STARBUCKS CORP
Form 10-K
November 29, 2007

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

Form 10-K

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended September 30, 2007
or
o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to .

Commission File Number: 0-20322

Starbucks Corporation
(Exact name of registrant as specified in its charter)

Washington	**91-1325671**
(State or other jurisdiction of incorporation or organization)	*(IRS Employer Identification No.)*

2401 Utah Avenue South
Seattle, Washington 98134
(Address of principal executive offices, zip code)

(Registrant s telephone number, including area code):
(206) 447-1575

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one)

Large Accelerated Filer þ Accelerated Filer o Non-Accelerated Filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

The aggregate market value of the voting stock held by non-affiliates of the registrant as of the last business day of the registrant s most recently completed second fiscal quarter, based upon the closing sale price of the registrant s common stock on March 30, 2007 as reported on the NASDAQ Global Select Market was $22.7 billion.

As of November 16, 2007, there were approximately 730.4 million shares of the registrant s Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement for the registrant s Annual Meeting of Shareholders to be held on March 19, 2008 have been incorporated by reference into Part III of this Annual Report on Form 10-K.

STARBUCKS CORPORATION

Form 10-K

For the Fiscal Year Ended September 30, 2007

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PART I

Item 1. *Business*

General

Starbucks Corporation (together with its subsidiaries, Starbucks or the Company) was formed in 1985. Starbucks 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 complementary food items, coffee-related accessories and equipment, a selection of premium teas and a line of compact discs, primarily through Company-operated retail stores. Starbucks also sells coffee and tea products and licenses its trademark through other channels and, through certain of its equity investees, Starbucks produces and sells ready-to-drink beverages which include, among others, bottled Frappuccino® beverages and Starbucks DoubleShot® espresso drinks, and a line of superpremium ice creams. All channels outside the Company-operated retail stores are collectively known as Specialty Operations. The Company s objective is to establish Starbucks as one of the most recognized and respected brands in the world. To achieve this goal, the Company plans to continue expansion of its retail operations, to grow its Specialty Operations and to selectively pursue other opportunities to leverage the Starbucks brand by introducing new products and developing new channels of distribution. The Company s brand portfolio includes superpremium Tazo® teas, Starbucks Hear Music® compact discs, Seattle s Best Coffee® and Torrefazione Italia® coffee.

Segment Financial Information

Starbucks has three reportable operating segments: United States, International and Global Consumer Products Group (CPG). The United States and International segments both include Company-operated retail stores and certain components of Specialty Operations. Specialty Operations within the United States include licensed retail stores, foodservice accounts and other initiatives related to the Company s core business. International specialty operations primarily include retail store licensing operations in more than 30 countries and foodservice accounts in Canada and the United Kingdom (UK). The CPG segment includes the Company s grocery and warehouse club business as well as branded products operations worldwide. Financial information about Starbucks segments is included in Note 18 to the consolidated financial statements included in Item 8 of this Annual Report on Form 10-K (Form 10-K or Report).

Revenue Components

The following table shows the Company s revenue components for the fiscal year ended September 30, 2007:

Revenues	% of Total Net Revenues	% of Specialty Revenues
Company-operated retail	85%	
Specialty:		
Licensing:		
Retail stores	7%	47%
Grocery and warehouse club	3%	23%
Branded products	1%	3%

Total licensing	11%	73%
Foodservice and other:		
Foodservice	4%	26%
Other initiatives	<1%	1%
Total foodservice and other	4%	27%
Total specialty	15%	100%
Total net revenues	100%	

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Company-operated Retail Stores

The Company s retail goal is to become the leading retailer and brand of coffee in each of its target markets by selling the finest quality coffee and related products and by providing each customer a unique *Starbucks Experience*. The *Starbucks Experience*, or third place after home and work, is built upon superior customer service as well as clean and well-maintained Company-operated retail stores that reflect the personalities of the communities in which they operate, thereby building a high degree of customer loyalty. Starbucks strategy for expanding its retail business is to increase its market share primarily by opening additional stores in existing markets and opening stores in new markets where the opportunity exists to become the leading specialty coffee retailer. In support of this strategy, Starbucks opened 1,342 new Company-operated stores during the fiscal year ended September 30, 2007 (fiscal 2007). Starbucks Company-operated retail stores, including 11 Seattle s Best Coffee® stores and 4 Hear Music retail stores, accounted for 85% of total net revenues during fiscal 2007.

The following table summarizes total Company-operated retail store data for the periods indicated:

	Net Stores Opened During the Fiscal Year Ended(1)		Stores Open as of	
	Sept 30, 2007	**Oct 1, 2006**	**Sept 30, 2007**	**Oct 1, 2006**
United States	1,065	810	6,793	5,728
International:				
Canada	88	74	596	508
United Kingdom	66	47	580	514
China(2)	42	17	141	99
Germany	36	24	104	68
Thailand	18	22	103	85
Australia	4	25	87	83
Singapore	8	5	45	37
Other	15	19	56	41
Total International(2)	277	233	1,712	1,435
Total Company-operated	1,342	1,043	8,505	7,163

(1) Store openings are reported net of closures.

(2) Store data has been adjusted for the acquisition of the Beijing operations by reclassifying historical information from Licensed stores to Company-operated stores.

Starbucks retail stores are typically located in high-traffic, high-visibility locations. Because the Company can vary the size and format, its stores are located in or near a variety of settings, including downtown and suburban retail centers, office buildings and university campuses. While the Company selectively locates stores in shopping malls, it focuses on locations that provide convenient access for both pedestrians and drivers. With the flexibility in store size and format, the Company also locates retail stores in select rural and off-highway locations to serve a broader array of customers outside major metropolitan markets and further expand brand awareness. To provide a greater degree of access and convenience for nonpedestrian customers, the Company continues to expand development of Drive Thru retail stores. At the end of fiscal 2007, the Company operated approximately 2,300 Drive Thru locations, compared to approximately 1,600 at the end of fiscal 2006.

All Starbucks stores offer a choice of regular and decaffeinated coffee beverages, a broad selection of Italian-style espresso beverages, cold blended beverages, iced shaken refreshment beverages, a selection of teas and distinctively packaged roasted whole bean coffees. Starbucks stores also offer a selection of fresh pastries and other food items, sodas, juices, bottled water, coffee-making equipment and accessories, a selection of compact discs and seasonal novelty items. Each Starbucks store varies its product mix depending upon the size of the store and its location. Larger stores carry a broad selection of the Company s whole bean coffees in various sizes and types of packaging, as well as an assortment of coffee and espresso-making equipment and accessories such as coffee grinders, coffee filters, storage containers, travel tumblers and mugs. Smaller Starbucks stores and kiosks typically sell a full line of

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coffee beverages, a limited selection of whole bean coffees and a few accessories such as travel tumblers and logo mugs. A selection of prepared sandwiches and salads were carried in approximately 4,800 United States and 1,600 International stores, at the end of fiscal 2007. Starbucks continues to expand its food warming program in the United States, with over 3,000 stores as of September 30, 2007 providing warm food items, primarily breakfast sandwiches.

The Company s retail sales mix by product type was as follows for the periods indicated:

Fiscal Year Ended	Sept 30, 2007	Oct 1, 2006	Oct 2, 2005
Beverages	75%	77%	77%
Food	17%	15%	15%
Coffee-making equipment and other merchandise	5%	5%	4%
Whole bean coffees	3%	3%	4%
Total	100%	100%	100%

Specialty Operations

Specialty Operations strive to develop the Company s brands outside the Company-operated retail store environment through a number of channels. Starbucks strategy is to reach customers where they work, travel, shop and dine by establishing relationships with prominent third parties that share the Company s values and commitment to quality. These relationships take various forms, including licensing arrangements, foodservice accounts and other initiatives related to the Company s core businesses. In certain situations, Starbucks has an equity ownership interest in licensee operations. During fiscal 2007, specialty revenues (which include royalties and fees from licensees, as well as product sales derived from Specialty Operations) accounted for 15% of total net revenues.

Licensing Retail stores

In its licensed retail store operations, the Company leverages the expertise of its local partners and shares Starbucks operating and store development experience. Licensee partners provide improved and, at times, the only access to desirable retail space. Most licensees are prominent retailers with in-depth market knowledge and access. As part of these arrangements, Starbucks receives license fees and royalties and sells coffee, tea, compact discs and related products for resale in licensed locations. Employees working in licensed retail locations are required to follow Starbucks detailed store operating procedures and attend training classes similar to those given to employees in Company-operated stores.

During fiscal 2007, 723 Starbucks licensed retail stores were opened in the United States and, as of September 30, 2007, the Company s U.S. licensees operated 3,891 stores. During fiscal 2007, 506 International licensed stores were opened. At September 30, 2007, the Company s International operating segment had a total of 2,615 licensed retail stores. Product sales to and royalty and license fee revenues from U.S. and International licensed retail stores accounted for 47% of specialty revenues in fiscal 2007.

At fiscal year end 2007, Starbucks total licensed retail stores by region and specific location were as follows:

Asia Pacific	Europe/Middle East/Africa	Americas

Japan	722	Turkey	82	United States	3,891
South Korea	215	Spain	68	Canada	234
China	212	Greece	64	Mexico	159
Taiwan	209	Saudi Arabia	58	Other	26
Philippines	119	Kuwait	49		
Malaysia	92	United Arab Emirates	47		
Indonesia	58	France	37		
New Zealand	45	Switzerland	35		
		Other	84		
Total	1,672	Total	524	Total	4,310

Licensing Grocery and warehouse club

The Company, through a licensing relationship with Kraft Foods, Inc. (Kraft), sells a selection of Starbucks, Seattle s Best Coffee and Torrefazione Italia branded packaged coffees and Tazo® teas in grocery and warehouse club stores throughout the United States. Kraft manages all distribution, marketing, advertising and promotion of these products.

The Company sells packaged coffee and tea internationally both directly to warehouse club customers such as Costco and through an expanded licensing relationship with Kraft. In February 2007, the licensing relationship with Kraft was expanded globally and now also includes distribution of packaged coffee in Canada and the UK.

By the end of fiscal 2007, the Company s coffees and teas were available in approximately 34,000 grocery and warehouse club stores, with 30,000 in the United States and 4,000 in International markets. Revenues from this category comprised 23% of specialty revenues in fiscal 2007.

Licensing Branded products

The Company licenses the rights to produce and market Starbucks branded products through several partnerships both domestically and internationally. The North American Coffee Partnership, a joint venture with the Pepsi-Cola Company in which Starbucks is a 50% equity investor, manufactures and markets ready-to-drink beverages, including bottled Frappuccino® beverages and Starbucks DoubleShot® espresso drinks. Other partnerships produce and market branded products in these categories: superpremium ice cream (joint venture with Dreyer s Grand Ice Cream, Inc.), premium coffee liqueur (license agreement with Beam Global Spirits & Wine) and chocolate (license agreement with The Hershey Company). Internationally, the Company licenses Starbucks Discoveries®, a ready-to-drink chilled cup coffee beverage, in Japan, Taiwan and South Korea.

Collectively, the revenues from these branded products accounted for 3% of specialty revenues in fiscal 2007.

Foodservice

The Company sells whole bean and ground coffees, including the Starbucks, Seattle s Best Coffee and Torrefazione Italia brands, as well as a selection of premium Tazo® teas and other related products, to institutional foodservice companies that service business & industry, education, healthcare, office coffee distributors, hotels, restaurants, airlines and other retailers. The majority of the Company s direct distribution accounts are through national broadline distribution networks with SYSCO Corporation and U.S. Foodservice™. Starbucks foodservice sales, customer service and support resources are aligned with those of SYSCO Corporation and U.S. Foodservice. Starbucks and Seattle s Best Coffee are the only superpremium national-brand coffees actively promoted by SYSCO Corporation.

The Company s total foodservice operations had approximately 18,000 accounts, primarily in the U.S., at fiscal year end 2007, compared to approximately 16,200 accounts at fiscal year end 2006. Revenues from foodservice accounts comprised 26% of total specialty revenues in fiscal 2007.

Other Initiatives

Included in this category is the Company s entertainment business, which encompasses multiple music, book, film and technology based initiatives designed to appeal to new and existing Starbucks customers. Among these initiatives are strategic marketing and co-branding arrangements, such as the Starbucks XM Café Channel 45 available to all XM Satellite Radio subscribers and the availability of wireless broadband Internet service in United States and Canadian Company-operated retail stores. The entertainment business also includes the Hear Music label, an innovative record label and partnership between Starbucks Entertainment and Concord Music Group. In fiscal 2007, Starbucks and

Apple® announced an exclusive partnership that lets customers wirelessly browse, preview, buy and download music from the iTunes® Wi-Fi Music Store onto their wireless devices while at participating Starbucks locations.

The Company has a strategic agreement with Chase Bank USA, N.A. and Visa to issue the Starbucks Card Duetto™ Visa® (the Duetto Card) in the United States, and a similar arrangement with Royal Bank of Canada and Visa

Canada Association to issue the Duetto Card in Canada. The Duetto Card combines the functionality of a credit card with the convenience of a reloadable Starbucks Card. Through these arrangements, Starbucks primarily receives commissions for each activated customer account and payments based on credit card usage.

Collectively, the operations of these other initiatives accounted for 1% of specialty revenues in fiscal 2007.

Product Supply

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

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

The Company depends upon its relationships with coffee producers, outside trading companies and exporters for its supply of green coffee. Due to volatility in green coffee commodity prices, the Company has predominantly used fixed-price purchase commitments in order to secure an adequate supply of quality green coffee, bring greater certainty to its cost of sales in future periods, and promote sustainability by paying an equitable price to coffee producers. As of September 30, 2007, the Company had $324 million in fixed-price purchase commitments which, together with existing inventory, is expected to provide an adequate supply of green coffee through fiscal 2008. The Company believes, based on relationships established with its suppliers, the risk of non-delivery on such purchase commitments is remote. During fiscal 2007, C coffee commodity prices traded on the New York Board of Trade within a price range of $1.00 to $1.35 per pound and prices were, on average, approximately 10% higher than in fiscal 2006. In September 2007, prices moved sharply higher as poor weather led to decreased expectations for the next harvest in the world s largest *arabica* coffee producer, Brazil. Based on its market experience, the Company believes that fixed-price purchase commitments are less likely to be available on favorable terms when commodity prices are high. If prices were to continue to move higher during fiscal 2008, Starbucks likely would increase the use of price-to-be-fixed purchase contracts to meet its demand for coffee. These types of contracts state the quality, quantity and delivery periods but allow the price of green coffee over a market index to be established after contract signing. The Company believes that, through a combination of fixed-price and price-to-be-fixed contracts it will be able to secure an adequate supply of quality green coffee. However, an increased use of price-to-be-fixed contracts instead of fixed-price contracts would decrease the predictability of coffee costs in future periods. By volume, approximately 20% of the Company s coffee purchase agreements entered during fiscal 2007 were price-to-be-fixed contracts.

During fiscal 2004, Starbucks established the Starbucks Coffee Agronomy Company S.R.L., a wholly owned subsidiary located in Costa Rica, to reinforce the Company s leadership role in the coffee industry and to help ensure sustainability and future supply of high-quality green coffees from Central America. Staffed with agronomists and sustainability experts, this first-of-its-kind Farmer Support Center is designed to proactively respond to changes in coffee producing countries that impact farmers and the supply of green coffee. During fiscal 2007, the Company announced plans to conduct similar activities in East Africa.

In addition to coffee, the Company also purchases significant amounts of dairy products, particularly fluid milk, to support the needs of its Company-operated retail stores. Dairy expense for the U.S. segment represents approximately 75% of the Company s total dairy expense; therefore significant changes in U.S. dairy prices can have a material impact on total dairy expense. The U.S. segment s dairy costs, which closely follow the monthly Class I fluid milk base price as calculated by the U.S. Department of Agriculture, can change significantly in the short term. The Company s U.S. dairy costs rose materially in fiscal 2007 compared to fiscal 2006 and costs accelerated in the

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fourth quarter of fiscal 2007 and have remained high, adversely affecting the U.S. segment s and the Company s profitability. In the United States, the Company purchases substantially all of its fluid milk requirements from two dairy suppliers. The Company believes, based on relationships established with these suppliers, that the risk of non-delivery of enough fluid milk to support its U.S. retail business is remote.

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

Products other than whole bean coffees and coffee beverages sold in Starbucks retail stores are obtained through a number of different channels. Beverage ingredients, other than coffee and milk, including leaf teas and the Company s selection of ready-to-drink beverages, are purchased from several specialty manufacturers, usually under long-term supply contracts. Food products, such as fresh pastries, breakfast sandwiches and lunch items, are generally purchased from both regional and local sources. Coffee-making equipment, such as drip and coffee press coffeemakers, espresso machines and coffee grinders, are generally purchased directly from their manufacturers. Coffee-related accessories, including items bearing the Company s logos and trademarks, are produced and distributed through contracts with a number of different suppliers.

Competition

The Company s primary competitors for coffee beverage sales are quick-service restaurants and specialty coffee shops. In almost all markets in which the Company does business, there are numerous competitors in the specialty coffee beverage business, and management expects this situation to continue. The Company believes that its customers choose among retailers primarily on the basis of product quality, service and convenience, and, to a lesser extent, on price. Starbucks has recently experienced significantly greater direct competition from large competitors in the United States quick-service restaurant sector, some of whom have substantially greater financial, marketing and operating resources than the Company. Starbucks also faces well-established competitors in many International markets and increased competition in the U.S. ready-to-drink coffee beverage market.

The Company s whole bean coffees compete directly against specialty coffees sold through supermarkets, specialty retailers and a growing number of specialty coffee stores. Both the Company s whole bean coffees and its coffee beverages compete indirectly against all other coffees on the market. Starbucks Specialty Operations face significant competition from established wholesale and mail order suppliers, some of whom have greater financial and marketing resources than the Company.

Starbucks faces intense competition from both restaurants and other specialty retailers for prime retail locations and qualified personnel to operate both new and existing stores.

Patents, Trademarks, Copyrights and Domain Names

The Company owns and/or has applied to register numerous trademarks and service marks in the United States and in many additional countries throughout the world. Rights to the trademarks and service marks in the United States are generally held by a wholly owned affiliate of the Company and are used by the Company under license. Some of the Company s trademarks, including Starbucks, the Starbucks logo, Frappuccino, Seattle s Best Coffee and Tazo are of material importance to the Company. The duration of trademark registrations varies from country to country. However, trademarks are generally valid and may be renewed indefinitely as long as they are in use and/or their registrations are properly maintained.

The Company owns numerous copyrights for items such as product packaging, promotional materials, in-store graphics and training materials. The Company also holds patents on certain products, systems and designs. In addition, the Company has registered and maintains numerous Internet domain names, including Starbucks.com and Starbucks.net.

Research and Development

Starbucks research and development efforts are led by food scientists, engineers, chemists and culinarians in the Research and Development department. This team is responsible for the technical development of food and beverage products and new equipment. The Company spent approximately $7.0 million, $6.5 million and $6.2 million during fiscal 2007, 2006 and 2005, respectively, on technical research and development activities, in addition to customary product testing and product and process improvements in all areas of its business.

Seasonality and Quarterly Results

Starbucks business is subject to seasonal fluctuations, including fluctuations resulting from the holiday season. The Company s cash flows from operations are considerably higher in the fiscal first quarter than the remainder of the year. This is largely driven by cash received as Starbucks Cards are purchased and loaded during the holiday season. Since revenues from the Starbucks Card are recognized upon redemption and not when purchased, seasonal fluctuations on the consolidated statements of earnings are much less pronounced. Quarterly results are affected by the timing of the opening of new stores, and the Company s growth may conceal the impact of other seasonal influences. For these reasons, results for any quarter are not necessarily indicative of the results that may be achieved for the full fiscal year.

Employees

The Company employed approximately 172,000 people worldwide as of September 30, 2007. In the United States, Starbucks employed approximately 144,000 people, with 136,000 in Company-operated retail stores and the remainder in the Company s administrative and regional offices, and store development, roasting and warehousing operations. Approximately 28,000 employees were employed outside of the United States, with 27,000 in Company-operated retail stores and the remainder in the Company s regional support facilities and roasting and warehousing operations. The number of the Company s employees represented by unions is immaterial. Starbucks believes its current relations with its employees are good.

Available Information

Starbucks Form 10-K reports, along with all other reports and amendments filed with or furnished to the Securities and Exchange Commission (SEC), are publicly available free of charge on the Investor Relations section of Starbucks website at http://investor.starbucks.com or at www.sec.gov as soon as reasonably practicable after these materials are filed with or furnished to the SEC. The Company s corporate governance policies, ethics code and Board of Directors committee charters are also posted within this section of the website. The information on the Company s website is not part of this or any other report Starbucks files with, or furnishes to, the SEC.

Starbucks demonstrates its commitment to corporate social responsibility (CSR) by conducting its business in ways that produce social, environmental and economic benefits to the communities in which Starbucks operates. The Company aligns its principles for social responsibility with its overall strategy and business operations. As a result, Starbucks believes it delivers benefits to the Company and its stakeholders employees, business partners, customers, suppliers, shareholders, community members and others while distinguishing Starbucks as a leader within the coffee industry. Providing open communication and transparency helps the Company be accountable to its stakeholders. To support this goal, Starbucks publishes a CSR Annual Report. Starbucks fiscal 2007 CSR Annual Report will be available online at www.starbucks.com/csr beginning in May 2008.

Item 1A. ***Risk Factors***

This Annual Report on Form 10-K includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. They often include words such as believes, expects, anticipates, estimates, intends, seeks or words of similar meaning, or future or conditional verbs, such as will, should, could or may. A forward-looking statement is neither a prediction nor a guarantee of future events or circumstances, and those future events or circumstances may not occur. Investors should not place undue reliance on the forward-looking statements, which speak only as of the date of this Report. Starbucks is under no obligation

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to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise. These forward-looking statements are all based on currently available operating, financial and competitive information and are subject to various risks and uncertainties. The Company s actual future results and trends may differ materially depending on a variety of factors, including, but not limited to, the risks and uncertainties discussed below. The risks below are not the only ones the Company faces. Additional risks and risks that management currently considers immaterial may also have an adverse effect on the Company.

Failing to meet market expectations for Starbucks financial performance could cause the market price of Starbucks stock to drop rapidly and sharply.

Management believes the price of Starbucks stock reflects high market expectations for the Company s future operating results. Any failure to meet those expectations, particularly for the growth rates for (i) comparable store sales attributable to number of transactions, average value per transaction, or both, (ii) net revenues, (iii) earnings per share or (iv) net new store openings could cause the market price of Starbucks stock to drop rapidly and sharply.

Starbucks is subject to a number of significant risks that might cause the Company s actual results to vary materially from its forecasts, targets, or projections, including:

- lower customer traffic or average value per transaction, which negatively impacts comparable store sales, net revenues, operating income and earnings per share, due to:
  - the impact of initiatives by competitors and increased competition generally;
  - lack of customer acceptance of price increases necessary to cover costs or new products;
  - unfavorable general economic conditions in the markets in which Starbucks operates, including, but not limited to, downturns in the housing market, higher interest rates, higher unemployment rates, lower disposable income due to higher energy or other consumer costs, lower consumer confidence, and other events or factors that adversely affect consumer spending;
  - declines in general consumer demand for specialty coffee products; or
  - adverse impacts due to negative publicity regarding the Company s business practices or the health effects of consuming its products;
- cost increases that are either wholly or partially beyond the Company s control, such as:
  - commodity costs for commodities that cannot be effectively hedged, such as fluid milk, and to a lesser extent, high quality *arabica* coffee;
  - labor costs such as increased health care costs, general market wage levels and worker s compensation insurance costs;
  - construction costs associated with new store openings;
  - information technology costs and other logistical resources necessary to maintain and support the global growth of the Company s business; and
  - litigation against Starbucks, particularly class action litigation;

delays in store openings for reasons beyond the Company s control, or a lack of desirable real estate locations available for lease at reasonable rates, either of which could keep the Company from meeting annual store opening targets and, in turn, negatively impact net revenues, operating income and earnings per share;

any material interruption in the Company s supply chain beyond its control, such as (i) material interruption of roasted coffee supply due to the casualty loss of any of the Company s roasting plants or the failures of third-party suppliers, or (ii) interruptions in service by common carriers that ship goods within the Company s distribution channels; and

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the impact on Starbucks business of factors such as labor discord, war, terrorism (including incidents targeting Starbucks), political instability in certain markets and natural disasters.

Starbucks is highly dependent on the financial performance of its United States operating segment.

The Company s financial performance is highly dependent on its United States operating segment, which comprised 78% of consolidated total net revenues in fiscal 2007. Any substantial or sustained decline in these operations, if not offset by increased financial performance elsewhere, could materially adversely affect the Company s business and financial results.

Starbucks faces intense competition in the specialty coffee market.

A description of the general competitive conditions in which Starbucks operates appears on page 6 under Competition. In the United States, the continued focus by one or more large competitors in the quick-service restaurant sector on selling high-quality specialty coffee beverages at a low cost could attract Starbucks customers and adversely affect the Company s sales and results of operations. Similarly, continued competition from well-established competitors in international markets could hinder growth and adversely affect the Company s sales and results of operations in those markets. Increased competition from large competitors with significant resources in the United States ready-to-drink coffee beverage market could adversely affect the profitability of the CPG segment and the Company s results of operations.

The Company s success depends substantially on the value of the Starbucks brand.

Starbucks believes it has built an excellent reputation globally for the quality of its products, for delivery of a consistently positive consumer experience and for its corporate social responsibility programs. The Starbucks brand has been highly rated in several global brand value studies. Management believes it must preserve and grow the value of the Starbucks brand to be successful in the future, particularly outside of North America, where the Starbucks brand is less well-known. Brand value is based in part on consumer perceptions as to a variety of subjective qualities. Even isolated business incidents that erode consumer trust, particularly if the incidents receive considerable publicity or result in litigation, can significantly reduce brand value. Consumer demand for the Company s products and its brand equity could diminish significantly if Starbucks fails to preserve the quality of its products, is perceived to act in an unethical or socially irresponsible manner or fails to deliver a consistently positive consumer experience in each of its markets.

Starbucks is increasingly dependent on the success of its International operating segment in order to achieve its growth targets.

The Company s future growth will increasingly depend on the growth and sustained profitability of its International operating segment. Some or all of the Company s International market business units (MBUs), which Starbucks generally defines by the countries or regions in which they operate, may not be successful in their operations or in achieving expected growth, which ultimately requires achieving consistent, stable net revenues and earnings. Some factors that will be critical to the success of International MBUs are different than those affecting the Company s U.S. stores and licensees. Tastes naturally vary by region, and consumers in new international markets into which Starbucks and its licensees expand may not embrace Starbucks products to the same extent as consumers in the Company s existing markets. Occupancy costs and store operating expenses are also sometimes higher internationally than in the United States due to higher rents for prime store locations or costs of compliance with country-specific regulatory requirements. Because many of the Company s International operations are in an early phase of development, operating expenses as a percentage of related revenues are often higher compared to U.S. operations.

The Company s International operations are also subject to additional inherent risks of conducting business abroad, such as:

foreign currency exchange rate fluctuations;

changes or uncertainties in economic, social and political conditions in the Company s markets;

interpretation and application of laws and regulations;

restrictive actions of foreign or United States governmental authorities affecting trade and foreign investment, including protective measures such as export and customs duties and tariffs and restrictions on the level of foreign ownership;

import or other business licensing requirements;

the enforceability of intellectual property and contract rights;

limitations on the repatriation of funds and foreign currency exchange restrictions;

lower levels of consumer spending on a *per capita* basis than in the United States;

difficulty in staffing, developing and managing foreign operations, including ensuring the consistency of product quality and service, due to distance, language and cultural differences; and

local laws that make it more expensive and complex to negotiate with, retain or terminate employees.

The China market is important to the Company s long-term growth prospects - doing business there and in other developing countries can be challenging.

Starbucks expects the People s Republic of China to be its largest market outside of the United States. The Company s growing investments in its China operations will increase the Company s exposure in this market. Any significant or prolonged deterioration in U.S.-China relations might adversely affect the Company s China business.

Many of the risks and uncertainties of doing business in China are solely within the control of the Chinese government. China s government regulates the business conducted by Starbucks by restricting the scope of the Company s foreign investments within China and the food and beverage, retail, wholesale and distribution business conducted within China. Although management believes it has structured the Company s China operations to comply with local laws, there are substantial uncertainties regarding the interpretation and application of laws and regulations and the enforceability of intellectual property and contract rights in China. If China s governmental authorities were ultimately to conclude that Starbucks has not complied with one or more existing or future laws or regulations, or if their interpretations of those laws or regulations were to change over time, the Company s affiliates could be subject to fines and other financial penalties, prohibited from opening new stores or forced to cease operations entirely. Moreover, any inability of the Company to enforce its intellectual property and contract rights in China s courts could adversely affect the Company s business.

Additionally, Starbucks plans to continue entering selected markets in other developing countries, and has recently entered Russia as an important part of the projected growth of the International operating segment. Some of those markets pose legal and business challenges similar to the China market, such as substantial uncertainty regarding the interpretation and application of laws and regulations and the enforceability of intellectual property and contract rights.

The Company s earnings and business growth strategy depends in large part on the success of its business partners and suppliers, and the Company s reputation may be harmed by actions taken by third parties that are outside of the Company s control.

The Company s growth strategy, including its plans for new stores, foodservice, branded products and other initiatives, relies significantly on a variety of licensee and partnership relationships, particularly in its International markets.

Licensees are often authorized to use the Starbucks logo and provide Starbucks-branded beverages, food and other products directly to customers. The Company provides training and support to, and monitors the operations of, these business partners, but the product quality and service they deliver to Starbucks customers may be diminished by any number of factors beyond the Company s control. Management believes customers expect the same quality of products and service from the Company s licensees as they do from Starbucks and the Company strives to ensure customers have the same experience whether they visit a Company-operated or licensed store. Any shortcoming of a Starbucks business partner, particularly an issue affecting the quality of the service experience or the safety of beverages or food, may be attributed by customers to Starbucks, thus damaging the Company s reputation and brand value and potentially affecting the results of operations.

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Effectively managing the Company s rapid growth is challenging.

The Company s long-term goal is to open approximately 20,000 Starbucks stores in the United States and at least 20,000 stores in International markets. Starbucks expects to double the size of its business over the next four to five years and achieve higher annual growth in net earnings than revenue. Effectively managing growth on this scale is challenging, particularly as Starbucks expands into new markets internationally, where it must balance the need for flexibility and a degree of autonomy for local management with consistency with the Company s goals, philosophy and standards. Growth on this scale makes it increasingly difficult to ensure a consistent supply of high quality raw materials, to locate and hire sufficient numbers of key employees to meet the Company s growth targets, to maintain an effective system of internal controls for a globally dispersed enterprise and to train employees worldwide to deliver a consistently high quality product and customer experience.

The loss of key personnel or difficulties recruiting and retaining qualified personnel could jeopardize the Company s ability to meet its growth targets.

The Company s future growth depends substantially on the contributions and abilities of key executives and other employees. Starbucks future growth also depends substantially on its ability to recruit and retain high quality employees to work in and manage Starbucks stores. Starbucks must continue to recruit, retain and motivate management and other employees sufficient to maintain its current business and support its projected growth. A loss of key employees or a significant shortage of high quality store employees could jeopardize the Company s ability to meet its growth targets.

Adverse public or medical opinions about the health effects of consuming the Company s products, as well as reports of incidents involving food-borne illnesses or food tampering, whether or not accurate, could harm its business.

Some Starbucks products contain caffeine, dairy products, sugar and other active compounds, the health effects of which are the subject of increasing public scrutiny, including the suggestion that excessive consumption of caffeine, dairy products, sugar and other active compounds can lead to a variety of adverse health effects. There has also been greater public awareness that sedentary lifestyles, combined with excessive consumption of high-calorie foods, have led to a rapidly rising rate of obesity. Particularly in the United States, there is increasing consumer awareness of health risks, including obesity, due in part to increasing publicity and attention from health organizations, as well as increased consumer litigation based on alleged adverse health impacts of consumption of various food products. While Starbucks has a variety of beverage and food items that are low in caffeine and calories, an unfavorable report on the health effects of caffeine or other compounds present in the Company s products, or negative publicity or litigation arising from other health risks such as obesity, could significantly reduce the demand for the Company s beverages and food products.

Similarly, reports, whether true or not, of unclean water supply, food-borne illnesses and food tampering have in the past severely injured the reputations of companies in the food processing, grocery and quick-service restaurant sectors and could in the future affect the Company as well. Any report linking Starbucks to the use of unclean water, food-borne illnesses or food tampering could damage its brand value, immediately and severely hurt sales of its beverages and food products, and possibly lead to product liability claims. Clean water is critical to the preparation of specialty coffee beverages. The Company s ability to ensure a clean water supply to its stores is limited, particularly in some International locations. If customers become ill from food-borne illnesses, the Company could also be forced to temporarily close some stores. In addition, instances of food-borne illnesses or food tampering, even those occurring solely at the restaurants or stores of competitors, could, by resulting in negative publicity about the foodservice industry, adversely affect Starbucks sales on a regional or global basis. A decrease in customer traffic as a result of these health concerns or negative publicity, or as a result of a temporary closure of any of the Company s stores, could materially harm the Company s business and results of operations.

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Significant increases in the market price or decreases in availability of high quality arabica coffee or fluid milk could harm the Company s business and financial results.

A discussion of the sources and availability of coffee of the quality sought by Starbucks and fluid milk appears on page 5 under Product Supply. Any significant increase in the market price or any significant decrease in the availability of high-quality *arabica* coffee or fluid milk could adversely affect the Company s business and financial results.

A regional or global health pandemic could severely affect Starbucks business.

A health pandemic is a disease that spreads rapidly and widely by infection and affects many individuals in an area or population at the same time. If a regional or global health pandemic were to occur, depending upon its duration and severity, the Company s business could be severely affected. Starbucks has positioned itself as a third place between home and work where people can gather together for human connection. Customers might avoid public gathering places in the event of a health pandemic, and local, regional or national governments might limit or ban public gatherings to halt or delay the spread of disease. A regional or global health pandemic might also adversely impact the Company s business by disrupting or delaying production and delivery of materials and products in its supply chain and by causing staffing shortages in its stores. The impact of a health pandemic on Starbucks might be disproportionately greater than on other companies that depend less on the gathering of people together for the sale, use or license of their products and services.

Starbucks relies heavily on information technology in its operations, and any material failure, inadequacy, interruption or security failure of that technology could harm the Company s ability to effectively operate its business.

Starbucks relies heavily on information technology systems across its operations, including for management of its supply chain, point-of-sale processing in its stores, and various other processes and transactions. The Company s ability to effectively manage its business and coordinate the production, distribution and sale of its products depends significantly on the reliability and capacity of these systems. The failure of these systems to operate effectively, problems with transitioning to upgraded or replacement systems, or a breach in security of these systems could cause delays in product sales and reduced efficiency of the Company s operations, and significant capital investments could be required to remediate the problem.

Failure of the Company s internal control over financial reporting could harm its business and financial results.

Starbucks management is responsible for establishing and maintaining effective internal control over financial reporting. Internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of financial reporting for external purposes in accordance with accounting principles generally accepted in the United States of America. Internal control over financial reporting includes: (i) maintaining reasonably detailed records that accurately and fairly reflect the Company s transactions; and (ii) providing reasonable assurance that the Company (a) records transactions as necessary to prepare the financial statements, (b) makes receipts and expenditures in accordance with management authorizations, and (c) would timely prevent or detect any unauthorized acquisition, use or disposition of Company assets that could have a material effect on the financial statements. Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that the Company would prevent or detect a misstatement of the Company s financial statements or fraud. The Company s rapid growth and entry into new, globally dispersed markets will place significant additional pressure on the Company s system of internal control over financial reporting. Any failure to maintain an effective system of internal control over financial reporting could limit the Company s ability to report its financial results accurately and timely or to detect and prevent fraud. A significant financial reporting failure could cause an immediate loss of investor confidence in

Starbucks and a sharp decline in the market price of its common stock.

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Increased leverage may harm the Company s financial condition and results of operations.

As of September 30, 2007, Starbucks had approximately $5.0 billion in minimum future rental payments under non-cancelable operating leases and $3.1 billion of total liabilities on a consolidated basis. Included in total liabilities are aggregate principal indebtedness of $710 million under outstanding commercial paper and $550 million under ten-year notes issued in an August 2007 underwritten registered public offering. The Company will incur additional operating lease obligations, largely driven by new store openings, and may incur additional indebtedness, subject to the limitations contained in its financing agreements. The recent increase in the Company s level of financial obligations has had, and any future increase (which may or may not occur) will have, several important effects on the Company s future operations, such as:

- additional cash requirements to support the payment of rents and interest on outstanding indebtedness;
- possible increased vulnerability to adverse changes in general economic and industry conditions, as well as to competitive pressure;
- possible limitations on the Company s ability to obtain additional financing for working capital, capital expenditures, general corporate and other purposes; and
- possible limitations on the Company s flexibility in planning for, or reacting to, changes in its business and its industry.

The Company s ability to satisfy its lease obligations and make payments of principal and interest on its indebtedness depends on its future performance, which will be subject to general economic conditions, industry cycles and financial, business and other factors affecting its consolidated operations, many of which are beyond the Company s control. If Starbucks is unable to generate sufficient cash flow from operations in the future to satisfy its financial obligations, it may be required, among other things:

- to seek additional financing in the debt or equity markets;
- to refinance or restructure all or a portion of its indebtedness;
- to sell selected assets; or
- to reduce or delay planned capital or operating expenditures.

Such measures might not be sufficient to enable Starbucks to satisfy its financial obligations. In addition, any such financing, refinancing or sale of assets might not be available on economically favorable terms.

The Company s existing strong cash flow and capital structure mitigate the current risk associated with leverage. Management expects future cash flows to be sufficient to meet operating expenses, debt service costs, and capital expenditures required to support projected new store openings and investments in existing and new markets. In addition, management does not expect to increase leverage to levels that would inhibit the Company s access to capital markets in the event of short-falls in anticipated operating cash flow.

Item 1B. *Unresolved Staff Comments*

Not applicable.

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Item 2. *Properties*

The following table shows properties used by Starbucks in connection with its roasting and distribution operations:

Location	Approximate Size in Square Feet	Owned or Leased	Purpose
Kent, WA	332,000	Owned	Roasting and distribution
Kent, WA	403,000	Leased	Warehouse
Renton, WA	125,000	Leased	Warehouse
York County, PA	450,000	Owned	Roasting and distribution
York County, PA	298,000	Owned	Warehouse
York County, PA	231,000	Leased	Warehouse
Carson Valley, NV	360,000	Owned	Roasting and distribution
Portland, OR	86,000	Leased	Warehouse
Basildon, United Kingdom	142,000	Leased	Warehouse and distribution
Amsterdam, Netherlands	97,000	Leased	Roasting and distribution

The Company leases approximately 1.1 million square feet of office space and owns a 204,000 square foot office building in Seattle, Washington for corporate administrative purposes.

As of September 30, 2007, Starbucks had more than 8,500 Company-operated retail stores. The Company also leases space in approximately 160 additional locations for regional, district and other administrative offices, training facilities and storage, not including certain seasonal retail storage locations. The Company is constructing a new, owned, 150,000 square foot roasting and distribution plant in St. Matthews, South Carolina. Operations are planned to begin in early 2009.

Item 3. *Legal Proceedings*

See discussion of Legal Proceedings in Note 17 to the consolidated financial statements included in Item 8 of this Report.

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

No matters were submitted to a vote of security holders during the fiscal fourth quarter of 2007.

Executive Officers of the Registrant

The executive officers of the Company are as follows:

Name	Age	Position
Howard Schultz	54	chairman of the Board of Directors
James L. Donald	53	president, chief executive officer and director
Martin Coles	52	chief operating officer

Launi Skinner	43	president, Starbucks Coffee U.S.
James C. Alling	46	president, Starbucks Coffee International
Gerardo I. Lopez	48	senior vice president; president, Global Consumer Products and Seattle s Best Coffee
Peter J. Bocian	53	executive vice president, chief financial officer and chief administrative officer
Paula E. Boggs	48	executive vice president, general counsel and secretary
Dorothy J. Kim	45	executive vice president, Supply Chain Operations
David A. Pace	48	executive vice president, Partner Resources

Howard Schultz is the founder of the Company and the chairman of the board. From the Company s inception in 1985 to June 2000, he served as chairman of the board and chief executive officer. From June 2000 to February 2005, Mr. Schultz held the title of chief global strategist. Mr. Schultz also serves on the board of directors of DreamWorks Animation SKG, Inc.

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James L. Donald joined Starbucks in October 2002 and has been president and chief executive officer and a director of the Company since April 2005. From October 2004 to April 2005, Mr. Donald served as ceo designate. Prior to that, Mr. Donald served as president, North America from the time he joined the Company in October 2002. From October 1996 to October 2002, Mr. Donald served as chairman, president and ceo of Pathmark Stores, Inc. and prior to that time he held a variety of senior management positions with Albertson s, Inc., Safeway, Inc. and Wal-Mart Stores, Inc.

Martin Coles joined Starbucks in April 2004 as president, Starbucks Coffee International and was promoted to chief operating officer in September 2007. Prior to joining Starbucks, Mr. Coles served as an executive vice president of Reebok International, Ltd. from December 2001 to February 2004. Prior to joining Reebok International, Mr. Coles held several executive level management sales and operations positions with NIKE Inc., Letsbuyit.com and Gateway, Inc.

Launi Skinner joined Starbucks in August 1993 and was promoted to president, Starbucks Coffee U.S. in September 2007. Ms. Skinner previously served as the Company s senior vice president, Store Development since October 2004. From January 1999 to September 2004, she served as regional vice president for retail operations in several different zones in the western U.S. and Canada. Prior to becoming a regional vice president, she served as a market director.

James C. Alling joined Starbucks in September 1997 as senior vice president, Grocery and became president, Starbucks Coffee International in September 2007. Mr. Alling served as president, Starbucks Coffee U.S. from October 2004 to September 2007, executive vice president, Business and Operations United States from November 2003 to October 2004 and held a number of positions as senior vice president from September 1997 until November 2003.

Gerardo I. Lopez joined Starbucks in October 2004 as senior vice president; president, Global Consumer Products and became senior vice president; president, Global Consumer Products and Seattle s Best Coffee in November 2007. Prior to joining Starbucks, Mr. Lopez was president of the Handleman Entertainment Resources division of Handleman Company, from November 2001 to September 2004 and as senior vice president and general manager from May 2000 to November 2001. Prior to that, Mr. Lopez held a variety of executive management positions with Frito-Lay, Inc., Pepsi-Cola Company and The Procter & Gamble Company.

Peter J. Bocian joined Starbucks as executive vice president and chief financial officer designate in May 2007 and became executive vice president, chief financial officer and chief administrative officer in October 2007. Prior to joining Starbucks, Mr. Bocian worked at NCR Corporation since 1983, most recently as senior vice president and chief financial officer since 2004. From 2003 to 2004, he served as NCR s vice president, finance and interim chief financial officer. From 2002 to 2003, Mr. Bocian was the chief financial officer of NCR s Retail and Financial Group, covering four business units and from 1999 to 2002, he served as the chief financial officer of NCR s Retail Solutions Division.

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

Dorothy J. Kim joined Starbucks in November 1995 and was promoted to executive vice president, Supply Chain Operations in December 2004. From April 2003 to December 2004, Ms. Kim was senior vice president, Global Logistics, Planning and Procurement. From April 2002 to April 2003, Ms. Kim was vice president, Supply Chain and Coffee Operations, Logistics, and from October 2000 to April 2002, Ms. Kim was vice president, Supply Chain and

Coffee Operations, Finance and Systems. Prior to becoming a vice president, Ms. Kim held several positions in retail planning and operations.

David A. Pace joined Starbucks in July 2002 as executive vice president of Partner Resources. Mr. Pace has notified the Company that he intends to resign for personal reasons effective December 31, 2007. From 2000 to 2002, Mr. Pace was the president of i2 Technologies. From 1999 to 2000, Mr. Pace served as the chief human resources officer for HomeGrocer.com. From 1995 to 1999, he served as senior vice president of human resources for Tricon Restaurants International (now YUM! Brands, Inc.).

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

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PART II

Item 5. ***Market for the Registrant s Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities***

SHAREHOLDER INFORMATION

Market Information and Dividend Policy

The Company s common stock is traded on the NASDAQ Global Select Market (NASDAQ), under the symbol SBUX. The following table shows the quarterly high and low closing sale prices per share of the Company s common stock as reported by NASDAQ for each quarter during the last two fiscal years:

	High	Low
September 30, 2007:		
Fourth Quarter	$ 28.29	$ 25.87
Third Quarter	31.84	25.54
Second Quarter	36.29	29.32
First Quarter	39.43	33.62
October 1, 2006:		
Fourth Quarter	$ 38.02	$ 29.55
Third Quarter	39.63	34.93
Second Quarter	37.63	30.24
First Quarter	31.96	24.91

As of November 16, 2007, the Company had approximately 18,500 shareholders of record. Starbucks has never paid any dividends on its common stock. The Company presently intends to retain earnings for use in its business and to repurchase shares of common stock and, therefore, does not anticipate paying a cash dividend in the near future.

The following table provides information regarding repurchases by the Company of its common stock during the 13-week period ended September 30, 2007:

ISSUER PURCHASES OF EQUITY SECURITIES

Period(1)	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(2)	Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs(2)

July 2, 2007 July 29, 2007		$		26,138,212
July 30, 2007 August 26, 2007	8,304,303	27.12	8,304,303	17,833,909
August 27, 2007 September 30, 2007	4,315,202	27.02	4,315,202	13,518,707
Total	12,619,505	27.09	12,619,505	

(1) Monthly information is presented by reference to the Company s fiscal months during the fourth quarter of fiscal 2007.

(2) The Company s share repurchase program is conducted under authorizations made from time to time by the Company s Board of Directors. The shares reported in the table are covered by a Board authorization to repurchase 25 million shares of common stock publicly announced on August 2, 2006, and a Board authorization to repurchase 25 million shares of common stock publicly announced on May 3, 2007. Neither of these authorizations has an expiration date.

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Performance Comparison Graph

The following graph depicts the Company s total return to shareholders from September 29, 2002 through September 30, 2007, relative to the performance of the Standard & Poor s 500 Index, the NASDAQ Composite Index, and the Standard & Poor s 500 Consumer Discretionary Sector, a peer group that includes Starbucks. All indices shown in the graph have been reset to a base of 100 as of September 29, 2002, and assume an investment of $100 on that date and the reinvestment of dividends paid since that date. Starbucks has never paid a dividend on its common stock. The stock price performance shown in the graph is not necessarily indicative of future price performance.

	9/29/02	9/28/03	10/3/04	10/2/05	10/1/06	9/30/07
Starbucks Corporation	$ 100.00	$ 140.81	$ 224.86	$ 238.57	$ 324.29	$ 249.52
S&P 500	$ 100.00	$ 124.40	$ 141.65	$ 159.01	$ 176.17	$ 205.13
NASDAQ Composite	$ 100.00	$ 150.59	$ 162.89	$ 185.48	$ 196.37	$ 236.60
S&P Consumer Discretionary	$ 100.00	$ 122.65	$ 140.01	$ 147.07	$ 160.09	$ 170.23

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Item 6. *Selected Financial Data*

In millions, except earnings per share and store operating data

The following selected financial data are derived from the consolidated financial statements of the Company. The data below should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations, Risk Factors, and the Company s consolidated financial statements and notes. In particular, see Note 1 to the consolidated financial statements included in Item 8 of this Report for a description of accounting changes that materially affect the comparability of the data presented below.

As of and for the Fiscal Year Ended(1)	Sept 30, 2007 (52 Wks)	Oct 1, 2006 (52 Wks)	Oct 2, 2005 (52 Wks)	Oct 3, 2004 (53 Wks)	Sept 28, 2003 (52 Wks)
RESULTS OF OPERATIONS					
Net revenues:					
Company-operated retail	$ 7,998	$ 6,583	$ 5,392	$ 4,457	$ 3,450
Specialty:					
Licensing	1,026	861	673	566	410
Foodservice and other	387	343	304	271	216
Total specialty	1,413	1,204	977	837	626
Total net revenues	$ 9,411	$ 7,787	$ 6,369	$ 5,294	$ 4,076
Operating income	1,054	894	781	606	421
Earnings before cumulative effect of change in accounting principle	673	581	494	389	265
Cumulative effect of accounting change for FIN 47, net of taxes		17			
Net earnings	$ 673	$ 564	$ 494	$ 389	$ 265
Earnings per common share before cumulative effect of change in accounting principle diluted	$ 0.87	$ 0.73	$ 0.61	$ 0.47	$ 0.33
Cumulative effect of accounting change for FIN 47, net of taxes per common share		0.02			
Net earnings per common share diluted	$ 0.87	$ 0.71	$ 0.61	$ 0.47	$ 0.33
Cash dividends per share					
BALANCE SHEET					
Working capital (deficit)(2)	$ (459)	$ (406)	$ (18)	$ 605	$ 336
Total assets	5,344	4,429	3,514	3,386	2,776
Short-term borrowings(3)	710	700	277		
Long-term debt (including current portion)(4)	551	3	4	4	5
Shareholders equity	$ 2,284	$ 2,229	$ 2,090	$ 2,470	$ 2,069
STORE INFORMATION					
Percentage change in comparable store sales(5)					
United States	4%	7%	9%	11%	9%

International	7%	8%	6%	6%	7%
Consolidated	5%	7%	8%	10%	8%
Stores opened during the year:(6)					
United States					
Company operated stores	1,065	810	580	521	514
Licensed stores	723	733	596	417	315
International					
Company operated stores	277	233	171	158	136
Licensed stores	506	423	325	248	236
Total	2,571	2,199	1,672	1,344	1,201

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As of and for the Fiscal Year Ended(1)	Sept 30, 2007 (52 Wks)	Oct 1, 2006 (52 Wks)	Oct 2, 2005 (52 Wks)	Oct 3, 2004 (53 Wks)	Sept 28, 2003 (52 Wks)
Stores open at year end:					
United States					
Company-operated stores	6,793	5,728	4,918	4,338	3,817
Licensed stores	3,891	3,168	2,435	1,839	1,422
International(7)					
Company-operated stores	1,712	1,435	1,202	1,031	873
Licensed stores	2,615	2,109	1,686	1,361	1,113
Total	15,011	12,440	10,241	8,569	7,225

(1) The Company s fiscal year ends on the Sunday closest to September 30.

(2) Working capital deficits were primarily due to increased current liabilities from short term borrowings as of September 30, 2007 and October 1, 2006. See (3) below.

(3) Commercial paper totaling $710 million was outstanding as of September 30, 2007. Short term borrowings of $700 million under the five-year revolving credit facility were outstanding as of October 1, 2006.

(4) In August 2007, the Company issued $550 million of 10-year notes with a stated interest rate of 6.25%.

(5) Includes only Starbucks Company-operated retail stores open 13 months or longer. Comparable store sales percentage for fiscal 2004 excludes the extra sales week.

(6) Store openings are reported net of closures.

(7) International store information has been adjusted for the fiscal 2007 acquisition of Beijing licensed operations by reclassifying historical information from Licensed stores to Company-operated stores.

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

General

Starbucks Corporation s fiscal year ends on the Sunday closest to September 30. Some fiscal years include 53 weeks. The fiscal years ended on September 30, 2007, October 1, 2006 and October 2, 2005, all included 52 weeks. All references to store counts, including data for new store openings, are reported net of related store closures.

Management Overview

Fiscal 2007 The Year in Review

Starbucks achieved solid performance in fiscal 2007 meeting its targets for store openings, revenue growth, comparable store sales growth, and earnings per share despite a challenging economic and operating environment, and significant cost increases from dairy. The Company completed the fiscal year with encouraging trends and momentum in its International business but faced increasing challenges in its U.S. business. While U.S. comparable store sales were within the Company s stated target range, it was accomplished through two price increases which offset flat-to-negative transaction count trends in the U.S. business. The pressure on traffic is consistent with similar trends reported across both the retail and restaurant industry. Management believes that the combination of the economic slowdown and the price increases implemented in fiscal 2007 to help mitigate significant cost pressures have impacted the frequency of customer visits to Starbucks stores.

Consolidated net revenues for fiscal year 2007 increased 21% to $9.4 billion. Company-operated retail revenues in fiscal 2007 rose 21% to $8.0 billion, predominantly due to the opening of 1,342 stores and comparable store sales growth of 5%. The increase in comparable store sales was due to a 4% increase in the average value per transaction and 1% growth in the number of customer transactions. The Company opened a total of 2,571 new company-operated and licensed stores during the year, with 70% in the U.S. and 30% in International markets, to end the year with over 15,000 stores.

For fiscal 2007, operating income increased to $1.1 billion, while operating margin contracted 30 basis points to 11.2% of total net revenues. Margin compression was due to higher costs of sales including occupancy costs as a percentage of total net revenues due to a shift in sales to higher cost products and higher distribution costs, rent expense and dairy costs. These cost pressures were offset in part by leveraging general and administrative expenses, store operating expenses, and other operating expenses as a percentage of total net revenues.

Net earnings rose to $673 million in fiscal 2007 from $564 million for the previous year. Diluted earnings per share for fiscal 2007 increased to $0.87 compared to $0.71 a year ago. Excluding the cumulative effect of adopting FIN 47 in the fiscal fourth quarter of 2006, earnings grew 16% and diluted earnings per share increased 19%.

Fiscal 2008 The View Ahead

Throughout fiscal 2007, Starbucks experienced a consistent weakening in its U.S. business, exiting the year with a negative trend in transactions. Management recognizes that it faces a more challenging environment from an economic, operational and competitive standpoint entering fiscal 2008. In response to those challenges, management intends to focus in the following key areas:

- Better operational excellence at the store level;

More meaningful innovation to continue to differentiate the store experience; and

Increased efficiencies and effectiveness in the general and administrative infrastructure, to become more capable of navigating through the fluctuations in the external environment.

In setting targets for fiscal 2008, management s goal was to balance the long-term opportunity for store growth with the near-term realities of the challenging economic and operating environment. For fiscal 2008 the Company is targeting:

Opening approximately 2,500 new stores;

Comparable store sales growth in the range of 3% to 5%;

Total net revenue growth in the range of approximately 17% to 18%, to over $11 billion; and

Earnings per share in the range of $1.02 to $1.05, representing 17% to 21% growth, with earnings per share expansion expected to be greater in the second half of fiscal 2008.

In summary, management believes these targets are balanced for fiscal 2008. The Company intends to continue to build out stores to take advantage of its global opportunity, to better execute in its U.S. business, to grow and deliver significant margin expansion in its International business, and to deliver margin improvement for the Company on a consolidated basis.

Operating Segment Overview

Starbucks has three reportable operating segments: United States, International and CPG.

The United States and International segments both include Company-operated retail stores, licensed retail stores and foodservice operations. The United States segment has been operating significantly longer than the International segment and has developed deeper awareness of, and attachment to, the Starbucks brand and stores among its customer base. As a result, the United States segment has significantly more stores, and higher total revenues than the International segment. Average sales per store are also higher in the United States due to various factors including length of time in market and local income levels. Further, certain market costs, particularly occupancy costs, are lower in the United States segment compared to the average for the International segment, which comprises a more diverse group of operations. As a result of the relative strength of the brand in the United States segment, the number of stores, the higher unit volumes, and the lower market costs, the United States segment has a higher operating margin than the less-developed International segment.

The Company s International store base continues to increase rapidly and Starbucks is achieving a growing contribution from established international markets while at the same time investing in emerging markets, such as China, Brazil and Russia. The Company s newer international markets require a more extensive support organization, relative to the current levels of revenue and operating income.

The CPG segment includes the Company s grocery and warehouse club business as well as branded products operations worldwide. The CPG segment operates primarily through joint ventures and licensing arrangements with large consumer products business partners, most significantly The North American Coffee Partnership with the Pepsi-Cola Company for distribution of ready-to-drink beverages, and with Kraft Foods Inc. for distribution of packaged coffees and teas. This operating model allows the CPG segment to leverage the business partners existing infrastructures and to extend the Starbucks brand in an efficient way. Most of the customer revenues from the ready-to-drink and packaged coffee channels are recognized as revenues by the joint venture or licensed business partner, not by the CPG segment, and the proportionate share of the results of the Company s joint ventures are included on a net basis in Income from equity investees on the consolidated statements of earnings. As a result, the CPG segment reflects relatively lower revenues, a modest cost structure, and a resulting higher operating margin, compared to the Company s other two reporting segments, which consist primarily of retail stores.

Expenses pertaining to corporate administrative functions that support the operating segments but are not specifically attributable to or managed by any segment are not included in the reported financial results of the operating segments. These unallocated corporate expenses include certain general and administrative expenses, related depreciation and amortization expenses and amounts included in Net interest and other income on the consolidated statements of earnings.

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Acquisitions

In the first quarter of fiscal 2007, the Company purchased a 90% stake in its previously-licensed operations in Beijing, China. Due to its majority ownership of these operations, Starbucks applied the consolidation method of accounting subsequent to the date of acquisition.

RESULTS OF OPERATIONS FISCAL 2007 COMPARED TO FISCAL 2006

The following table presents the consolidated statement of earnings as well as the percentage relationship to total net revenues, unless otherwise indicated, of items included in the Company s consolidated statements of earnings (*amounts in thousands*):

Fiscal Year Ended	**Sept 30, 2007**	**% of Revenues**	**Oct 1, 2006**	**% of Revenues**	**Oct 2, 2005**	**% of Revenues**
STATEMENTS OF EARNINGS DATA						
Net revenues:						
Company-operated retail	$ 7,998,265	85.0%	$ 6,583,098	84.5%	$ 5,391,927	84.7%
Specialty:						
Licensing	1,026,338	10.9	860,676	11.1	673,015	10.5
Foodservice and other	386,894	4.1	343,168	4.4	304,358	4.8
Total specialty	1,413,232	15.0	1,203,844	15.5	977,373	15.3
Total net revenues	**9,411,497**	**100.0**	**7,786,942**	**100.0**	**6,369,300**	**100.0**
Cost of sales including occupancy costs	3,999,124	42.5	3,178,791	40.8	2,605,212	40.9
Store operating expenses(1)	3,215,889	34.2	2,687,815	34.5	2,165,911	34.0
Other operating expenses(2)	294,136	3.1	253,724	3.3	192,525	3.0
Depreciation and amortization expenses	467,160	4.9	387,211	5.0	340,169	5.3
General and administrative expenses	489,249	5.2	479,386	6.1	361,613	5.7
Total operating expenses	8,465,558	89.9	6,986,927	89.7	5,665,430	88.9
Income from equity investees	108,006	1.1	93,937	1.2	76,648	1.2
Operating income	**1,053,945**	**11.2**	**893,952**	**11.5**	**780,518**	**12.3**
Net interest and other income	2,419		12,291	0.1	15,829	0.2
Earnings before income taxes	1,056,364	11.2	906,243	11.6	796,347	12.5
Income taxes	383,726	4.1	324,770	4.1	301,977	4.7
Earnings before cumulative effect of change in accounting principle	672,638	7.1	581,473	7.5	494,370	7.8
			17,214	0.3		

Cumulative effect of accounting change for FIN 47, net of taxes								
Net earnings	**$**	**672,638**	**7.1%**	**$**	**564,259**	**7.2%**	**$**	**494,370**	**7.8%**

(1) As a percentage of related Company-operated retail revenues, store operating expenses were 40.2%, 40.8% and 40.2% for the fiscal years ended September 30, 2007, October 1, 2006 and October 2, 2005, respectively.

(2) As a percentage of related total specialty revenues, other operating expenses were 20.8%, 21.1% and 19.7% for the fiscal years ended September 30, 2007, October 1, 2006 and October 2, 2005, respectively.

Consolidated Results of Operations

Net revenues for the fiscal year ended 2007, increased 21% to $9.4 billion from $7.8 billion for fiscal 2006, driven by increases in both Company-operated retail revenues and specialty operations.

During the fiscal year ended 2007, Starbucks derived 85% of total net revenues from its Company-operated retail stores. Company-operated retail revenues increased 21% to $8.0 billion for the fiscal year ended 2007, from $6.6 billion for fiscal 2006. The increase was primarily attributable to the opening of 1,342 new Company-operated retail stores in the last 12 months and comparable store sales growth of 5% for the fiscal year ended 2007. The increase in comparable store sales was due to a 4% increase in the average value per transaction and a 1% increase in the number of customer transactions.

The Company derived the remaining 15% of total net revenues from channels outside the Company-operated retail stores, collectively known as specialty operations. Specialty revenues, which include licensing revenues and foodservice and other revenues, increased 17% to $1.4 billion for the fiscal year ended 2007, from $1.2 billion for fiscal 2006.

Licensing revenues, which are derived from retail store licensing arrangements as well as grocery, warehouse club and certain other branded-product operations, increased 19% to $1.0 billion for the fiscal year ended 2007, from $861 million for fiscal 2006. The increase was primarily due to higher product sales and royalty revenues from the opening of 1,229 new licensed retail stores in the last 12 months and a 20% increase in licensing revenues from the Company s CPG business.

Foodservice and other revenues increased 13% to $387 million for the fiscal year ended 2007, from $343 million for fiscal 2006. The increase was primarily attributable to growth in new and existing accounts in the U.S. foodservice business.

Cost of sales including occupancy costs increased to 42.5% of total net revenues for the fiscal year ended 2007, compared to 40.8% for fiscal 2006. The increase was primarily due to a shift in sales mix to higher cost products, the rise in distribution costs, higher rent expense and higher dairy costs. Dairy expense for the U.S. segment represents approximately 75% of the total Company s dairy expense. For the U.S. segment the average dairy costs per gallon rose 10% in fiscal 2007 compared to fiscal 2006, resulting in approximately $20 million of additional expense.

Store operating expenses as a percentage of Company-operated retail revenues decreased to 40.2% for the fiscal year ended 2007, from 40.8% for fiscal 2006, primarily due to higher provisions for incentive compensation in the prior year due to exceptionally strong performance as well as leverage on regional overhead costs in fiscal 2007.

Other operating expenses (expenses associated with the Company s Specialty Operations) decreased to 20.8% of total specialty revenues for the fiscal year ended 2007, compared to 21.1% in fiscal 2006. The decline resulted primarily from controlled discretionary spending in fiscal 2007.

Depreciation and amortization expenses increased to $467 million for the fiscal year ended 2007, compared to $387 million for the corresponding period of fiscal 2006. The increase was primarily due to the opening of 1,342 new Company-operated retail stores in the last 12 months. As a percentage of total net revenues, depreciation and amortization expenses decreased to 4.9% for the fiscal 2007, compared to 5.0% for fiscal 2006.

General and administrative expenses increased to $489 million for the fiscal year ended 2007, compared to $479 million for fiscal 2006. The increase was primarily due to higher payroll-related expenditures in support of continued global growth, offset in part by unusually high charitable contributions in fiscal 2006. As a percentage of total net revenues, general and administrative expenses decreased to 5.2% for the fiscal year ended 2007, from 6.1% for fiscal 2006.

Income from equity investees increased 15% to $108 million for the fiscal year ended 2007, compared to $94 million for fiscal 2006, primarily due to higher equity income from international investees.

Operating income increased 18% to $1.1 billion for the fiscal year ended 2007, compared to $894 million for fiscal 2006. Operating margin decreased to 11.2% of total net revenues for the fiscal year ended 2007, from 11.5% for fiscal 2006. Margin compression was due to higher costs of sales and occupancy costs as a percentage of total net revenues due to a shift in sales to higher cost products and higher distribution costs, rent expense and dairy costs.

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These cost pressures were offset in part by leveraging general and administrative expenses, store operating expenses, and other operating expenses as a percentage of total net revenues.

Net interest and other income was $2 million for the fiscal year ended 2007, compared to $12 million for fiscal 2006. The decrease was primarily due to increased interest expense resulting from a higher level of borrowings outstanding, which include the $550 million of senior notes issued in August 2007, offset in part by a higher amount of income recognized on unredeemed stored value card and gift certificate balances in fiscal 2007 compared to fiscal 2006.

Income taxes for the fiscal year ended 2007 resulted in an effective tax rate of 36.3%, compared to 35.8% for fiscal 2006. The effective tax rate for fiscal 2008 is expected to be approximately in line with fiscal 2007, with quarterly variations.

Net earnings for the fiscal year ended 2007, increased 19% to $673 million from $564 million for fiscal 2006. Diluted earnings per share increased to $0.87 for the fiscal year ended 2007, compared to $0.71 per share for fiscal 2006. Excluding the cumulative effect of adopting FIN 47 in fourth quarter 2006, earnings before cumulative effect of change in accounting principle grew 16% and diluted earnings per share increased 19%.