Washington law and the Company s Articles of Incorporation, if a quorum is present, a nominee for election to a position on the Board of Directors will be elected as a director if the votes cast for the nominee exceed the votes cast against the nominee and exceed the votes cast for any other nominee for that position. Abstentions and broker non-votes (shares held by a broker or nominee that does not have the authority, either express or discretionary, to vote on a particular matter) are counted for purposes of determining the presence or absence of a quorum for the transaction of business at the Annual Meeting. For the election of directors, abstentions and broker non-votes will have the effect of neither a vote for nor a vote against the nominee. If a quorum is present, ratification of the selection of Deloitte & Touche LLP as the Company s independent auditors and approval of all other matters that properly come before the meeting require that the votes cast in favor of such actions exceed the votes cast against such actions. As in the election of directors, abstentions and broker non-votes will have the effect of neither a vote for nor against such actions. Proxies and ballots will be received and tabulated by Mellon Investor Services LLC, the Company s transfer agent and the inspector of elections for the Annual Meeting.

This Proxy Statement and the enclosed proxy card will be first mailed on or about February 11, 2003 to the Company s shareholders of record on January 27, 2003 (the Record Date).

The expense of preparing, printing and mailing this Proxy Statement and the proxies solicited hereby will be borne by the Company. Proxies will be solicited by mail and may also be solicited by directors, officers and other employees of the Company, without additional remuneration, in person or by telephone or facsimile transmission. The Company will also request brokerage firms, banks, nominees, custodians and fiduciaries to forward proxy materials to the beneficial owners of shares of Common Stock as of the Record Date and will reimburse such persons for the cost of forwarding the proxy materials in accordance with customary practice. The Company has retained Innisfree M&A Incorporated to aid in the solicitation of proxies. Your cooperation in promptly voting your shares and submitting your proxy by telephone, the Internet or by completing and returning the enclosed proxy card will help to avoid additional expense.

At the close of business on the Record Date, there were 387,103,914 shares of Common Stock (the Shares) outstanding and there were no outstanding shares of any other class of stock. Holders of Shares are entitled to cast one vote per Share on all matters.

PROPOSAL 1 ELECTION OF DIRECTORS

The Amended and Restated Articles of Incorporation of the Company provide that the Board of Directors shall be divided into three groups, with such groups to be as equal in number as possible. Throughout fiscal 2002, the Company s Board of Directors consisted of nine members, with three members in each of Classes 1, 2 and 3. In January, the size of the Board was increased from nine members to up to 12 members and the Board of Directors nominated Mr. Myron E. Ullman, III to fill one of the vacancies created by this increase. Mr. Ullman has been nominated to serve as a Class 1 director. Upon the expiration of the term of a class of directors, nominees for such class are elected to serve for a term of three years and until their respective successors have been elected and qualified. The current terms of the Class 1 directors, Mr. Howard P. Behar, Mr. James G. Shennan, Jr., Mr. Ullman and Mr. Craig E. Weatherup expire upon the election and qualification of the directors to be elected at the Annual Meeting. In addition to Mr. Ullman, the Board of Directors has nominated Messrs. Behar, Shennan and Weatherup for reelection to the Board of Directors at the Annual Meeting, to serve until the Annual Meeting of Shareholders to be held in early 2006. The terms of the Class 2 and Class 3 directors expire at the Annual Meetings of Shareholders to be held in early 2004 and 2005, respectively.

Unless otherwise directed, the persons named in the proxy intend to vote all proxies FOR the election of Messrs. Behar, Shennan, Ullman, and Weatherup to the Board of Directors. The nominees have consented to serve as directors of the Company if elected. If, at the time of the Annual Meeting, any of the nominees is unable or declines to serve as a director, the discretionary authority provided in the enclosed proxy will be exercised to vote for a substitute candidate designated by the Board of Directors. The Board of Directors has no reason to believe that any of the nominees will be unable or will decline to serve as a director.

Set forth below is certain information furnished to the Company by the director nominees and by each of the incumbent directors whose terms will continue following the Annual Meeting. There are no family relationships between any directors or executive officers of the Company.

Class 1 Directors

Terms expire at the Annual Meeting

HOWARD P. BEHAR, 58, has been a director of the Company since January 1996. Since rejoining the Company s management in September 2001, Mr. Behar has served as president, North America. Mr. Behar served as president of Starbucks Coffee International, Inc. from June 1994 until his retirement in late 1999. From February 1993 to June 1994, Mr. Behar served as the Company s executive vice president, Sales and Operations. From February 1991 to February 1993, Mr. Behar served as the Company s senior vice president, Retail Operations and from August 1989 to January 1991, he served as the Company s vice president, Retail Stores.

JAMES G. SHENNAN, JR., 61, has been a director of the Company since March 1990. Mr. Shennan has served as a general partner of Trinity Ventures, a venture capital organization, since 1989. Prior to that time, he served as the chief executive of Addison Consultants, Inc., an international marketing services firm, and two of its predecessor companies. Mr. Shennan also serves on the Board of Directors of P.F. Chang s China Bistro, Inc.

MYRON E. ULLMAN, III, 57, has been a director since January 2003. Mr. Ullman has served as Co-Chairman of Global Crossing Limited, a telecommunications service provider, since December 2002. From 1999 to 2001, Mr. Ullman served as Directeur General, Group Managing Director of LVMH Moet Hennessy Louis Vuitton, a luxury goods retailer. From 1995 to 1999, Mr. Ullman served as Chairman and CEO of DFS Group Limited, a travel retailer. Mr. Ullman also serves on the Board of Directors of Asia Global Crossing Limited.

CRAIG E. WEATHERUP, 57, has been a director of the Company since February 1999. From 1999 to January 24, 2003, Mr. Weatherup served as the Chairman of the Pepsi Bottling Group and currently is a member of its board of directors. Prior to the initial public offering of the Pepsi Bottling Group, Inc. in early 1999, Mr. Weatherup had worked with PepsiCo, Inc. for 24 years and served as Chief Executive Officer of its worldwide Pepsi-Cola business. Mr. Weatherup also serves as a director of Federated Department Stores, Inc.

Class 2 Directors

Terms expire at the Annual Meeting of Shareholders to be held in early 2004

GREGORY B. MAFFEI, 42, has been a director of the Company since February 1999. Mr. Maffei is chairman and chief executive officer of 360networks Corporation, a telecommunications service provider. Previously, Mr. Maffei served as the Chief Financial Officer of Microsoft Corporation from 1997 to 2000, and as Vice President, Corporate Development and Treasurer from 1994 to 1997. Mr. Maffei serves as a director of 360networks Corporation and Expedia, Inc., an Internet travel services company.

ARLEN I. PRENTICE, 65, has been a director of the Company since February 1986. Mr. Prentice is a founder of Kibble & Prentice, Inc., a financial services firm. Mr. Prentice has served as chairman and the chief executive officer of Kibble & Prentice, Inc. since June 1972. Mr. Prentice presently serves as a director of Northland Telecommunications Corporation, a cable television company providing services through its affiliates to customers in nine states, and Flow International Inc., a manufacturer and distributor of high pressure water jet cutting systems.

ORIN C. SMITH, 60, has been a director of the Company since January 1996. Mr. Smith has served as president and chief executive officer of the Company since June 2000. From June 1994 to May 2000, Mr. Smith served as the Company s president and chief operating officer, and from March 1990 to June 1994, he was the Company s vice president and chief financial officer and later its executive vice president and chief financial officer. Mr. Smith presently serves as a director of Oakley, Inc., a designer, manufacturer and distributor of premium performance sunglasses, footwear, apparel, accessories and watches.

Class 3 Directors

Terms expire at the Annual Meeting of Shareholders to be held in early 2005

BARBARA BASS, 51, has been a director of the Company since January 1996. Since 1993, Ms. Bass has been the president of Gerson Bakar Foundation. From 1989 to 1992, Ms. Bass was president and chief executive officer of the Emporium Weinstock Division of Carter Hawley Hale Stores, Inc. She serves on the Board of Directors of DFS Group Limited, a retailer of luxury branded merchandise, and bebe stores, inc., a retailer of contemporary sportswear and accessories.

CRAIG J. FOLEY, 58, has been a director of the Company since March 1990. Mr. Foley has served as General Partner of Wickham Capital, a venture capital partnership, since February 1994. He has also served as a partner of Phillips-Smith-Machens Venture Partners, a venture capital firm, since April 1994. From February 1982 to February 1994, Mr. Foley served on the Board of Directors of Chancellor Capital Management, Inc., (now, Invesco Capital Management) and, as Managing Director of its Alternative Asset Management Group, served as a financial advisor to various entities.

HOWARD SCHULTZ, 49, is the founder of the Company, the chairman of the board and has served as chief global strategist since June 2000. From the Company s inception in 1985 to June 2000, he served as chairman of the board and chief executive officer. From 1985 to June 1994, Mr. Schultz was also the Company s president. From September 1982 to December 1985, Mr. Schultz was the director of retail operations and marketing for Starbucks Coffee Company, a predecessor to the Company; and from January

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1986 to July 1987, he was the chairman of the board, chief executive officer, and president of Il Giornale Coffee Company, a predecessor to the Company. Mr. Schultz serves on the Board of Directors of eBay, Inc., an Internet trading company.

THE BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE FOR THE ELECTION OF MESSRS. BEHAR, SHENNAN, ULLMAN AND WEATHERUP TO THE BOARD OF DIRECTORS.

Committees

During the fiscal year ended September 29, 2002 (fiscal 2002), the Company s Board of Directors had standing Compensation and Management Development, Special Compensation, Audit and Compliance, and Nominating and Corporate Governance committees. The reports of each of the committees are set forth below.

Compensation and Management Development Committee Report

During fiscal 2002, Mr. Prentice, Ms. Bass and Mr. Maffei served on the Compensation and Management Development Committee (the Compensation Committee), with Mr. Prentice serving as Chairman. All of the members of the Compensation Committee qualify as an outside director under Section 162(m) of the Internal Revenue Code (the Code). The Compensation Committee is responsible for setting compensation philosophy for the Company and determining compensation and other benefits for the Company s senior executive officers. The Compensation Committee also administers the Company s stock option and stock purchase plans.

During fiscal 2002, the Special Compensation Committee was comprised of Ms. Bass and Mr. Maffei, both of whom qualify as non-employee directors as such term is defined in Rule 16b-3 promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act). The Special Compensation Committee reviews remuneration of certain executive officers of the Company, including the executive officers named in the Summary Compensation Table set forth in the Executive Compensation section of this Proxy Statement. The Special Compensation Committee is also charged with approving payments of bonuses under the Executive Management Bonus Plan (the EMB Plan).

Compensation Components: The Compensation Committee believes that compensation paid to senior executive officers should be closely aligned with the performance of the Company on both a short-term and long-term basis, and that such compensation should assist the Company in attracting and retaining key executives critical to its long-term success. To that end, the Committee s policy is that the compensation package for senior executive officers should consist of three components: (i) annual base salary, (ii) incentive bonuses, the amount of which is dependent on both Company and individual performance during the prior fiscal year, and (iii) stock option awards designed to align executive officers interests with those of shareholders by rewarding outstanding performance and providing long-term incentives.

The Special Compensation Committee establishes total annual compensation for the chief executive officer and other executive officers after reviewing each component of such executive s compensation against executive compensation surveys prepared by outside compensation consultants. The surveys used for comparison reflect compensation levels and practices for persons holding comparably responsible positions at targeted peer group companies. The compensation comparator group is not limited to companies listed on the National Market tier of The Nasdaq Stock Market, Inc., and includes an array of companies in specialty retail and other industries, with high growth and strong brand image characteristics. Four of the thirteen companies used to provide competitive compensation data are included in the indices reflected in the performance graph required by Item 402(1) of Regulation S-K and set forth on page 13 of this Proxy Statement. In addition to reviewing executive officers compensation against the comparator group, the Compensation Committee also solicits appropriate input from the Company s president and chief executive officer regarding total compensation for those executives who report directly to him.

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Total Compensation: For fiscal 2002, the Compensation Committee determined that total compensation for executive officers (the sum of base salary, incentive bonus and long-term compensation delivered through stock option awards) should be targeted at the 75th percentile of selected peer group companies. The Compensation Committee may, at its discretion, award compensation in excess of or less than the target. Base salary and incentive bonus were targeted at the 50th percentile of peer group companies so that more than a proportionate amount of total compensation is awarded through a long-term incentive vehicle. This strategy is intended to be competitive with other high-performing organizations and to enable the Company to attract, reward and retain exceptional talent. For this period, Mr. Smith s total compensation, including base salary, incentive bonus and stock options was slightly above the 50th percentile of total compensation paid by targeted peer group companies.

Base Salary: Base salaries for executive officers are reviewed on an annual basis and at the time of promotion or other increase in responsibilities. Increases in salary are based on subjective evaluation of such factors as the level of responsibility, individual performance, level of pay and Company peer group pay levels. In fiscal 2002, Mr. Smith s base salary was determined in accordance with the factors above. In fiscal 2002, Mr. Smith s base salary was $1,133,600 (although the amount actually paid and reflected in the Summary Compensation Table is slightly less because of the Company s payroll schedule), an amount slightly above the competitive target of the 50th percentile of salaries paid by targeted peer companies.

Incentive Bonus: Incentive bonuses are generally granted based on a percentage of each executive officer s base salary. During fiscal 2002, the chairman and chief global strategist, president and chief executive officer, president, Starbucks Coffee International, Inc., and executive vice presidents of the Company participated in the EMB Plan. The EMB Plan, as in effect during fiscal 2002, was designed to enable at least 80% of the target amounts of incentive bonuses paid to executive officers to qualify as performance-based compensation (as defined in Section 162(m)) of the Code and therefore be deductible by the Company for tax purposes. It is the Company s intention and general practice to pay performance-based compensation that is deductible, but the Company may from time to time pay amounts that are not deductible to meet hiring, retention or other compensation objectives.

The Compensation Committee selects participants and establishes the objective performance measure or measures, bonus target percentages and other terms and conditions of awards under the EMB Plan. During fiscal 2002, target bonus amounts under the EMB Plan were expressed as a percentage of base salary and were established according to the overall intended competitive position and competitive survey data for comparable positions in peer group companies. For fiscal 2002, the bonus targets for participating officers ranged from 50% to 100% of base salary depending on position. For Messrs. Smith and Schultz the EMB Plan provided a bonus target of approximately $1,133,600, or 100% of base salary, for achievement of 100% of the objective performance goal. After the end of the fiscal year, the Special Compensation Committee determined the extent to which the performance goals were achieved and the amount of the award to be paid to each participant.

Under the EMB Plan as in effect during fiscal 2002, 80% of the target bonus was based on the achievement of a specified objective performance goal selected by the Compensation Committee for the fiscal year, (other than for Messrs. Schultz and Smith for whom 100% of the target bonus was based on objective performance goals). In fiscal 2002, the objective performance measure upon which the objective performance goal was based was earnings per share. Twenty percent (20%) of the target bonus for each officer other than Messrs. Schultz and Smith was based on specific individual performance goals, which change somewhat each year according to the strategic plan initiatives and the responsibilities of the positions. Relative weights assigned to each individual performance goal typically range from 5% to 35%.

The total bonus award is determined according to the level of achievement of both the objective performance and individual performance goals. Below a threshold level of performance, no awards may be granted pursuant to the objective performance goal and the Special Compensation Committee may, in its discretion, reduce the awards pursuant to individual performance goals. For fiscal 2002, Mr. Smith earned a bonus of $1,362,500, based on the achievement of the objective performance goal. Because the Company achieved earnings per share greater than that required to obtain 100% of the target bonus amount attributed to

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the objective performance goal, the bonus paid to Mr. Smith was somewhat above the competitive target of the 50th percentile of bonuses paid by targeted peer group companies.

Stock Options: In fiscal 2002, long-term, performance-based compensation of executive officers took the form of option awards under the Starbucks Corporation Amended and Restated Key Employee Stock Option Plan 1994 (the Key Employee Plan). The Compensation Committee believes that equity-based compensation ensures that the Company s executive officers have a continuing stake in the long-term success of the Company. All options granted by the Company have been granted with an exercise price equal to the closing price of the Company s Common Stock on the date of grant and, accordingly, will have value only if the Company s stock price increases.

In granting options under the Key Employee Plan, the Compensation Committee bases the size of stock option awards on such considerations as the value of options awarded to comparable positions in peer group companies, Company and individual performance against plan, the number of options currently held by the officer, the allocation of overall share usage attributed to executive officers and the relative proportion of long-term incentives within the total compensation mix. In fiscal 2002, Mr. Smith was granted options to purchase 715,000 shares of Common Stock. Mr. Smith s grant, as well as the stock options granted to the other executive officers, were granted in October 2001 and reflect the Company s and such officers performance for fiscal 2001.

Respectfully submitted,

Arlen I. Prentice (Chairman)
Barbara Bass
Gregory Maffei

Audit and Compliance Committee Report

During fiscal 2002, Mr. Shennan, Mr. Foley and Mr. Weatherup served on the Audit and Compliance Committee (the Audit Committee), with Mr. Shennan serving as Chairman until August 2002 when he was replaced as Chairman by Mr. Foley. Each of Messrs. Shennan, Foley and Weatherup is an independent director as defined in Rule 4200(a)(15) of the National Association of Securities Dealers, Inc. listing standards. The Audit Committee operates pursuant to a written charter, a copy of which is attached as Appendix A to this Proxy Statement. As more fully described in the Charter, the Audit Committee is responsible for overseeing the Company s internal controls and financial reporting processes, as well as the independent audit of the Company s consolidated financial statements by the Company s independent auditors, Deloitte & Touche LLP (Deloitte & Touche). As part of fulfilling its responsibilities, the Audit Committee reviewed and discussed the audited consolidated financial statements for fiscal 2002 with management and discussed those matters required to be discussed by Statement on Auditing Standards No. 61 (Communication with Audit Committees) with the Company s independent auditors. The Audit Committee received the written disclosures and the letter required by Independent Standards Board Statement No. 1 (Independence Discussions with Audit Committee) from Deloitte & Touche, and discussed that firm s independence with representatives of the firm.

Based upon the Audit Committee s review of the audited consolidated financial statements and its discussions with management and the Company s independent auditors, the Audit Committee recommended that the Board of Directors include the audited consolidated financial statements for the fiscal year ended

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September 29, 2002 in the Company s Annual Report on Form 10-K filed with the Securities and Exchange Commission.

Respectfully submitted,

Craig J. Foley (Chairman)
James G. Shennan, Jr.
Craig E. Weatherup

Independent Accountant Fees

The following table sets forth the aggregate fees billed to the Company for fiscal 2002 by Deloitte & Touche:

Audit Fees	$ 815,000
Financial Information Systems Design and Implementation Fees	$1,112,000*
All Other Fees:	
Audit-Related Fees	$ 48,000*
Tax Fees	$ 305,000*
Total All Other Fees	$ 353,000

The Audit Committee has considered whether the provision of non-audit services is compatible with maintaining the independence of Deloitte & Touche and has concluded that it is.

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* Financial Information Systems Design and Implementation Fees represent the final portion of work on a project initiated in 1999 and completed in February 2002 to implement a new human resources and payroll system using purchased software. Deloitte Consulting, an affiliate of Deloitte & Touche, provided project management assistance and consulting services. The All Other Fees category includes consultations on financial accounting and reporting standards, which comprise the Audit-Related Fees subcategory, and tax consulting and assistance with compliance and audits, which comprise the Tax Fees subcategory.

Nominating and Corporate Governance Committee Report

During fiscal 2002, Mr. Weatherup, Ms. Bass and Mr. Shennan served on the Nominating and Corporate Governance Committee (the Nominating Committee), with Mr. Weatherup serving as Chairman. Each of members of the Nominating Committee is an independent director as defined in Rule 4200 (a) (15) of the National Association of Securities Dealers, Inc. listing standards. The Nominating Committee operates pursuant to a written charter. The Nominating Committee is responsible for developing and implementing policies and procedures that are intended to ensure that the Board of Directors is appropriately constituted and organized to meet its fiduciary obligations to the Company and its shareholders on an ongoing basis. Among its specific duties, the Nominating Committee makes recommendations to the Board of Directors about the Company s governance processes, assists in identifying and recruiting candidates for the Board, and makes recommendations to the Board regarding the membership and chairs of the Board s committees.

Respectfully submitted,

Craig E. Weatherup (Chairman)
Barbara Bass
James G. Shennan, Jr.

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Board and Committee Meetings

During fiscal 2002, the Compensation Committee met three times and held one telephonic meeting, the Special Compensation Committee met one time in conjunction with a Compensation Committee meeting, the Audit Committee met five times and held one telephonic meeting, the Nominating Committee met one time and held one telephonic meeting, and the Board of Directors met five times. The Audit Committee convened outside the presence of management in conjunction with four of the six meetings held in fiscal 2002. At least once a year, the Compensation Committee convenes outside the presence of management. Starting in fiscal 2003, there will be an executive session in conjunction with each board and committee meeting where management will not be present. Each director attended at least 75% percent of all Board meetings and meetings of committees on which they served.

BENEFICIAL OWNERSHIP OF COMMON STOCK

The following table sets forth information concerning the beneficial ownership of Common Stock of the Company of (i) those persons known by management of the Company to own beneficially more than 5% of the Company s outstanding Common Stock, (ii) the directors of the Company, (iii) the executive officers named in the Summary Compensation Table set forth in the Executive Compensation section of this Proxy Statement and (iv) all current directors and executive officers of the Company as a group. Such information is provided as of December 31, 2002. According to the rules adopted by the Securities and Exchange Commission, a person is the beneficial owner of securities if he or she has or shares the power to vote them or to direct their investment or has the right to acquire beneficial ownership of such securities within 60 days through the exercise of an option, warrant, right of conversion of a security or otherwise. Except as otherwise noted, the beneficial owners listed have sole voting and investment power with respect to shares beneficially owned. An asterisk in the percent of class column indicates beneficial ownership of less than 1%, based upon 387,028,336 shares of Common Stock outstanding.

Name and Address of Beneficial Owner(1)	Amount and Nature of Beneficial Ownership	Percent of Class
Capital Research & Management Company	34,000,535(2)	8.8%
Howard Schultz	15,696,342(3)	4.1%
Orin C. Smith	1,752,220(4)	*
Howard P. Behar	590,175(5)	*
Barbara Bass	354,000(6)	*
Craig J. Foley	433,600(7)	*
Gregory B. Maffei	150,000(8)	*
Arlen I. Prentice	862,288(9)	*
James G. Shennan, Jr.	627,142(10)	*
Craig E. Weatherup	170,000(11)	*
Peter Maslen	292,148(12)	*
Michael Casey	507,843(13)	*
All Directors and Executive Officers as a Group (17 persons)	22,513,305(14)	5.8%

(1) The address of Capital Research & Management Company is 333 South Hope Street, 55th Floor, Los Angeles, California 90071-1447. The address of the directors and executive officers listed is 2401 Utah Avenue South, Seattle, Washington 98134.

(2) Capital Research and Management Company has no independent voting power with respect to these shares.

(3) Includes 8,074,394 shares subject to options exercisable within 60 days of December 31, 2002.

(4) Includes 1,730,502 shares subject to options exercisable within 60 days of December 31, 2002.

(5) Includes 566,667 shares subject to options exercisable within 60 days of December 31, 2002.

(6) Includes 340,000 shares subject to options exercisable within 60 days of December 31, 2002.

(7) Includes 351,800 shares subject to options exercisable within 60 days of December 31, 2002.

(8) Includes 150,000 shares subject to options exercisable within 60 days of December 31, 2002.

(9) Includes 77,936 shares held by the Prentice Family Partnership, a general partnership in which Mr. Prentice serves as a general partner, and 507,000 shares subject to options exercisable within 60 days of December 31, 2002.

(10) Includes 93,720 shares held by the Shennan Family Partnership, a partnership of which Mr. Shennan is a general partner, and 395,400 shares subject to options exercisable within 60 days of December 31, 2002.

(11) Includes 150,000 shares subject to options exercisable within 60 days of December 31, 2002.

(12) Includes 292,148 shares subject to options exercisable within 60 days of December 31, 2002.

(13) Includes 470,146 shares subject to options exercisable within 60 days of December 31, 2002.

(14) Includes 13,827,162 shares subject to options exercisable within 60 days of December 31, 2002.

EXECUTIVE COMPENSATION

The following table sets forth the compensation paid to or earned by (i) the Company s chief executive officer and (ii) the Company s four other most highly compensated executive officers whose salary and bonus exceeded $100,000 in fiscal 2002 (collectively referred to herein as the Named Executive Officers) during each of the Company s last three fiscal years.

Summary Compensation Table

		Annual Compensation		Long-Term Compensation	
Name and Principal Position	**Fiscal Year**	**Salary ($)**	**Bonus ($)**	**Number of Securities Underlying Options(1)**	**All Other Compensation ($)**
Orin C. Smith	2002	1,088,269	1,362,500	715,000	300(2)
president and	2001	995,192	1,150,000	790,000	1,700(2)
chief executive officer	2000	730,770	1,312,500	1,000,000	1,700(2)
Howard Schultz	2002	1,088,269	1,362,500	715,000	300(3)
chairman and	2001	995,192	1,150,000	790,000	25,111(3)
chief global strategist	2000	750,000	1,312,500	500,000	25,311(3)
Howard P. Behar	2002	646,154(4)	623,872(5)	250,000(6)	0
president, North America	2001	7,715(7)	0	50,000(8)	0
	2000	121,981	0	0	0
Peter Maslen	2002	450,543	310,241	150,000	0
president, Starbucks	2001	413,346	260,382	170,000	2,052(9)
Coffee International, Inc.	2000	380,000	365,750	100,000	25,276(9)
Michael Casey	2002	510,600	318,302	165,000	300(10)
executive vice president,	2001	470,250	270,825	170,000	1,700(10)
chief financial officer and	2000	431,385	378,000	150,000	1,187(10)
chief administrative officer					

(1) The number of securities underlying options have been adjusted to reflect the two-for-one stock split effected by the Company in April 2001.

(2) The amounts shown represent matching contributions by the Company to the Company s 401(k) Plan on behalf of Mr. Smith.

(3) The amounts shown include (i) matching contributions by the Company to the Company s 401(k) Plan on behalf of Mr. Schultz of $300, $1,700 and $1,700 in fiscal 2002, fiscal 2001 and fiscal 2000,

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respectively, and (ii) unreimbursed payments by the Company of the insurance premium for a split dollar life insurance policy originally issued in 1991 of $23,411 and $23,611 in fiscal 2001 and fiscal 2000.

(4) Includes $546,154 earned in Fiscal 2002 to be paid out over time in accordance with Mr. Behar s employment agreement.

(5) No amounts were paid out for fiscal 2002. The bonus will be paid out over time in accordance with Mr. Behar s employment agreement.

(6) Includes an option for 50,000 shares of Common Stock granted to Mr. Behar for service as a member of the Board of Directors prior to his return to management of the Company.

(7) Represents compensation to Mr. Behar for services rendered in fiscal 2001 prior to his return to management.

(8) Represents options granted to Mr. Behar for services rendered as a member of the Board of Directors prior to his return to management of the Company.

(9) The amounts shown represent relocation and temporary housing expenses paid to Mr. Maslen.

(10) The amounts shown represent matching contributions to the Company s 401(k) Plan on behalf of Mr. Casey.

Stock Option Grants in Fiscal 2002

The following table sets forth information regarding options to purchase shares of the Company s Common Stock granted to the Company s Named Executive Officers during fiscal 2002. The Company has no outstanding stock appreciation rights. In accordance with the rules of the Securities and Exchange Commission, the table shows the hypothetical gains or option spreads that would exist for the respective options based on assumed rates of annual stock price appreciation of 5% and 10% from the date the options were granted over the full option term.

Option Grants in Fiscal 2002

Name	Number of Securities Underlying Options Granted	Percent of Total Options Granted to Employees	Exercise Price Per Share	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term[1] Five Percent ($)	Ten Percent ($)
Orin C. Smith	715,000(2)	7.2	$14.80	10/01/2011	6,654,693	16,864,963
Howard Schultz	715,000(3)	7.2	$14.80	10/01/2011	6,654,693	16,864,963
Howard P. Behar	50,000(4)	0.5	$21.91	01/15/2012	688,954	1,745,945
	200,000(5)	2.0	$21.38	01/22/2012	2,689,153	6,814,843
Peter Maslen	150,000(6)	1.5	$14.80	10/01/2011	1,396,146	3,538,108
Michael Casey	165,000(7)	1.7	$14.80	10/01/2011	1,535,761	3,891,919

(1) Potential realizable value is based on the assumption that the price of the Company s Common Stock appreciates at the rate shown (compounded annually) from the date of grant to the expiration date. These numbers are presented in accordance with the requirements of the Securities and Exchange Commission and do not reflect the Company s estimate of future stock price performance.

(2) Mr. Smith s options become exercisable in one 238,334 share increment on October 1, 2002, and two 238,333 share increments on October 1, 2003 and 2004.

(3) Mr. Schultz s options become exercisable in one 238,334 share increment on October 1, 2002, and two 238,333 share increments on October 1, 2003 and 2004.

(4) These options were granted to Mr. Behar for service as a member of the Board of Directors prior to his return to management of the Company. The options became exercisable in one 50,000 share increment on January 15, 2002.

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(5) These options were granted to Mr. Behar in connection with his return to management. Mr. Behar s options become exercisable in two 66,667 share increments on January 22, 2003 and 2004 and one 66,666 share increment on January 22, 2005.

(6) Mr. Maslen s options become exercisable in three 50,000 share increments on October 1, 2002, 2003 and 2004.

(7) Mr. Casey s options become exercisable in three 55,000 share increments on October 1, 2002, 2003 and 2004.

Exercises of Stock Options

The following table sets forth information regarding stock option exercises during fiscal 2002 by the Named Executive Officers and the value of each Named Executive Officer s exercised and unexercised stock options on September 29, 2002.

Aggregated Option Exercises in Fiscal 2002 and Fiscal Year-End Option Values

Name	Shares Acquired on Exercise (#)	Value Realized[1] ($)	Number of Securities Underlying Unexercised Options at Fiscal Year End		Value of Unexercised In-the-Money Options at Fiscal Year End[2] ($)	
			Exercisable	Unexercisable	Exercisable	Unexercisable