

SECURITIES AND EXCHANGE COMMISSION

FORM S-1

General form of registration statement for all companies including face-amount certificate companies

Filing Date: **2001-02-02**
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FILER

BRIAZZ INC

CIK: **1045598** | IRS No.: **911672311** | State of Incorporation: **WA** | Fiscal Year End: **1231**
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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

BRIAZZ, INC.

(Exact name of registrant as specified in its charter)

Washington	5812	91-1672311
State (or jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

3901 7th Avenue South, Suite 200
Seattle, Washington 98108-5206
(206) 467-0994

(Address, including zip code, and telephone number, including area code, of
registrant's principal executive offices)

Tracy L. Warner
BRIAZZ, Inc.
3901 7th Avenue South
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(206) 467-0994

(Name, address, including zip code, and telephone number, including area code
of agent for service)

Copies to:

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Approximate date of proposed sale to the public: As soon as practicable after
this Registration Statement becomes effective.

If any of the securities being registered on this Form are to be offered on a
delayed or continuous basis pursuant to Rule 415 under the Securities Act,
check the following box.

If this Form is filed to register additional securities for an offering
pursuant to Rule 462(b) under the Securities Act, check the following box and
list the Securities Act registration statement number of the earlier effective
registration statement for the same offering. _____

If this Form is a post-effective amendment filed pursuant to Rule 462(c)
under the Securities Act, check the following box and list the Securities Act
registration statement number of the earlier effective registration statement
for the same offering. _____

If this Form is a post-effective amendment filed pursuant to Rule 462(d)
under the Securities Act, check the following box and list the Securities Act
registration statement number of the earlier effective registration statement
for the same offering. _____

If delivery of the prospectus is expected to be made pursuant to Rule 434,
please check the following box.

CALCULATION OF REGISTRATION FEE

<TABLE>

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Title of Each Class of Securities to be Registered	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee
<S> Common Stock, no par value.....	<C> \$23,000,000	<C> \$5,750

</TABLE>

(1) Estimated solely for the purpose of calculating the registration fee.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a) may determine.

+++++The information in this prospectus is not complete and may be changed. We may +
+ not sell these securities until the registration statement filed with the +
+ Securities and Exchange Commission is effective. This prospectus is not an +
+offer to sell these securities and it is not soliciting an offer to buy these +
+ securities in any jurisdiction where the offer or sale is not permitted. +
+++++

SUBJECT TO COMPLETION, DATED FEBRUARY 2, 2001

BRIAZZ,
Inc.
Shares
of Common Stock

[LOGO OF BRIAZZ, Inc.]

This is our initial public offering and no public market currently exists for our shares. We expect that the public offering price will be between \$. and \$. per share. This price may not reflect the market price of our shares after our offering.

<TABLE>

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THE OFFERING	PER SHARE TOTAL	
<S>	<C>	<C>
Public Offering Price	\$	\$
Underwriting Discount	\$	\$
Proceeds to BRIAZZ	\$	\$

</TABLE>

We have granted the underwriters the right to purchase up to . additional shares from us within 30 days to cover any overallocments. The underwriters expect to deliver shares of common stock to purchasers on . , 2001.

Proposed Nasdaq National Market Symbol: BRZZ

OPENIPO: the method of distribution being used by the underwriters in this offering differs somewhat from that traditionally employed in firm commitment underwritten public offerings. In particular, the public offering price and allocation of shares will be determined primarily by an auction process conducted by the underwriters and other securities dealers participating in this offering. A more detailed description of this process, known as an OpenIPO, is included in "Plan of Distribution."

This offering involves a high degree of risk. You should purchase shares only if you can afford a complete loss of your investment. See "Risk Factors" beginning on page 6

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

[LOGO OF WR HAMBRECHT + CO]

The date of this prospectus is , 2001.

You should rely only on the information contained in this prospectus. We have not, and the underwriters have not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus is accurate as of the date on the front cover of this prospectus only. Our business, financial condition, results of operations and prospects may have changed since that date.

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PROSPECTUS SUMMARY

This summary may not contain all the information that may be important to you. You should read the entire prospectus, including the financial statements and related notes, before making an investment decision.

Overview

BRIAZZ prepares and sells high-quality, branded lunch and breakfast foods for the "on-the-go" consumer. We sell our products primarily through our company-operated cafes, through delivery of box lunches and catered platters directly to corporate customers and through selected wholesale accounts. Our core products are sandwiches, salads and soups, which are complemented by a variety of fresh baked goods, premium juices, Starbucks coffees and fresh fruit.

Our target customer is the office worker. Our cafes are conveniently located either in city center locations with a high density of office buildings and retail foot traffic or within individual office buildings where we serve as an amenity for building tenants. To satisfy the demands of our time-constrained customers for lunch, breakfast and between-meal snacks, we design our cafes for quick service. Refrigerated display cases offer easy access to pre-packaged food items.

Our menu is crafted to provide our customers with a compelling selection of fresh, premium quality food. Our goal is to introduce new food items every six to eight weeks, encompassing a range of traditional to innovative flavor profiles, in order to maintain the interest of repeat customers. We use a central kitchen in each geographic market to prepare, assemble and distribute substantially all of our food products. Central kitchens help us deliver consistently high-quality food at an attractive cost, efficiently manage a large assortment of menu items and serve box lunches and catering platters to a broader customer base.

We currently operate 39 cafes in Seattle, San Francisco, Chicago and Los Angeles. In 1995, we opened our first cafe in Seattle. We expanded our operations into San Francisco in 1996, Chicago in 1997 and Los Angeles in 1998. Our growth strategy is to open new cafes in our existing markets and, when appropriate, to enter into new markets by concurrently opening a central kitchen and at least four to six cafes and initiating delivery of box lunch and catering services.

Our revenues have been \$2.8 million, \$6.5 million, \$15.4 million and \$25.6 million for the 1996, 1997, 1998 and 1999 fiscal years, and \$23.0 million for the nine periods ended September 3, 2000. Our accumulated losses through September 3, 2000 were \$39.0 million.

Competitive Strengths

To achieve our planned expansion goals, we intend to leverage the following strengths:

Well-defined concept. Over the past five years, we have refined our menu selections and cafe presentation, redesigned product workflow within our central kitchens and established strict real estate guidelines for new locations. These efforts have allowed us to increase customer traffic at existing locations and expand the number of stores we operate. The following are central factors in our business strategy:

- . Extensive, high-quality product offerings. We offer an extensive range of menu items designed for broad appeal to our target customers. We also offer varying portion sizes for selected salads and sandwiches. We believe our diverse product selection, ranging from traditional comfort foods, such as Cobb salads and tuna sandwiches, to innovative gourmet foods, including bouncy noodle salads and tarragon chicken sandwiches, attracts new customers and increases the frequency of visits by repeat customers.
- . Frequent menu changes. Our goal is to introduce new food selections to our customers approximately every six to eight weeks. We also adjust our menu seasonally by offering a larger variety of hot soups and sandwiches during the winter months, and a larger variety of salads during the summer months.

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- . Speed and quality of service. We have designed our cafes to serve a large number of customers in a very short period of time and to allow easy movement within the cafe from entry to exit. Our cafes in amenity locations, together with our larger cafes, processed an average of 293 transactions per hour between 11:00 a.m. and 2:00 p.m. during the four weeks beginning November 5, 2000. In addition, because our employees in the cafes are not preparing most of the food products, they can focus their attention on customer service.
- . Range of prices. Our entrees range in price from \$2.99 to \$5.49, allowing

customers with different budgets to enjoy our products. In addition, our multiple price point strategy allows customers to select their own meal combinations, such as a soup and salad or a soup and sandwich.

. Multiple distribution channels. For the convenience of our corporate customers, we deliver box lunches and catered platters for in-office meetings through our fleet of trucks and vans. We also deliver to selected wholesale customers.

Central kitchens. We currently operate central kitchens as hubs for food preparation and distribution in each of our geographic markets. Central kitchens help enable us to consistently provide customers with a broad assortment of high-quality food products. This task is both more expensive and more difficult to manage when food is prepared on-site. Central kitchens also provide us with significant competitive advantages through economies of scale, health and safety controls and product-waste minimization. In addition, use of a central kitchen allows us to locate cafes on smaller sites and sites without the ventilation required for an on-site kitchen.

Strategic cafe locations. We locate our cafes primarily in areas with a high number of office buildings or within individual buildings where we serve as an amenity for building tenants. Amenity locations are typically sites on the ground floor or in the plaza of an office building and are often leased at favorable rates because they offer conveniences to building tenants. In addition, for cafes in amenity locations, very little marketing is required due to the high visibility of the cafe within the building and the fact that competition within the building is generally limited.

Experienced Management. Our management team has over 89 years of combined experience in the retail and food industries. We believe our management team is well-positioned to manage the anticipated growth in our business.

Growth Strategy

We intend to add new cafes in all of our existing markets. We believe that over the next five years the opportunity exists to add approximately 150 cafes in our existing markets; however, the number of locations that could satisfy our selection criteria is significantly larger. Most of our new cafes will be in amenity locations. Our prototypical cafe for amenity locations is between 800 and 1,400 square feet, depending on the requirements of the location. We believe cafes of this size most efficiently serve our target market. In addition to adding new cafes, we intend to increase our fleet of delivery vehicles and hire additional sales and marketing representatives in order to expand our sales opportunities with corporate and selected wholesale accounts.

We believe many of the 25 largest metropolitan areas in the United States, as well as certain international cities, represent attractive new market opportunities to expand our operations.

Our principal executive offices are at 3901 7th Avenue South, Suite 200, Seattle, Washington 98108-0994 and our telephone number is (206) 467-0994. We are incorporated under the laws of the State of Washington. Our web site address is www.briazz.com. The information on our web site is not part of this prospectus.

THE OFFERING

<TABLE>	
<S>	<C>
Common stock offered by BRIAZZ:	shares
Common shares to be outstanding after the offering.....	shares
Use of proceeds.....	We expect to use the net proceeds from the offering for debt repayment, capital expenditures, systems upgrades, opening additional retail cafes and for working capital and other general corporate purposes.
Proposed Nasdaq National Market symbol..	BRZZ
</TABLE>	

The common stock to be outstanding after this offering is based on 22,787,665 shares outstanding as of September 3, 2000, and excludes:

- . 2,481,193 shares of common stock issuable as of September 3, 2000 upon the exercise of outstanding stock options at a weighted average exercise price of \$1.81;
- . 5,686,636 shares of common stock issuable upon the exercise of warrants

to purchase Series C preferred stock outstanding as of September 3, 2000; these warrants will convert into warrants to purchase common stock with an exercise price of approximately \$0.96 per share following the conversion of the Series C preferred stock;

- . 3,968,170 shares of common stock issuable upon exercise of options granted after September 3, 2000 or reserved for future issuance under our stock option plan and the 1,200,000 shares of common stock that we plan to reserve for issuance under our 2001 Employee Stock Purchase Plan, which we will adopt before the closing of this offering.

The terms "BRIAZZ," "we," "us," and "our" as used in this prospectus refer to BRIAZZ, Inc. Unless otherwise specifically stated, information throughout this prospectus assumes:

- . the underwriters' over-allotment option is not exercised;
- . the repurchase of 50,080 shares of common stock and Series A and B convertible preferred stock in December 2000 and January 2001; and
- . the issuance of 3,046,124 additional shares of Series C preferred stock in February 2001, and the conversion of all shares of Series A, B and C convertible preferred stock into 22,782,165 shares of common stock not later than the completion of this offering, based on the current conversion price for each series of preferred stock.

BRIAZZ is a registered trademark of BRIAZZ, Inc. All other trademarks that we refer to in this prospectus are the property of their respective owners.

SUMMARY FINANCIAL DATA

The following table summarizes the financial data and operating data of our business. The pro forma shares used in the calculation of pro forma net earnings (loss) per share reflect the conversion of all outstanding shares of preferred stock into common stock.

Through fiscal year 2000 we have measured our operational results on 13 four-week periods. Each of the first three quarters is composed of three four-week periods and our fourth quarter consists of four four-week periods. To account for the 365th day we lose from the thirteenth period, and the leap year, every four years the thirteenth period consists of five weeks. Fiscal 2000 is such a year, making this year's fourth quarter consist of seventeen weeks. Starting in fiscal year 2001 we will be converting to four 13-week reporting periods, based on a 52 or 53 week fiscal year.

<TABLE>

<CAPTION>

	Inception (March 1, 1995) to December 31, 1995	Fiscal Year				Nine Periods Ended	
		1996	1997	1998	1999	September 5, 1999	September 3, 2000
(In thousands except share and per share data)							
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Statement of Operations Data							
Sales.....	\$ 465	\$ 2,835	\$ 6,504	\$ 15,365	\$ 25,598	\$ 16,996	\$ 23,008
Loss from operations....	(758)	(1,347)	(5,521)	(12,644)	(10,889)	(8,104)	(3,909)
Net loss.....	(760)	(1,308)	(5,072)	(12,451)	(15,381)	(12,351)	(4,019)
Preferred stock accretion.....	--	116	1,068	1,951	2,421	1,412	2,235
Net loss attributable to common shareholders....	(760)	(1,424)	(6,140)	(14,402)	(17,802)	(13,763)	(6,254)
	=====	=====	=====	=====	=====	=====	=====
Basic and diluted net loss per share.....	\$ (177.50)	\$ (70.65)	\$ (303.21)	\$ (710.72)	\$ (857.93)	\$ (663.28)	\$ (275.49)
	=====	=====	=====	=====	=====	=====	=====
Weighted-average shares used in computing basic and diluted net loss per share.....	4,282	20,158	20,250	20,264	20,750	20,750	22,701
	=====	=====	=====	=====	=====	=====	=====
Pro forma basic and diluted net loss per share (unaudited).....					\$ (0.89)		\$ (0.21)
					=====		=====
Weighted-average shares used in computing pro							

forma basic and diluted
net loss per share
(unaudited).....

17,264,056
=====

19,647,697
=====

Other Financial Data:

EBITDA(1).....	\$	(717)	\$	(1,121)	\$	(4,896)	\$	(10,859)	\$	(8,261)	\$	(6,267)	\$	(2,069)
Cash provided by (used in):														
Operating activities...		(800)		(816)		(3,112)		(8,341)		(8,137)		(6,743)		(1,414)
Investing activities...		(977)		(1,800)		(5,727)		(10,956)		(1,591)		(602)		(484)
Financing activities...	\$	1,924	\$	8,888	\$	18,666	\$	5,259	\$	9,673	\$	9,612	\$	1,430

</TABLE>

(1) EBITDA represents earnings before interest expense, interest and other income, income taxes, and depreciation and amortization. EBITDA data are included because management understands that such information is considered by certain investors as an additional basis on which to evaluate the Company's ability to pay interest, repay debt and make capital expenditures. Because all companies do not calculate EBITDA identically, the presentation of EBITDA herein is not necessarily comparable to similarly entitled measures of other companies. EBITDA is not intended to represent and should not be considered more meaningful than, or an alternative to, measures of operating performance as determined in accordance with generally accepted accounting principles.

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The following table summarizes our balance sheet data and certain operating data as of September 3, 2000,

. on an actual basis;

. on a pro forma basis to reflect

- (1) the repurchase of an aggregate of 50,080 shares of our common, Series A preferred and Series B preferred stock;
- (2) the sale of 3,046,124 additional shares of Series C preferred stock in February 2001; and
- (3) the conversion of all outstanding shares of our Series A preferred stock, Series B preferred stock and Series C preferred stock into an estimated 22,782,165 shares of common stock not later than the completion of this offering; and

. on a pro forma as-adjusted basis to reflect

- (1) sale of shares of common stock in this offering at the assumed initial public offering price of \$ per share, after deducting the estimated underwriting discounts and commissions and offering expenses, and
- (2) the repayment of a \$2.0 million credit facility that is currently outstanding with a portion of our net proceeds from this offering.

<TABLE>

<CAPTION>

As of September 3, 2000

(In thousands)

	Actual	Pro forma	Pro forma
		Pro forma as adjusted	
<S>	<C>	<C>	<C>
Balance Sheet Data:			
Cash and cash equivalents.....	\$ 1,685	\$ 1,685	\$
Working capital.....	(2,801)	(2,801)	
Total assets.....	16,588	16,588	
Current liabilities.....	6,724	6,724	
Long-term liabilities.....	69	69	
Mandatorily redeemable convertible preferred stock.....	52,525	--	
Total shareholders' equity (deficit).....	\$ (42,730)	\$ 9,795	\$

</TABLE>

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RISK FACTORS

Any investment in our common stock involves a high degree of risk. Before you

decide to invest in our common stock, you should carefully consider the risks described below, together with all of the other information included in this prospectus. We have included a discussion of each material risk that we have identified as of the date of this prospectus. If any of the following risks actually occurs, our business could suffer. As a result, our common stock's trading price could decline and you could lose all or part of your investment.

Risks Relating to BRIAZZ

We have a history of losses and anticipate continued losses in the future.

We incurred losses of \$5.1 million during the fiscal year ended December 28, 1997, \$12.5 million during the fiscal year ended December 27, 1998, \$15.4 million during the fiscal year ended December 26, 1999 and \$4.1 million during the nine periods ended September 3, 2000. We had accumulated losses of \$35.0 million at December 26, 1999 and \$39.0 million at September 3, 2000. We have reported operating losses since inception and need to raise additional capital to fund future operating losses and planned growth. Our accountants have noted that these are conditions that raise substantial doubt about our ability to continue as a going concern, as emphasized in their report included in this prospectus. Failure to achieve profitability, or maintain profitability once achieved, would have a material adverse effect on our business, our ability to implement our strategy and our stock price.

Our growth strategy requires us to open a significant number of new cafes in our existing markets. We may not be able to achieve this planned expansion.

The success of our growth strategy will depend in large part on our ability to open new cafes and to operate these cafes profitably. Our current growth plan requires us to open at least ten additional cafes during 2001. We cannot assure you that we will be able to achieve our expansion goals or that we will operate profitably. We estimate that a central kitchen must supply at least four to six cafes and generate non-cafe sales to achieve positive cash flow. The success of our planned expansion will depend upon numerous other factors, many of which are beyond our control, including our ability to:

- . hire, train and retain qualified operating personnel;
- . identify and obtain suitable cafe sites at favorable lease terms;
- . timely develop new cafes, including our ability to obtain available construction materials and labor;
- . manage construction and development costs of new cafes;
- . develop sufficient sales volume through our cafes or other distribution channels to support our central kitchens;
- . secure required governmental approvals and permits, and comply with ongoing and changing regulatory requirements; and
- . compete successfully in our markets.

In the past, we have closed cafes because they did not generate sufficient revenues and we cannot assure you that any new cafes we open will not be closed.

We may not be successful in implementing our business strategy which would impede our growth and operating results.

Our business strategy is to focus our retail expansion on cafes in amenity locations (e.g., office buildings where the competition is limited or where we are the only food supplier), maintain our current cafe locations

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and expand our box lunch and catering distribution capabilities to serve locations outside the core metropolitan areas in which we operate. Our ability to implement this business strategy depends on our ability to:

- . identify and lease amenity locations suitable for new cafes;
- . increase our brand recognition in our existing markets; and
- . manage growth in administrative overhead and distribution costs likely to result from the planned expansion of our retail and non-retail distribution channels.

An inability to implement our business strategy would have a material adverse impact on our operating results.

We may be unable to manage our growth effectively.

Failure to manage our growth effectively could harm our business. We have grown significantly since our inception and intend to grow substantially in the future. We have increased the number of our cafes from two cafes as of December 31, 1996 to 39 cafes currently. Our existing systems and procedures, cafe management systems, financial controls, and information systems may not be adequate to support our planned expansion. Our ability to manage our growth effectively will require us to continue to expend funds to improve our operational, financial and management controls, and our accounting and reporting systems and procedures, which we expect will increase our operating expenses and capital requirements. In addition, we must effectively expand, train and manage our work force. We cannot assure you that we will be able to respond on a timely basis to all of the changing demands that our planned expansion will impose on management and on these systems and controls. In addition, we cannot assure you that we will be able to continue to improve our information systems and financial controls or to manage other factors necessary for us to achieve our growth strategy.

If we are unable to continue leasing our retail locations or obtain acceptable leases for new cafes, our business may suffer.

All of our 39 cafe locations are on leased premises. If we are unable to renew our leases on acceptable terms or if we are subject to substantial rent increases, our business could suffer. Because we compete with other retailers for cafe sites and because some landlords may grant exclusive rights to locations to our competitors, we may not be able to obtain new leases or renew existing leases on acceptable terms. Any inability to renew or obtain leases could adversely impact our revenue growth and brand-building strategy.

Our restaurant expansion strategy focuses primarily on further penetrating existing markets. This strategy can cause sales in some of our existing cafes to decline.

In accordance with our expansion strategy, we intend to open new cafes primarily in our existing markets. Since we typically draw customers from a relatively small radius around each of our cafes, the sales performance and customer counts for cafes near the area in which a new cafe opens may decline due to sales cannibalization.

Tenant turnover and vacancies in the office buildings where our cafes are located could cause our business to suffer.

Our business could suffer as a result of tenant turnover and vacancies. Many of our cafes are located in office buildings, and office workers are our target customers. Vacancies, tenant turnover or certain types of tenants negatively impact the operations of cafes located in office buildings due to the reduction in the number of potential customers in the building. The risk related to vacancies and tenant turnover is larger in office buildings with larger tenants, where the loss of a single tenant may have a greater impact on that cafe's sales.

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Our business does not generate the cash needed to finance our operations, and we may need additional financing in the future, which we may be unable to obtain.

Our business does not currently generate the cash needed to finance our operations. We may need additional funds to finance our operations, as well as to enhance our operations, fund our expansion and respond to competitive pressures. We may be unable to obtain financing on terms favorable to us, if at all. Poor financial results, unanticipated expenses or unanticipated opportunities that require financial commitments could give rise to additional financing requirements sooner than we expect. If we raise additional funds through the issuance of equity or convertible debt securities, the percentage ownership of our existing shareholders would be reduced, and these securities might have rights, preferences or privileges senior to those of our common stock. If adequate funds are not available or are not available on acceptable terms, our ability to enhance our operations, fund our expansion, respond to competitive pressures or take advantage of business opportunities would be significantly limited, and we might need to restrict our operations significantly.

If any of our central kitchens are closed for any reason, our business will suffer.

Our central kitchens produce substantially all of our food products for the cafes and wholesale accounts in their geographic regions as well as all of the box lunches and catered platters in each region. If any of our central kitchens were to close for any reason, such as fire, natural disaster or failure to comply with government regulations, we would be unable to provide our food products in the areas served by the affected central kitchen. Our four existing central kitchens are geographically dispersed and none could supply another

market if a central kitchen were to close. Any closure of a central kitchen, even for a short period of time, would have a material adverse effect on our operations and financial condition.

The loss of one of our major wholesale customers could negatively impact our results.

For the nine periods ended September 3, 2000, approximately 15% of our revenue resulted from wholesale and other sales. Our wholesale and other sales are made to a relatively small number of companies, including, for example, Quality Food Centers, Inc., a supermarket chain owned by grocery retailer Kroger Co., Tully's Coffee Corporation, a specialty coffee retailer, and Kozmo.com, Inc., an Internet retailer and delivery service. We cannot assure you that our major wholesale customers will continue to be wholesale accounts or that they will successfully maintain or expand their product offerings. Further, we cannot assure you that our major wholesale customers will not exit our existing markets. The loss of one of our major wholesale customers could harm our business.

We are substantially dependent on third-party suppliers and distributors.

We are substantially dependent on a small number of suppliers and distributors for our products, including suppliers of meat, breads and soups, and Marriott Distribution Services, a distributor owned by Marriott International, which procures from our suppliers and delivers to us approximately 40% of our ingredients and packaging products. LaBrea Bakery, a national supplier of artisan bread, provides approximately 17% of our bread purchases in our existing markets. Any failure or delay by any of these suppliers or distributors to deliver products to our central kitchens, even for a short period of time, could harm our business. We have limited control over these third parties, and we cannot assure you that we will be able to maintain satisfactory relationships with any of them on acceptable commercial terms. Nor can we assure you that they will continue to provide food products that meet our quality standards. Our relationships with our suppliers are generally governed by short-term contracts and our relationship with Marriott is not governed by a written contract. If any of these relationships were to terminate unexpectedly, we may have difficulty obtaining adequate quantities of products of the same quality at competitive prices in a timely fashion.

If we fail to continue to develop and maintain our brand, our business could suffer.

We believe that maintaining and developing our brand is critical to our success and that the importance of brand recognition may increase as a result of competitors offering products similar to our products. We intend

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to increase our marketing expenditures to create and maintain brand loyalty and increase awareness of our brand. If our brand-building strategy is unsuccessful, these expenses may never be recovered, and we may be unable to increase or maintain our revenues.

Our success in promoting and enhancing the BRIAZZ brand will also depend on our ability to provide customers with high quality products and customer service. We cannot assure you that consumers will perceive our products as being of high quality. If customers do not perceive our products and service to be of high quality, the value of our brand may be diminished and, consequently, our ability to implement our business strategy may be adversely affected.

Our business could be harmed by litigation and publicity concerning food quality, health and other issues which may cause customers to avoid our products and result in liabilities.

Our business could be harmed by litigation and complaints from customers or government authorities relating to food quality, illness, injury or other health concerns or operating issues stemming from one cafe or a limited number of cafes, or one central kitchen. Adverse publicity about such allegations may negatively affect us, regardless of whether the allegations are true, by discouraging customers from buying our products. Because one of our competitive strengths is the taste, freshness and quality of our products, adverse publicity relating to food quality or similar concerns may affect us more than it would food service businesses that compete primarily on other factors. Such adverse publicity could damage our reputation and divert the attention of our management from other business concerns. We could also incur significant liabilities if a lawsuit or claim resulted in a decision against us or in a settlement payment, and incur substantial litigation costs regardless of the outcome of such litigation.

Our quarterly operating results may fluctuate and could fall below expectations of securities analysts and investors, resulting in a decline in our stock price following this offering.

Our quarterly and yearly operating results have varied in the past, and we believe that our operating results will continue to vary in the future. For this reason, you should not rely upon our operating results as indications of future performance. In future periods, our operating results may fall below the expectations of securities analysts and investors, causing the trading price of our common stock to fall. In addition, most of our expenses, such as employee compensation and lease payments for facilities and equipment, are relatively fixed. Our expense levels are based, in part, on our expectations regarding future sales. As a result, any shortfall in sales relative to our expectations could cause significant decreases in our operating results from quarter to quarter.

Our cafes are currently located in four geographic areas. As a result, we are highly vulnerable to negative occurrences in those regions.

We currently operate our cafes in Seattle, San Francisco, Chicago and Los Angeles. As a result, we are susceptible to adverse trends and economic conditions in those areas. In addition, given our geographic concentration, negative publicity regarding any of our cafes in those areas could have a material adverse effect on our business and operations, as could other regional occurrences such as local strikes, or earthquakes or other natural disasters.

In addition, California and Washington State, where three of our central kitchens are located, are currently experiencing an energy crisis. As a result, energy costs in these states, including natural gas and electricity, may rise significantly over the next several months relative to the rest of the United States. Because the majority of our cafes and central kitchens are located in these states, our operating expenses will increase if this trend continues. If we cannot pass along these costs to our customers, our margins will suffer and our net income could decrease.

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Our food preparation and presentation methods are not proprietary, and therefore competitors may be able to copy them, which would harm our business.

We consider our food preparation and presentation methods, including our food product packaging, our box lunch packaging and the design of the interior of our cafes, essential to the flavor and appeal of our products, and therefore essential to our brand. Although we consider our packaging and store design to be essential to our brand identity, we have not applied to register trademarks or trade dress in connection with these features, and so cannot rely on the legal protections provided by trademark registration. Because we do not hold any patents for our preparation methods, it may be difficult for us to prevent competitors from copying our methods. If our competitors copy our preparation and presentation methods, the value of our brand may be diminished and our market share could decrease. In addition, competitors may be able to develop food preparation and presentation methods that are more appealing to consumers than our methods, which may also harm our business.

We may be unsuccessful in developing new product lines or new distribution channels for our products, which may harm our business.

We frequently review and evaluate new product lines and new distribution channels for our products. However, we may be unable to successfully implement any new product lines or distribution channels after having dedicated considerable management time and financial resources to them. In the past, we distributed our products through grocery stores such as Ralph's and Dominick's. We also developed a line of dinner foods for home meal replacement that was tested in one of our Seattle cafes. These attempts were unsuccessful and have been discontinued. Inability to successfully develop new product lines or new distribution channels in the future could slow our growth and divert management's attention from other areas of our business.

We depend on the expertise of key personnel. If these individuals leave, our business could suffer.

Our management is dependent to a large degree on the services of Victor D. Alhadeff, our Chairman of the Board and Chief Executive Officer, and C. William Vivian, our President, Chief Operating Officer and a director. Our operations could suffer if we lost the services of either of these individuals, either of whom could leave BRIAZZ at any time. In addition, competition for qualified management in our industry is intense. Many of the companies with which we compete for experienced management personnel have greater financial and other resources than we do.

Risks Relating to Our Industry

Our operations are susceptible to changes in food and supply costs, which could adversely affect our margins.

Our profitability depends, in part, on our ability to anticipate and react to changes in food, supply and labor costs. Our purchasing staff negotiates prices

for all of our ingredients and supplies based upon current market prices. Various factors beyond our control, including, for example, governmental regulations and adverse weather conditions, could cause our food and supply costs to increase. We cannot assure you that we will be able to anticipate and react to changing food and supply costs by adjusting our purchasing practices. Any failure to do so could adversely affect our financial results.

If we face increased labor costs or labor shortages, our growth and operating results could be adversely affected.

Labor is a primary component in the cost of operating our business. As of December 31, 2000, we employed 94 salaried and 482 hourly employees. We expend significant resources in recruiting and training our managers and employees. Employee turnover for fiscal 2000 was approximately 147% for hourly employees and 54% for salaried employees. If we face increased labor costs because of increased competition for

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employees, increases in the federal minimum wage or other employee benefits costs (including costs associated with health insurance coverage) or unionization of our employees, our operating expenses would likely increase and our growth could be adversely affected. In addition, any increases in employee turnover rates are likely to lead to additional recruiting and training costs.

Our success depends upon our ability to attract, motivate and retain a sufficient number of qualified employees, including cafe managers and kitchen staff, necessary to keep pace with our growth strategy. The number of qualified persons needed to fill these positions is in short supply in the markets in which we operate. Any inability to recruit and retain sufficient numbers of employees may delay or prevent the anticipated openings of new cafes or central kitchens.

Competition in our market could result in pricing reductions, reduced margins or the inability of our products to achieve market acceptance.

The market for lunch and breakfast foods, box lunches and catering in the markets where we operate is intensely competitive and constantly changing. We may be unable to compete successfully against our current and future competitors, which may result in pricing reductions, reduced margins and the inability to achieve market acceptance for our products.

Many businesses provide services similar to ours. Our competitors include sandwich shops, company cafeterias, delicatessens, pushcart vendors, fast food chains and catering companies. Pret a Manger has successfully executed a similar concept in Great Britain and recently opened a store in New York. Many of these organizations have significantly more capital, research and development, regulatory, manufacturing, marketing, human and other resources than we do. As a result, they may be able to adapt more quickly to market trends, devote greater resources to the promotion or sale of their products, receive greater support and better pricing terms from independent distributors, initiate or withstand substantial price competition, or take advantage of acquisition or other opportunities more readily than we can.

Failure to efficiently and successfully implement new systems could negatively impact our results.

We anticipate implementing new systems for point of sale, branded sales order entry and food manufacturing beginning in the second quarter of 2001. Our current systems are labor intensive, do not integrate with other systems and may not support our planned expansion. If we cannot efficiently and successfully implement these new systems or integrate them into our operations, our planned expansion may be delayed and our business may suffer.

We may be subject to product liability claims, which could adversely affect our operations.

We may be held liable or incur costs to settle liability claims if any of the food products we prepare and sell cause injury or are found unsuitable during preparation, sale or use. Although we currently maintain product liability insurance, we cannot assure you that this insurance is adequate, and, at any time, it is possible that such insurance coverage may cease to be available on commercially reasonable terms, or at all. A product liability claim could result in liability to us greater than our total assets or insurance coverage. Moreover, product liability claims could have an adverse impact on our business even if we have adequate insurance coverage.

Changes in consumer preferences or discretionary consumer spending could negatively impact our results.

Our success depends, in part, upon the popularity of our food products and our ability to develop new menu items that appeal to consumers. Shifts in consumer preferences away from this cuisine, or our inability to develop new

menu items that appeal to consumers, could harm our business. Also, our success depends to a significant extent on numerous factors affecting discretionary consumer spending, including economic

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conditions, disposable consumer income and consumer confidence. Adverse changes in these factors could reduce customer traffic or impose practical limits on pricing, either of which could harm our business.

Inability to obtain regulatory approvals, or to comply with ongoing and changing regulatory requirements, could affect our business and operations.

Our central kitchens and our cafes are subject to various local, state and federal governmental regulations, standards and other requirements for food storage, preparation facilities, food handling procedures, other good manufacturing practices requirements and product labeling. We are also subject to license and permit requirements relating to health and safety, building and land use and environmental protection. If we encounter difficulties in obtaining any necessary licenses or permits or complying with these ongoing and changing regulatory requirements:

- . the opening of new cafes or central kitchens could be delayed;
- . existing cafes or central kitchens could be closed temporarily or permanently; or
- . our product offerings could be limited.

Based on the nature of our existing operations, continuous inspection is required by the U.S. Department of Agriculture at our Seattle central kitchen. A USDA inspector visits our Seattle central kitchen on a daily basis and all regulated product is inspected and passed by USDA, as reflected on the label of these foods with the USDA mark of inspection. Loss of this USDA approval without replacing supplies from USDA-approved facilities would reduce the types of food products that could be sold to our wholesale accounts, which could adversely affect our business and financial results.

Risks Relating to This Offering Or Our Securities

Our management has broad discretion as to the use of the net proceeds from this offering.

Our management has broad discretion as to the use of the net proceeds that we will receive from this offering. We cannot assure you that management will apply these funds effectively, nor can we assure you that the net proceeds from this offering will be invested in a manner yielding a favorable return.

Our directors, executive officers and significant shareholders will continue to hold a substantial portion of our stock after this offering, which may lead to conflicts with other shareholders over corporate governance.

Following the completion of this offering, our directors, executive officers and current holders of 5% or more of our outstanding common stock will beneficially own approximately % of our outstanding common stock. Victor Alhadeff will own approximately % of our outstanding common stock after this offering. These shareholders, acting together, and Mr. Alhadeff, acting alone, will be able to significantly influence all matters requiring shareholder approval, including the election of directors and significant corporate transactions, such as mergers or other business combinations. This control may delay, deter or prevent a third party from acquiring or merging with us, which in turn could reduce the market price of our common stock.

Our stock price may be volatile because of factors beyond our control, and you may lose all or a part of your investment.

Our shares have not previously been publicly traded. Following this offering, the market price of our common stock may experience a substantial decline. In addition, the market price of our common stock may fluctuate significantly in response to a number of factors, most of which are beyond our control, including:

- . changes in securities analysts' recommendations or estimates of our financial performance;
- . actual or anticipated variations in our quarterly operating results;

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- . changes in market valuations of similar companies;
- . announcements by us or our competitors of significant contracts, new

products, acquisitions, commercial relationships, joint ventures or capital commitments;

- . the closure of retail locations, loss of major customers or failure to perform significant commercial contracts;
- . governmental regulatory initiatives;
- . additions or departures of key personnel; and
- . general economic conditions, especially a recession or economic downturn, which may adversely affect the retail industry in general.

In the past, companies that have experienced volatility in the market price of their stock have been subject to securities class action litigation. A securities class action lawsuit against us, regardless of its merit, could result in substantial costs and divert the attention of our management from other business concerns, which in turn could have a materially adverse impact on our financial results.

This offering is relatively small in size, which could adversely affect the market price or trading volume of our common stock.

An active public market for our common stock may not develop or be sustained after this offering. We are offering only shares and these shares are being sold by WR Hambrecht+Co. These factors may prevent us from obtaining as much research coverage from market analysts after the offering as we might obtain for an offering of greater size or for one managed by several underwriters. The small size of the offering may adversely affect the trading volume of our common stock. As a result, you may be unable to sell your shares of common stock at or above the initial public offering price.

Our articles of incorporation, bylaws and the Washington Business Corporation Act contain anti-takeover provisions which could discourage or prevent a takeover, even if an acquisition would be beneficial to our shareholders.

Provisions of our amended and restated articles of incorporation and bylaws, as well as provisions of Washington law, could make it more difficult for a third party to acquire us, even if doing so would be beneficial to our shareholders. These provisions include:

- . authorizing the issuance of "blank check" preferred stock that could be issued by our board of directors, without shareholder approval, to increase the number of outstanding shares or change the balance of voting control and thwart a takeover attempt;
- . prohibiting cumulative voting in the election of directors, which would otherwise allow less than a majority of shareholders to elect directors;
- . limiting the ability of shareholders to call special meetings of shareholders; and
- . prohibiting shareholder action by written consent and requiring all shareholder actions to be taken at a meeting of our shareholders.

In addition, Chapter 23B.19 of the Washington Business Corporation Act and the terms of our stock option plan may discourage, delay or prevent a change in control which you may favor.

There may be sales of substantial amounts of our common stock after this offering, which could cause our stock price to fall.

Our current shareholders hold a substantial number of shares, which they will be able to sell in the public market in the near future. Based on shares outstanding as of , after this offering, shares of

common stock will be outstanding assuming no exercise of the underwriters' over-allotment option and no exercise of options or warrants after , and the conversion of all of our outstanding shares of preferred stock into common stock. All of the shares sold in this offering will be freely tradable. The remaining shares of common stock outstanding after this offering will be restricted as a result of securities laws or lock-up agreements with the underwriters that restrict holders' ability to transfer their stock for 180 days after the date of this prospectus. Of these remaining shares, will be available for sale in the public market as of the date of this prospectus; will be available for sale in the public market 90 days after the date of this prospectus; will be available for sale in the public market 180 days after the date of this prospectus; and will be available for sale in the public market at various times thereafter. However, WR Hambrecht+Co may waive the 180-day lock-up period at any time. Sales of a substantial number of shares of our common stock within a short period of time after this offering could cause our

stock price to fall. In addition, the sale of these shares could impair our ability to raise capital through the sale of additional stock.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains statements about our future results, levels of activity, performance goals, achievements or other future events which constitute forward-looking statements. In some cases, you can identify forward-looking statements by our use of words such as "may," "will," "could," "should," "project," "believe," "anticipate," "expect," "plan," "estimate," "forecast," "potential," "intend," "continue" or the negative or other variations of these words and other similar words. Forward-looking statements involve known and unknown risks, uncertainties and other factors that could cause our actual results, performance, achievements or industry results to differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements. These risks, uncertainties and other factors include, among others, those discussed in more detail under the caption "Risk Factors" and elsewhere in this prospectus.

Our forward-looking statements are based on our current expectations, intentions and beliefs as of the date of this prospectus. Although we believe that the expectations reflected in our forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements or other future events. You should not place undue reliance on our forward-looking statements.

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USE OF PROCEEDS

We estimate that we will receive net proceeds from the sale of shares of our common stock in this offering of approximately \$ million, and \$ million if the underwriters exercise their over-allotment option in full, based upon an assumed offering price of \$ per share and after deducting estimated underwriting discounts and commissions and offering expenses. The principal purposes of this offering are to obtain additional capital and to create a public market for our common stock. We expect to use the net proceeds from this offering:

- . approximately \$2.0 million to repay credit advances outstanding under our credit facility;
- . approximately \$8.0 million to open new cafes and expand our distribution capabilities;
- . approximately \$2.5 million to upgrade our information systems for point of sale, sales order entry and food manufacturing;
- . approximately \$1.5 million for other capital expenditures; and
- . the remainder for working capital and other general corporate purposes.

We will have significant discretion in the use of the net proceeds of this offering. Investors will be relying on the judgment of our management regarding the application of the proceeds of this offering. Pending use of the net proceeds as discussed above, we intend to invest these funds in short-term, interest-bearing, investment-grade securities.

Our credit facility expires on January 31, 2002 and the advances thereunder bear interest, at our option, at the prime rate plus 0.75% or the London Interbank Offered Rate (LIBOR) rate plus 3.5%.

DIVIDEND POLICY

We have never declared or paid any dividends on our capital stock. We currently expect to retain any future earnings to fund the development and expansion of our business. Therefore, we do not anticipate paying cash dividends on our common stock in the foreseeable future.

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CAPITALIZATION

The following table shows, as of September 3, 2000, our cash and cash equivalents, short-term debt, and capitalization:

- . on an actual basis;
- . on a pro forma basis to reflect

- (1) the repurchase of an aggregate of 50,080 shares of our common, Series A and Series B preferred stock in December 2000 and January 2001;
 - (2) the sale of 3,046,124 additional shares of Series C preferred stock in February 2001; and
 - (3) the conversion of all outstanding shares of our Series A preferred stock, Series B preferred stock and Series C preferred stock into an estimated 22,782,165 shares of common stock not later than the completion of this offering; and
- . on a pro forma as-adjusted basis to reflect
- (1) the sale of shares of common stock in this offering at the assumed initial public offering price of \$ per share, after deducting the estimated underwriting discounts and commissions and offering expenses; and
 - (2) the repayment of a \$2.0 million credit facility that is currently outstanding with a portion of our net proceeds from this offering.

<TABLE>
<CAPTION>

	As of September 3, 2000		

	(In thousands except share data)		
	Actual	Pro forma	Pro forma as adjusted
	-----	-----	-----
<S>	<C>	<C>	<C>
Cash and cash equivalents.....	\$ 1,685	\$ 1,685	\$
	=====	=====	=====
Short term debt:			
Short term borrowings.....	\$ 2,000	\$ 2,000	\$
Current maturities of long term debt.....	199	199	
	-----	-----	-----
Total short term debt.....	2,199	2,199	
Long term debt, excluding current maturities...	69	69	
Mandatorily redeemable convertible preferred stock, no par value; 50,000,000 authorized shares; Issued and outstanding shares-- 18,784,004 actual, none pro forma and pro forma as adjusted.....	52,525	--	
	-----	-----	-----
Shareholders' equity (deficit):			
Common stock, no par value; 100,000,000 shares authorized;			
Issued and outstanding shares--24,125 actual, pro forma and pro forma as adjusted....	2,075	2,075	
Additional paid-in capital.....	(4,653)	47,872	
Deferred stock compensation.....	(1,161)	(1,161)	
Accumulated deficit.....	(38,991)	(38,991)	
	-----	-----	-----
Total shareholders' equity (deficit).....	(42,730)	9,795	
	-----	-----	-----
Total capitalization.....	\$ 12,063	\$ 12,063	\$
	=====	=====	=====

</TABLE>

The shares of common stock outstanding in the pro forma as adjusted columns exclude:

- . 2,481,193 shares of our common stock issuable as of September 3, 2000, upon the exercise of outstanding stock options at a weighted average exercise price of \$1.81 per share;
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- . 5,686,636 shares of common stock issuable upon the exercise of warrants to purchase Series C preferred stock outstanding as of September 3, 2000; these warrants will convert into warrants to purchase common stock with an exercise price of approximately \$0.96 per share following the conversion of the Series C preferred stock.
 - . 3,968,170 shares of common stock issuable upon exercise of options granted after September 3, 2000 or reserved for issuance under our stock option plan, and the 1,200,000 shares of common stock that we plan to reserve for issuance under our 2001 Employee Stock Purchase Plan, which

we intend to adopt before the closing of this offering.

DILUTION

Our pro forma net tangible book value as of September 3, 2000 was approximately \$9.8 million, or \$0.50 per share of common stock. Pro forma net tangible book value per share represents the amount of total tangible assets less total liabilities, divided by 19,624,803, the number of shares of common stock treated as outstanding on a pro forma basis after giving effect to the conversion of our Series A, Series B and Series C preferred stock. After giving effect to the sale of the shares of common stock offered in this offering at the assumed public offering price, net of offering expenses, our pro forma net tangible book value at September 3, 2000 would have been \$ million, or \$ per share of common stock. This represents an immediate increase in net pro forma tangible book value to existing shareholders of \$ per share and an immediate dilution of \$ per share to new investors. The following table illustrates the per share dilution:

<TABLE>		
<S>	<C>	<C>
Initial public offering price per share.....		\$
Net tangible book value per share as of September 3, 2000..	\$	
Increase attributable to the sale of shares offered hereby.....		-----
Adjusted net tangible book value after this offering.....		-----
Dilution in the net tangible book value to new investors...		\$
		=====
</TABLE>		

The following table summarizes on a pro forma basis, after giving effect to the conversion of our Series A, Series B and Series C preferred stock, the total number of shares of common stock purchased from us, the total consideration paid to us and the average price per share paid by existing shareholders and by new investors, in each case based upon the number of shares of common stock and Series A, Series B and Series C preferred stock outstanding as of September 3, 2000.

<TABLE>					
<CAPTION>					
	Shares		Total		Average
	Purchased		Consideration		Price
	Number	Percent	Amount	Percent	per
	-----		-----		Share
<S>	<C>	<C>	<C>	<C>	<C>
Existing Shareholders.....		%	\$	%	\$
New Investors.....		%		%	
	-----	---	-----	---	-----
Total.....		100%	\$	100%	\$
	=====	===	=====	===	=====
</TABLE>					

The number of shares held by existing shareholders will be , or approximately % of the total shares of common stock outstanding, and the number of shares held by new investors will be , or approximately % of the total shares of common stock outstanding.

If the underwriters' over-allotment option is exercised in full, the number of shares of common stock held by existing shareholders will be reduced to or % of the total number of shares of common stock to be outstanding after this offering and the number of shares of common stock held by new investors will increase to shares, or % of the total number of shares of common stock to be outstanding immediately after this offering.

The foregoing discussions and tables assume no exercise of any outstanding stock options or warrants. As of September 3, 2000, there were options outstanding to purchase 2,481,193 shares of common stock at a weighted average exercise price of \$1.81 per share. As of September 3, 2000, there were warrants outstanding to purchase 5,686,636 shares of common stock at an adjusted exercise price of \$0.96 per share. If all of these options and the warrant were exercised on September 3, 2000, our pro forma net tangible book value as of that date would have been \$. million, or \$. per share of common stock, and this offering would represent an immediate dilution of \$. per share to new investors.

SELECTED FINANCIAL DATA

The table below shows selected financial data for our last five years and for the nine periods ended September 3, 2000 and September 5, 1999. The selected statement of operations data for each of the three fiscal years ended December 26, 1999, December 27, 1998 and December 28, 1997 and the selected balance sheet data at December 26, 1999 and December 27, 1998 are derived from our audited financial statements included elsewhere in this prospectus. The selected statement of operations data for the fiscal year ended December 29, 1996 and the period from inception (March 1, 1995) to December 31, 1995 and the selected balance sheet data at December 28, 1997, December 29, 1996 and December 31, 1995 are derived from our audited financial statements not included in this prospectus. The selected statement of operations data for the nine periods ended September 3, 2000 and September 5, 1999 and the selected balance sheet data at September 3, 2000 are derived from our unaudited financial statements included elsewhere in this prospectus. The unaudited interim financial statements have been prepared on a basis consistent with the audited financial statements appearing elsewhere in this prospectus and, in the opinion of management, include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the financial information.

Through fiscal year 2000 we have measured our operational results on thirteen 4-week periods. Each of the first three quarters consists of three 4-week periods and our fourth quarter consists of four 4-week periods. To account for the 365th day we lose from the thirteenth period, and the leap year, every four years the thirteenth period consists of five weeks. Fiscal 2000 is such a year, making this year's fourth quarter consist of seventeen weeks. Starting in fiscal year 2001 we will be converting to four 13-week reporting periods, based on a 52- or 53-week fiscal year.

The following selected financial data should be read in conjunction with our financial statements and related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this prospectus. The pro forma shares used in the calculation of net loss per share reflect the conversion of all outstanding shares of preferred stock into common stock.

<TABLE>
<CAPTION>

	Inception (March 1, 1995) to December 31, 1995	Fiscal Year				Nine Periods Ended	
		1996	1997	1998	1999	September 5, 1999	September 3, 2000
(In thousands except per share and share data)							
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Statement of Operations Data							
Sales:							
Retail.....	\$ --	\$ --	\$ 6,000	\$ 14,706	\$ 23,023	\$ 15,434	\$ 19,667
Wholesale and other.....	--	--	504	659	2,575	1,562	3,341
Total sales.....	465	2,835	6,504	15,365	25,598	16,996	23,008
Cost of food and packaging.....	250	1,261	3,079	6,979	11,520	7,740	9,344
Occupancy.....	100	264	916	2,393	3,602	2,415	2,597
Labor.....	224	1,055	2,866	6,690	9,506	6,530	7,469
Depreciation and amortization.....	41	226	625	1,785	2,628	1,837	1,840
Other operating.....	86	554	1,135	2,501	2,419	1,700	1,806
General and administrative.....	522	822	3,404	6,492	6,033	4,099	3,828
Provision for asset impairment and store closure.....	--	--	--	1,169	779	779	33
Total operating expenses.....	1,223	4,182	12,025	28,009	36,487	25,100	26,917
Loss from operations....	(758)	(1,347)	(5,521)	(12,644)	(10,889)	(8,104)	(3,909)
Other (expense) income..	(2)	39	449	193	(4,492)	(4,247)	(110)
Net loss.....	\$ (760)	\$ (1,308)	\$ (5,072)	\$ (12,451)	\$ (15,381)	\$ (12,351)	\$ (4,019)
Preferred stock accretion.....	--	116	1,068	1,951	2,421	1,412	2,235
Net loss attributable to common shareholders....	(760)	(1,424)	(6,140)	(14,402)	(17,802)	(13,763)	(6,254)
Basic and diluted net loss per share.....	\$ (177.50)	\$ (70.65)	\$ (303.21)	\$ (710.72)	\$ (857.93)	\$ (663.28)	\$ (275.49)

</TABLE>

<TABLE>
<CAPTION>

	Inception (March 1, 1995) to December 31, 1995	Fiscal Year				Nine Periods Ended	
		1996	1997	1998	1999	September 5, 1999	September 3, 2000
(In thousands except per share and share data)							
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Statement of Operations Data							
Weighted-average shares used in computing basic and diluted net loss per share.....	4,282 =====	20,158 =====	20,250 =====	20,264 =====	20,750 =====	20,750 =====	22,701 =====
Pro forma basic and diluted net loss per share (unaudited).....					\$ (0.89) =====		\$ (0.21) =====
Weighted-average shares used in computing pro forma basic and diluted net loss per share (unaudited).....					17,264,056 =====		19,647,697 =====
Other Financial Data:							
EBITDA(1).....	\$ (717)	\$ (1,121)	\$ (4,896)	\$ (10,859)	\$ (8,261)	\$ (6,267)	\$ (2,069)
Cash provided by (used in):							
Operating activities...	(800)	(816)	(3,112)	(8,341)	(8,137)	(6,743)	(1,414)
Investing activities...	(977)	(1,800)	(5,727)	(10,956)	(1,591)	(602)	(484)
Financing activities...	\$1,924	\$ 8,888	\$ 18,666	\$ 5,259	\$ 9,673	\$ 9,612	\$ 1,430

</TABLE>

(1) EBITDA represents earnings before interest expense, interest and other income, income taxes, and depreciation and amortization. EBITDA data are included because management understands that such information is considered by certain investors as an additional basis on which to evaluate the Company's ability to pay interest, repay debt and make capital expenditures. Because all companies do not calculate EBITDA identically, the presentation of EBITDA herein is not necessarily comparable to similarly entitled measures of other companies. EBITDA is not intended to represent and should not be considered more meaningful than, or an alternative to, measures of operating performance as determined in accordance with generally accepted accounting principles.

<TABLE>
<CAPTION>

	December 31, 1995	December 29, 1996	December 28, 1997	December 27, 1998	December 26, 1999	September 3, 2000
(In thousands)						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Balance Sheet Data:						
Cash and cash equivalents.....	\$ 147	\$6,419	\$16,246	\$ 2,208	\$ 2,153	\$ 1,685
Working capital.....	56	5,852	13,948	(5,554)	(2,414)	(2,801)
Total assets.....	1,358	9,494	25,301	19,958	17,676	16,588
Current liabilities.....	217	912	2,956	9,507	5,955	6,724
Long-term liabilities...	111	210	317	474	213	69
Mandatorily redeemable convertible preferred stock.....	--	8,531	28,197	30,148	48,025	52,525
Total shareholders' equity (deficit).....	\$1,030	\$ (159)	\$ (6,169)	\$ (20,171)	\$ (36,517)	\$ (42,730)

</TABLE>

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

You should read the following discussion and analysis in conjunction with our consolidated financial statements and related notes included elsewhere in this prospectus. Except for historical information, the discussion in this prospectus contains forward-looking statements that involve risks and

uncertainties. The principal factors that could cause or contribute to differences in our actual results are discussed in the section titled "Risk Factors."

Company Overview

BRIAZZ prepares and sells high-quality, branded lunch and breakfast foods for the "on-the-go" consumer. We sell our products primarily through our company-operated cafes, through delivery of box lunches and catered platters directly to corporate customers and through selected wholesale accounts. Our core products are sandwiches, salads and soups, which are complemented by a variety of fresh baked goods, premium juices, Starbucks coffees and fresh fruit.

We currently operate 39 cafes in Seattle, San Francisco, Chicago and Los Angeles. In 1995, we opened our first cafe in Seattle. We expanded our operations into San Francisco in 1996, Chicago in 1997 and Los Angeles in 1998. Our growth strategy is to open new cafes in our existing markets and, when appropriate, to enter into new markets by concurrently opening a central kitchen and at least four to six cafes and initiating delivery of box lunch and catering services.

Geographic Markets

We currently operate in four markets: Seattle, San Francisco, Chicago and Los Angeles. Each market is supported by its own central kitchen. We have presented our sales results here by geographic markets to help you understand our business, but we do not operate our business in geographic segments. Our business is segmented by retail sales, which includes sales from cafes, box lunches and catering platters, and wholesale and other sales, which includes sales from wholesale, grocery and other accounts.

Below is a comparison of sales in each market for the fiscal years 1997 through 1999 and for the first nine periods of 1999 and 2000. Market pre-tax profit (loss) consists of all sales less all expenses related to each market other than corporate general and administrative expense. Sales include sales from cafes, box lunches, catering platters, wholesale, grocery and other accounts. Expenses for each market consist of occupancy, labor, general and administrative, depreciation and amortization expense, provision for asset impairment and other operating expenses. Each of these items are described in more detail in "Results of Operations". Depreciation and amortization expense related to corporate assets is included in corporate general and administrative expense.

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	Fiscal Year			Nine Periods Ending	
	1997	1998	1999	September 5, 1999	September 3, 2000
	<C>	<C>	<C>	<C>	<C>
Seattle					
Sales.....	\$ 4,247	\$ 7,364	\$10,050	\$ 6,636	\$ 8,540
Pre-tax profit (loss) ..	\$ (161)	\$ (1,567)	\$ (673)	\$ (564)	\$ 439
Cafes.....	7	10	11	10	10
San Francisco					
Sales.....	\$ 1,988	\$ 4,987	\$ 8,830	\$ 5,874	\$ 7,894
Pre-tax profit (loss) ..	\$ (1,368)	\$ (1,392)	\$ (339)	\$ (425)	\$ 811
Cafes.....	6	12	11	11	11
Chicago					
Sales.....	\$ 268	\$ 2,617	\$ 4,317	\$ 2,934	\$ 3,750
Pre-tax profit (loss) ..	\$ (522)	\$ (2,201)	\$ (1,659)	\$ (1,192)	\$ (832)
Cafes.....	2	9	9	9	9
Los Angeles					
Sales.....	--	\$ 397	\$ 2,397	\$ 1,552	\$ 2,823
Pre-tax profit (loss) ..	--	\$ (720)	\$ (1,248)	\$ (905)	\$ (354)
Cafes.....	--	5	5	4	7
Total Sales.....	\$ 6,504	\$15,365	\$25,598	\$16,996	\$23,008
Market pre-tax profit (loss).....	\$ (2,051)	\$ (5,879)	\$ (3,919)	\$ (3,085)	\$ 64

Total Cafes..... 15 36 36 34 37
 </TABLE>

Results of Operations

The following discussion of our results of operations should be read in conjunction with "Selected Financial Data," the consolidated financial statements and accompanying notes and the other financial data included elsewhere in this prospectus. Our fiscal year ends on the last Sunday in December and is based on a 52- or 53-week fiscal year.

<TABLE>
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	Fiscal Year			Nine Periods Ending	
	1997	1998	1999	September 5, 1999	September 3, 2000
	(As a percentage of sales)				
<S>	<C>	<C>	<C>	<C>	<C>
Statement of Operations Data					
Sales:					
Retail.....	92.2%	95.7%	89.9%	90.8%	85.5%
Wholesale and other.....	7.8	4.3	10.1	9.2	14.5
Total sales.....	100.0	100.0	100.0	100.0	100.0
Cost of food and packaging..	47.3	45.4	45.0	45.5	40.6
Occupancy.....	14.1	15.5	14.1	14.2	11.3
Labor.....	44.1	43.5	37.1	38.4	32.5
Depreciation and amortization.....	9.6	11.6	10.3	10.8	8.0
Other operating.....	17.4	16.4	9.4	10	7.9
General and administrative..	52.3	42.3	23.6	24.1	16.6
Provision for asset impairment and store closure.....	0.0	7.6	3.0	4.6	0.1
Total operating expenses.....	184.9	182.3	142.5	147.7	115.4
Loss from operations.....	(84.9)	(82.3)	(42.5)	(47.7)	(17.0)
Other (expense) income.....	6.9	1.3	(17.6)	(25.0)	(0.5)
Net loss.....	(78.0%)	(81.0%)	(60.1%)	(72.7%)	(17.5%)

Selected Operations Data

Number of locations at period end					
Central kitchens.....	3	4	4	4	4
Cafes.....	15	36	36	34	37

</TABLE>

Nine Periods Ended September 3, 2000 Compared with Nine Periods Ended September 5, 1999

Sales

Total sales increased by \$6.0 million, or 35.3%, from \$17.0 million to \$23.0 million.

Retail sales increased by \$4.3 million, or 27.9%, from \$15.4 million to \$19.7 million. Of this increase, \$0.7 million was attributable to the three new cafes opened in Los Angeles. The remainder of the increase was due to our new food introduction program, in which we update our product offerings approximately every six to eight weeks, and our new inventory system, which captured same cafe sales growth by allowing us to manage the availability of items for sale in our cafes in a more efficient manner. In April 2000 we provided some Charles Schwab Inc. offices with box lunches and catered platters on a daily basis. In addition, as our brand awareness has matured in each geographic region, we have been able to grow our box lunch and catering sales.

Wholesale and other sales increased by \$1.7 million, or 106.3%, from \$1.5 million to \$3.3 million. This increase was primarily attributable to new relationships with three customers. In 1999 we entered into a wholesale account relationship with Kozmo.com, an internet-based consumer delivery service. Charles Schwab Inc. became a wholesale customer in May 2000. In June 2000 we began to provide Tully's Coffee with food products for selected retail cafes located in Seattle and San Francisco.

Costs of Food and Packaging

Cost of food and packaging increased by \$1.6 million, or 20.8%, from \$7.7 million to \$9.3 million. Cost of food and packaging decreased as a percentage of total sales from 45.5% to 40.6%.

Cost of food and packaging for retail sales increased by \$1.5 million, or 22.1%, from \$6.8 million to \$8.3 million. This increase was primarily due to increased sales.

Cost of food and packaging for wholesale and other sales was \$1 million for both periods, with a negligible increase primarily due to increased sales.

The cost of food and packaging as a percentage of total sales for each of retail sales and wholesale and other sales decreased primarily due to implementation of a new purchasing process, which improved our ability to source low cost ingredients. We entered into a relationship with Marriott Distribution Services, under which they procure and deliver to our central kitchens approximately 40% of our ingredients and packaging products.

Operating Expenses

Operating expenses consist of occupancy, labor, depreciation and amortization, other operating, general and administrative expense and provision for asset impairment. Total operating expenses increased \$0.2 million, or 0.1%, from \$17.4 million to \$17.6 million. As a percentage of total sales, our operating expenses decreased from 102.1% to 76.4%. This decrease was primarily due to our increase in total sales. We expect operating expenses to continue to increase as energy costs in three of the four geographic markets in which we operate our cafes and central kitchens continue to increase.

Occupancy expense consists of costs related to the leasing of retail space for our cafes and our central kitchens. Occupancy expense increased \$0.2 million, or 8.3%, from \$2.4 million to \$2.6 million. This increase was primarily due to the opening of three additional cafes. As a percentage of sales, occupancy expense decreased from 14.2% to 11.3%, primarily due to increased sales. Our rents are either fixed or variable determined as a percentage of sales, or a combination of both.

Labor expense consists of wages and salaries paid to employees. Labor expense increased \$1.0 million, or 15.4%, from \$6.5 million to \$7.5 million. This increase was primarily due to the opening of three additional cafes. As a percentage of sales, labor expense decreased from 38.4% to 32.5%. The decrease was due to an

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increase in sales. We also used a software program to enable us to more efficiently schedule personnel, both in the central kitchens as well as our cafes. In addition, we implemented a just-in-time inventory and order guide which helped us to further increase labor efficiency.

Depreciation and amortization expense consists of the periodic expensing of leasehold improvements, equipment and vehicles. Depreciation and amortization expense was unchanged. As a percentage of sales, depreciation and amortization expense decreased from 10.8% to 8.0%. This decrease was primarily due to an increase in sales.

Other operating expense consists of direct operating, marketing, administrative, repair and maintenance and site termination expense. Other operating expense increased by \$0.1 million, or 5.9% from \$1.7 million to \$1.8 million. As a percentage of sales, other operating expense decreased from 10.0% to 7.9%.

General and administrative expense relates to the support functions performed by our corporate office, such as finance, human resources, marketing, food development and information systems. This expense primarily consists of salaries of our corporate executives, senior management and staff, and our corporate offices lease and related office expenses. General and administrative expense decreased \$0.3 million, or 7.3%, from \$4.1 million to \$3.8 million, primarily due to increased efficiencies at the corporate level. As a percentage of sales, general and administrative expense decreased from 24.1% to 16.6%, primarily due to increased sales.

The provision for asset impairment and store closures related to the writedown of leasehold improvements at some cafe locations. The provision for asset impairment and store closures decreased by \$0.75 million, or 96%, from \$0.78 million to \$0.03 million. Based on the facts surrounding the asset's impairment, we recorded either a loss in the amount of the remaining book value or of the excess of the remaining net book value over discounted projected cash flows.

Other (Expense) Income

Other (expense) income includes interest expense, interest and other income. Other (expense) income decreased by \$4.2 million, or 98%, from a net expense of \$4.3 million to a net expense of \$0.1 million. This decrease is primarily related to noncash charges in 1999 related to the issuance of preferred stock as a conversion premium on the senior debt of \$3.0 million and noncash charges due to the amortization of deferred debt issue costs related to the value of warrants issued with the 15% senior bridge notes and 10% subordinated convertible bridge notes of \$0.9 million. Prior to the conversion of the debt and the related interest to redeemable preferred stock in 1999, the debt accrued interest of \$0.5 million during the year. No such debt was outstanding in 2000.

During April 1999, we issued \$3.0 million of 15% senior bridge notes and warrants. On August 31, 1999, the notes, together with accrued interest, converted into shares of series C preferred stock. Additionally, senior note holders also received three million shares of series C preferred stock as a conversion premium, the estimated fair value of which is \$3.0 million and has been recorded as a Senior Notes financing cost included in interest expense.

During December 1998, we issued \$4.9 million of 10% subordinated convertible bridge notes and warrants. On August 31, 1999, the notes, together with accrued interest, converted into shares of series C preferred stock.

Costs associated with the borrowings were amortized into interest expense over the life of the borrowing.

Year Ended December 26, 1999 Compared With Year Ended December 27, 1998

Sales

Total sales increased by \$10.2 million, or 66.2%, from \$15.4 million to \$25.6 million.

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Retail sales increased by \$8.3 million, or 56.5%, from \$14.7 million to \$23.0 million. This increase was primarily due to an increase in sales at existing cafes.

Wholesale and other sales increased by \$1.9 million, or 271.4%, from \$0.7 million to \$2.6 million. This increase was primarily due to the addition of a relationship with Quality Food Centers in Seattle to distribute our products in their grocery stores. We do not expect significant growth in sales to grocery stores in the future.

Cost of Food and Packaging

Cost of food and packaging increased by \$4.5 million, or 64.3%, from \$7.0 million to \$11.5 million. As a percentage of sales, cost of food and packaging decreased from 45.4% to 45.0%.

Cost of food and packaging for retail sales increased by \$3.4 million, or 51.5%, from \$6.6 million to \$10.0 million. This increase was primarily due to an increase in sales.

Cost of food and packaging for wholesale and other sales increased by \$1.1 million, or 330%, from \$0.4 million to \$1.5 million. This increase was primarily due to an increase in sales.

Operating Expenses

Total operating expenses increased by \$4.0 million, or 19.0%, from \$21.0 million to \$25.0 million. This increase was primarily due to increased sales. As a percentage of sales, total operating expenses decreased from 136.9% to 97.5% of total sales. This decrease was primarily due to a reduction in general and administrative expenses as well as a reduction in labor expense.

Occupancy expense increased by \$1.2 million, or 50%, from \$2.4 million to \$3.6 million. This increase was primarily due to an increase in sales and the increase in rents associated with those cafes with leases on a percentage of sales basis. As a percentage of sales, occupancy expense decreased from 15.6% to 14.1%, primarily due to an increase in sales.

Labor expense increased by \$2.8 million, or 41.8%, from \$6.7 million to \$9.5 million. This increase was primarily due to the increased staffing needed to support the increase in sales. As a percentage of sales, labor expense decreased from 43.5% to 37.1%. This decrease was primarily due to increased efficiencies resulting from the implementation of new production methods in our central kitchens.

Depreciation and amortization expense increased by \$0.8 million, or 44.4%, from \$1.8 million to \$2.6 million. This increase was primarily due to increased capital expenditures for our expansion into Los Angeles.

Other operating expense decreased by \$0.1 million, or 4.0%, from \$2.5 million to \$2.4 million. As a percentage of sales, other operating expense decreased from 16.3% to 9.4%.

General and administrative expense decreased by \$0.5 million, or 7.7%, from \$6.5 million to \$6.0 million due to an increase to support our growth offset by a reduction in certain general and administrative functions such as real estate development and risk management. As a percentage of sales, general and administrative expense decreased from 42.3% to 23.6%.

Provision for asset impairment and store closure decreased by \$0.4 million, or 33.3%, from \$1.2 million to \$0.8 million. The provision for asset impairment and store closure in both periods relate to the writedown of leasehold improvements. The decrease was primarily due the writeoff in 1998 of leasehold improvements for three cafes closed in 1999.

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Other (Expense) Income

Other (expense) income decreased by \$4.7 million, or 2,350%, from \$0.2 million to (\$4.5) million. This increase is primarily related to noncash charges related to the issuance of preferred stock as a conversion premium on the senior debt of \$3.0 million and noncash charges due to the amortization of deferred debt issue costs related to the value of warrants issued with the 15% senior bridge notes and 10% subordinated convertible bridge notes of \$0.9 million. Prior to the conversion of the debt and the related interest to redeemable preferred stock in 1999, the debt accrued interest of \$0.5 million during the year.

Cash interest charges of \$0.2 million were related to the interest on the line of credit and certain financing loans.

Year Ended December 27, 1998 Compared With Year Ended December 28, 1997

Sales

Total sales increased by \$8.9 million, or 136.9%, from \$6.5 million to \$15.4 million.

Retail sales increased by \$8.7 million, or 145%, from \$6.0 million to \$14.7 million. This increase was primarily due to a net increase of 21 cafes. It is also due to the introduction of box lunch and catering services in San Francisco in mid-1997 and in Chicago at the end of 1998.

Wholesale and other sales increased by \$0.2 million, or 40%, from \$0.5 million to \$0.7 million.

Cost of Food and Packaging

Cost of food and packaging increased \$3.9 million, or 130%, from \$3.1 million to \$7.0 million. As a percentage of sales, our cost of food and packaging decreased from 47.3% to 45.4%.

Cost of food and packaging for retail sales increased \$4.2 million, or 171.8%, from \$2.4 million to \$6.6 million. This increase was primarily due to our growth in sales.

Cost of food and packaging for wholesale and other sales decreased \$0.2 million, or 33.3%, from \$0.6 million to \$0.4 million. This increase was primarily due to our growth in sales.

Operating Expenses

Total operating expenses increased by \$12.1 million, or 136.0%, from \$8.9 million to \$21.0 million. This increase was primarily due to the net increase of 21 cafes, including our first five cafes in Los Angeles, as well as our Los Angeles central kitchen. As a percentage of sales, operating expenses decreased from 137.5% to 136.9%.

Occupancy expense increased by \$1.5 million, or 166.7%, from \$0.9 million to \$2.4 million. This increase was primarily due to an increase in the number of cafes in existing markets as well as expansion into Los Angeles. As a percentage of sales, occupancy expense increased from 14.1% to 15.6%.

Labor expense increased by \$3.8 million, or 131.0%, from \$2.9 million to \$6.7 million. This increase was primarily due to the net increase of 21 cafes and a central kitchen. As a percentage of sales, labor expense increased from 44.1%

to 43.5%.

Depreciation and amortization expense increased \$1.2 million, or 200.0%, from \$0.6 million to \$1.8 million. This increase was primarily due to increased capital expenditures for our expansion into Los Angeles. As a percent of total sales, depreciation and amortization expense increased from 9.6% to 11.6%.

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Other operating expense increased by \$1.4 million, or 127.3%, from \$1.1 million to \$2.5 million. This increase was primarily due to increases in communications expenses and repair and maintenance expenses, and purchases of miscellaneous office furniture and equipment.

General and administrative expense increased by \$3.1 million, or 91.2%, from \$3.4 million to \$6.5 million. The increase was primarily due to an increase of corporate general and administrative expense. As a percentage of sales, general and administrative expense decreased from 52.3% to 42.3%.

Provision for asset impairment and store closure increased from none to \$1.2 million. The provision for asset impairment and store closure relates to the writedown of leasehold improvements. The increase was primarily due the writedown in 1998 of leasehold improvements.

Other (Expense) Income

Other (expense) income decreased by \$0.25 million, or 56%, from \$0.45 million to \$0.2 million. This decrease in interest and other income is primarily related to noncash charges in 1998 due to the amortization of \$0.3 million of debt issue costs related to the 10% subordinated convertible bridge notes issued during 1998 and to the \$0.9 million of interest accrued on those notes.

Liquidity and Capital Resources

Since inception we have financed our operations primarily through the issuance of capital stock, and have raised cash of approximately \$47.4 million from sales of redeemable convertible preferred and common stock. In addition to funding capital expenditures, which have totaled approximately \$21.5 million since inception, net cash provided by financing activities has funded our investments in business and market development and related operating losses. Since inception and through September 3, 2000, we have reported net losses of approximately \$39.0 million. In the near term, operating losses may continue despite actions taken to reduce negative cash flow from operations.

Net cash used in operating activities for the 1997, 1998 and 1999 fiscal years and the nine periods ended September 3, 2000 were \$3.1 million, \$8.3 million, \$8.1 million and \$1.4 million, respectively. Net cash used in operating activities in each period resulted primarily from net loss before non-cash charges in addition to increases in accounts payable and accrued expenses.

Net cash used in investing activities for the 1997, 1998 and 1999 fiscal years and the nine periods ended September 3, 2000 was approximately \$5.7 million, \$11.0 million, \$1.6 million and \$0.5 million, respectively. Net cash used in investing activities resulted from capital additions primarily related to opening additional cafes and central kitchens.

Net cash provided by financing activities for the 1997, 1998 and 1999 fiscal years and for the nine periods ended September 3, 2000 was \$18.7 million, \$5.3 million, \$9.7 million and \$1.4 million, respectively. Net cash provided by financing activities resulted primarily from the issuance of capital stock, which was partly offset by financing costs and scheduled principal repayments primarily relating to delivery vehicle financing. In February 2001, net cash provided from the issuance of additional shares of series C preferred stock was \$3.0 million.

EBITDA represents earnings (loss) before interest expense, interest and other income, income taxes, and depreciation and amortization. EBITDA (loss) for the 1997, 1998 and 1999 fiscal years and for the nine periods ended September 3, 2000 were (\$4.9) million, (\$10.9) million, (\$8.3) million and (\$2.1) million, respectively.

At September 3, 2000, we had cash and cash equivalents of \$1.7 million, negative working capital of (\$2.8) million and shareholders' deficit of (\$42.7) million. We also had a \$2.0 million bank line-of-credit at the bank's prime lending rate plus 0.75% or LIBOR plus 3.5%, all of which is outstanding. The line expires on January 31, 2002 and is due in monthly payments through January 2002.

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In addition to the three additional cafes that opened during the nine periods ended September 3, 2000, we opened two additional cafes in December 2000 and January 2001 and plan to open at least ten additional cafes during 2001, which will require approximately \$3.0 million in leasehold improvements and equipment.

We believe our current cash and cash equivalents, including expected net proceeds from this offering, will be sufficient to meet our anticipated cash needs for working capital and capital expenditures for at least the next 24 months. Thereafter, we may need to raise additional capital to finance our operations, as well as to enhance our operations, fund our expansion and respond to competitive pressures. We may be unable to obtain financing on terms favorable to us, if at all. Poor financial results, unanticipated expenses or unanticipated opportunities that require financial commitments could give rise to additional financing requirements sooner than we expect. If we raise additional funds through the issuance of equity or convertible debt securities, the percentage ownership of our existing shareholders would be reduced, and these securities might have rights, preferences or privileges senior to those of our common stock. If adequate funds are not available or are not available on acceptable terms, our ability to enhance our services, fund our expansion, respond to competitive pressures or take advantage of business opportunities would be significantly limited, and we might need to significantly restrict our operations.

Quantitative and qualitative disclosures about market risk

We have no derivative financial instruments or derivative commodity investments in our cash and cash equivalents and investments. We invest our excess cash in investment grade, highly liquid investments, consisting of money market instruments, bank certificates of deposit and short-term investments in commercial paper. We anticipate investing our net proceeds from this offering in similar investment grade and highly liquid investments pending their use as described in this prospectus. We do not believe these investments are subject to significant market risk

Under our revolving credit facility, we will be exposed to market risk from changes in interest rates on borrowings which bear interest at the lending bank's reference rate or LIBOR plus a fixed percentage. Because we do not believe that the amount of borrowings under the revolving line of credit will be material to our operations, we do not believe this risk will be material. All of our transactions are conducted, and our accounts are denominated, in United States dollars. Accordingly, we are not exposed to foreign currency risk.

Many of the food products purchased by us are affected by commodity pricing and are, therefore, subject to price volatility caused by weather, production problems, delivery difficulties and other factors which are outside our control. We believe that substantially all of our food and supplies are available from numerous sources, which helps to control food commodity risk. We believe we have the ability to increase menu prices, or vary the menu items offered, if needed in response to a food product price increase.

Recent Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Financial Instruments and for Hedging Activities" (SFAS 133), which provides a comprehensive and consistent standard for the recognition and measurement of derivatives and hedging activities. SFAS No. 133 was amended by SFAS 137, deferring the effective date to fiscal years beginning after June 15, 2000. In June 2000, SFAS 138 was issued, which amends provisions of SFAS 133. SFAS 138 will be implemented by us concurrently with SFAS 133. We do not anticipate the adoption of these standards to have a material impact on our results of operations or financial condition when adopted, as we hold no derivative financial instruments and do not currently engage in hedging activities.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 (SAB 101), "Revenue Recognition," which provides guidance on the recognition, presentation and disclosure of revenue in financial statements filed with the SEC. SAB No. 101 outlines the basic criteria that must be met to recognize revenue and provides guidance for disclosures related to revenue recognition policies. We have

recognized revenue and made disclosures in accordance with SAB No. 101. The adoption of SAB No. 101 did not have a material impact on our financial position or results of operations.

In March 2000, the Financial Accounting Standards Board issued Interpretation No. 44 (FIN44), "Accounting for Certain Transactions Involving Stock Compensation," an interpretation of the Accounting Principle Board Opinion 25.

Among other things, this interpretation clarifies the definition of "employee" for purposes of applying APB 25, "Accounting for Stock Issued to Employees," the criteria for determining whether a plan qualifies as a noncompensatory plan, and the accounting for an exchange of stock compensation awards in a business combination. This interpretation is effective July 1, 2000, but certain conclusions in this interpretation cover specific events that occur after either December 15, 1998 or January 12, 2000. The adoption of FIN No. 44 did not have a material impact on our financial position or results of operations.

BUSINESS

Overview

We prepare and sell high-quality, branded lunch and breakfast foods for the "on-the-go" consumer. We sell our products primarily through our company-operated cafes, through delivery of box lunches and catered platters directly to corporate customers and through selected wholesale accounts. Our core products are sandwiches, salads and soups, which are complemented by a variety of fresh baked goods, premium juices, Starbucks coffees and fresh fruit. Our goal is to introduce new food selections to our customers approximately every six to eight weeks and to provide foods encompassing a range of traditional and innovative tastes.

Our target customer is the office worker. Our cafes are conveniently located either in city center locations with a high density of office buildings and retail foot traffic or within individual office buildings where we serve as an amenity for building tenants. To satisfy the demands of our time-constrained customers for lunch, breakfast and between-meal snacks, we design our cafes for quick service. Refrigerated display cases offer easy access to pre-packaged food items.

Our central kitchens prepare, assemble and distribute substantially all of our food products. Establishing a central kitchen in each of our geographic locations enables us to grow and deliver consistently high-quality affordable food at an attractive unit cost.

Competitive Strengths

We intend to expand our presence in our existing markets and expand into new markets. To achieve our planned expansion goals, we intend to leverage the following strengths:

Well-defined concept. Over the past five years, we have refined our menu selections and cafe presentation, redesigned product workflow within our central kitchens and established strict real estate guidelines for new locations. These efforts have allowed us to increase customer traffic at existing locations and expand the number of stores we operate. The following are central factors in our business strategy:

- . Extensive, high-quality product offerings. We offer an extensive range of menu items designed for broad appeal to our target customers. We also offer varying portion sizes for selected salads and sandwiches. We believe our diverse product selection, ranging from traditional comfort foods, such as Cobb salads and tuna sandwiches, to innovative gourmet foods, including bouncy noodle salads and tarragon chicken sandwiches, attracts new customers and increases the frequency of visits by repeat customers.
- . Frequent menu changes. Our goal is to introduce new food selections to our customers approximately every six to eight weeks. We also adjust our menu seasonally by offering a larger variety of hot soups and sandwiches during the winter months, and a larger variety of salads during the summer months.
- . Speed and quality of service. We have designed our cafes to serve a large number of customers in a very short period of time and to allow easy movement within the cafe from entry to exit. Our cafes in amenity locations, together with our larger cafes, processed an average of 293 transactions per hour between 11:00 a.m. and 2:00 p.m. during the four weeks beginning November 5, 2000. In addition, because our employees in the cafes are not preparing most of the food products, they can focus their attention on customer service.
- . Range of prices. Our entrees range in price from \$2.99 to \$5.49, allowing customers with different budgets to enjoy our products. In addition, our multiple price point strategy allows customers to select their own meal combinations, such as a soup and salad or a soup and sandwich.
- . Multiple distribution channels. For the convenience of our corporate customers, we deliver box lunches and catered platters for in-office

meetings through our fleet of trucks and vans. We also deliver to selected wholesale customers.

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Central kitchens. We currently operate central kitchens as hubs for food preparation and distribution in each of our geographic markets. Central kitchens help enable us to consistently provide customers with a broad assortment of high-quality food products. This task is both more expensive and more difficult to manage when food is prepared on-site. Central kitchens also provide us with significant competitive advantages through economies of scale, health and safety controls and product-waste minimization. In addition, use of a central kitchen allows us to locate cafes on smaller sites and sites without the ventilation required for an on-site kitchen.

Strategic cafe locations. We locate our cafes primarily in areas with a high number of office buildings or within individual buildings where we serve as an amenity for building tenants. Amenity locations are typically sites on the ground floor or in the plaza of an office building and are often leased at favorable rates because they offer conveniences to building tenants. In addition, for cafes in amenity locations, very little marketing is required due to the high visibility of the cafe within the building and the fact that competition within the building is generally limited.

Experienced management. Our management team has over 89 years of combined experience in the retail and food industries. We believe our management team is well-positioned to manage the anticipated growth in our business.

Growth Strategy

We believe that significant growth opportunities exist for us both in our current markets and in new markets. The key strategies to drive our growth include the following initiatives:

Deepen our penetration in existing markets. Our expansion plans in our current markets call for the establishment of new cafes and an increase in our distribution capabilities to expand our sales from box lunches, catering platters and wholesale accounts. We believe that over the next five years the opportunity exists to add 150 cafes in our existing geographic markets; however, the number of locations that could satisfy our selection criteria is significantly larger. Increased market penetration and the resulting increase in sales will allow us to take further advantage of the economies of scale and distribution efficiencies provided by our central kitchens.

- . Amenity locations. In selecting sites and opening new locations, we will pursue a strategy of opening cafes primarily in amenity locations. We believe these sites often have a built-in barrier to entry because there are typically no other sites available in the building to potential competitors, or competition within the building is limited.
- . Real estate initiatives. In 2000, we opened five new cafes in amenity locations, averaging 1,650 square feet. We intend to open at least ten new cafes in amenity locations in 2001. It takes approximately eight months to open a new cafe from the time we sign a letter of intent with the building owner or manager. We recently have signed leases or letters of intent for three new locations.
- . Distribution capabilities. We believe there is a particularly significant market for our box lunches and catered meals outside the highly competitive city centers. In city centers, we are one of numerous food options for companies that need meals delivered. Outside city centers, however, the options are more limited. Because our food products are distributed through a central kitchen, our distribution area for box lunches and catered meals is not limited to the geographic areas where our cafes are located. Customers place orders directly with our branded sales department by phone, fax or through our web site. We intend to expand our fleet of delivery vans and hire additional sales representatives in all four geographic markets in order to further penetrate the market beyond our cafe locations.

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- . Use full capacity of central kitchens. We estimate that our central kitchens in Seattle and Los Angeles have the capacity to prepare and assemble up to 25,000 entree items per day and our central kitchens in Chicago and San Francisco have the capacity to prepare and assemble up to 15,000 entree items per day. In Seattle and San Francisco, we estimate we are using approximately 50% of each kitchen's capacity. In Chicago and Los Angeles, we estimate we are using 20% or less of each kitchen's capacity. In order to take advantage of the competitive strengths of the central kitchens created by economies of scale, we intend to increase our central kitchen use to full capacity.

Expand into new geographic markets. In the next few years, we intend to expand into new geographic markets. Although we have not yet identified specific new markets, we believe many of the 25 largest metropolitan areas in the United States, as well as certain international cities, are suitable for potential expansion of the BRIAZZ operations and brand. In general, it takes up to 18 months to establish a new central kitchen once the location has been identified. Our growth strategy is to open new cafes in our existing markets and, when appropriate, to enter into new markets by concurrently opening a central kitchen and at least four to six cafes and initiating delivery of box lunch and catering services.

Build brand awareness. We believe that sales of our branded food products through our cafes and other distribution channels reinforce our image as a provider of fresh, high-quality lunch and breakfast foods. We currently build brand awareness through cafe visibility, branded delivery vans and trucks and product packaging. We plan a number of marketing initiatives in 2001 designed to further build brand awareness, such as in-cafe promotions and redesigned signage for the cafes.

History

Victor D. Alhadeff founded BRIAZZ in 1995, after recognizing the convergence of two consumer trends: decreasing time for lunch and breakfast and an increasing desire for high-quality, healthy food at affordable prices. Mr. Alhadeff believed the demand for healthy, premium foods served quickly and conveniently could be met through the sale of pre-packaged food items from open, self-service refrigerated cases. In September 1995, we opened the first BRIAZZ cafe in Seattle, Washington. We expanded our operations into San Francisco in 1996, Chicago in 1997 and Los Angeles in 1998 and now operate 39 retail outlets.

Our Menu

Our core products are sandwiches, salads and soups. To complement our core product line, we offer a variety of fresh baked goods, juices, gourmet coffees and fresh fruit. Within each basic product category, such as sandwiches, salads, soups and baked goods, we strive to offer a large number of choices. On average, we offer approximately 300 different items in our cafes. Our entrees range in price from \$2.99 to \$5.49, allowing customers with different budgets to enjoy our products.

Our food products are made with high quality, fresh ingredients and served in our cafes, box lunches and on our catered platters within 24 hours. We develop our menu and recipes to provide flavorful choices ranging from the traditional to the innovative. Our sandwiches are made from a variety of traditional and artisan breads. Our largest supplier of artisan bread is the LaBrea Bakery, which supplies approximately 16.5% of our total bread purchases.

We are committed to an ongoing process of introducing new food items approximately every six to eight weeks for our cafes and approximately four times each year for our non-cafe distribution channels. New food items are introduced based on certain factors including food trends, customer input and test marketing in a limited number of cafes. From time to time, we remove seasonal and less popular items from our menu. In response to customer requests, we now offer hot sandwiches in each of our geographic markets. In addition to hot paninis, hot subs are currently offered in our cafes in Chicago, two of our cafes in San Francisco and one of our cafes in Seattle. Due to the popularity of the hot sub offerings, some of our cafes will be retrofitted to give them the ability to offer hot subs. In addition, to keep our product offering current, we adjust our menu on a seasonal basis. For example, we offer a larger variety of hot soups and sandwiches during the winter months, and a larger variety of salads during the summer months.

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Sixty percent of our cafe sales are derived from sandwiches, salads and soups. Our sandwiches and salads are prepared by our central kitchens and our soups are prepared by Stockpot Soups, a division of the Campbell Soup Co. In the morning and after lunch, the majority of cafe sales are beverages and fresh baked goods. Our beverage selection includes Starbucks coffee, fresh juices and other brand-name beverages. Our baked goods include bagels, muffins, pound cakes, scones and cookies. The cookies are baked in ovens in the cafes, providing hot, fresh cookies to our customers and filling the cafes with an enticing aroma. To broaden our menu during the breakfast hours, we now offer a selection of breakfast egg sandwiches on an English muffin or bagel that are served hot and sold with other pre-packaged items for takeaway.

To ensure the BRIAZZ brand is synonymous with high quality and consistency, our carefully developed and tested recipes call for fresh produce, premium ingredients and breads from local bakeries. We carefully select suppliers in each market based upon reputation, references, reliability, cost and other criteria.

Most of our products are prepackaged for convenience and labeled with our logo and a list of ingredients, which, in combination with clear packaging material, allows for easy product and ingredient identification and additional branding.

Our Distribution Channels

Our food products are distributed through our company-operated cafes, through delivery of box lunches and catered platters directly to corporate customers, and through selected wholesale accounts. These distribution channels are designed to increase market penetration within each geographic market. Our multiple distribution channels allow us to generate product volume in an effort to fully use the central kitchen within a geographic market.

Cafes.

Our 39 company-owned cafes are typically located in office buildings or high-density retail areas in city centers, approximately half of which are amenity locations. The sizes of the cafes range from 173 square feet in the Wrigley Building in Chicago to 3,816 square feet in the 525 Market building in San Francisco. The cafes sell an extensive selection of BRIAZZ branded and third-party products and incorporate a distinctive decor that is instrumental in building the BRIAZZ brand image.

We believe our target customers place a high priority on speed of service. Accordingly, we strive to make the entire process of selecting and purchasing products require less than five minutes inside the cafe, even during the lunch hour rush. Our cafes in amenity locations, together with our larger cafes, processed an average of 293 transactions per hour between 11:00 a.m. and 2:00 p.m. during the four calendar weeks beginning November 5, 2000. We have designed our cafes to serve a large number of customers in a very short period of time and to allow easy movement within the cafe from entry to exit. Most food items are clearly labeled and selected from self-serve refrigerated cases, requiring minimal employee assistance. The hot items on our menu, such as soups, hot subs and paninis, can be served quickly. This focus on speed and convenience caters to the time-constrained individual and, we believe, builds a loyal customer base.

The preparation of food products at our central kitchens minimizes the space required for food preparation in our cafes. Generally, our customers consume their purchases elsewhere; we do, however, provide a limited number of tables and chairs at some cafes for customers who wish to eat on the premises.

Box Lunches and Catering Platters.

We deliver box lunches and catering platters in each of our four geographic markets. We provide service to customers in the vicinities of our cafes and to customers whose business sites are located outside these vicinities. Our box lunches come in a BRIAZZ branded box and include a BRIAZZ branded sandwich or salad entree, complemented by a bag of chips, a beverage, a fruit cup and a cookie or brownie. Catering choices include breakfast trays, sandwich platters, salad bowls, party platters, dessert trays and cold beverages. Box

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lunches and catered platters are delivered by employees wearing BRIAZZ uniforms driving BRIAZZ branded trucks or vans. Our target customers are participants in business meetings where the employer pays for the order.

We receive box lunch or catering orders on a daily basis by telephone, fax and through our web site. We developed the web site in late 1999 in response to requests from corporate customers for online ordering capabilities. Approximately 13% of sales of box lunches and catering platters were made through our web site during the four weeks beginning October 30, 2000. Substantially all of our orders are filled at a central kitchen and delivered directly to the customer.

Wholesale Accounts.

In October 1998, we began distributing sandwiches and salads in Seattle at Quality Food Centers, Inc., a regional grocery store chain. Currently, our products are being sold at over 50 QFC stores. We do not currently intend to expand into other grocery stores. We have selectively offered our products to other wholesale accounts, including Tully's Coffee and Kozmo.com. Wholesale accounts represent an opportunity to generate additional production volume and build the BRIAZZ brand without incurring the capital expenditures associated with building new cafes.

Distribution Logistics.

Most of our products originate at a central kitchen and are transferred to various distribution points by our fleet of approximately 45 delivery trucks

and vans, many of which are refrigerated. We deliver food products at different times of the day, allowing us to use our fleet throughout the day. For example, our trucks and vans deliver each day's food products to our cafes very early in the morning. Our fleet delivers food products to our wholesale accounts mid-morning and delivers box lunches and catered platters at lunchtime. We pick up leftover food products from the cafes at the end of each day. Most unsold food is donated to charity through America's Second Harvest, a hunger relief organization, or their affiliates.

Operations

We operate with a team-based management system. We believe this helps us to rapidly resolve issues and spread successful developments through our organization. Our operations are structured by "triad teams" of retail, sales and manufacturing divisions in each geographic market. Most operating issues are solved locally through organized efforts of these teams. At the corporate level, local teams are supported by the "executive triad," comprised of the division heads and the director of operations services. Issues which cannot be solved by the local triad teams are resolved by the executive triad. Similarly, if a successful practice is developed in one market, it can be rapidly implemented in the other markets by the triad teams.

Central Kitchens.

Our central kitchens in each geographic area function as preparation, assembly and distribution hubs. We believe our use of central kitchens helps ensure the freshness, quality and consistency of our food products, encourages production efficiencies and reduced product waste and supports multiple distribution channels.

Central kitchen functions include ingredient preparation, baking, product assembly and packaging. The central kitchens are designed to benefit from the economies of scale generated by high unit-production volumes. For example, large, refrigerated preparation and assembly rooms eliminate the need to rotate products through coolers during the production process. Moreover, high unit-production volumes generated by the central kitchens justify the use of automated equipment such as product wrapping and packaging machines.

A key element of our brand-building strategy is to maintain consistent product quality through our comprehensive quality assurance programs. Central kitchen managers compile and analyze daily reports which

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detail key central kitchen statistics, including total production, production by business unit, labor as a percentage of sales and labor cost per unit produced. Quality assurance programs include our Hazardous Analysis Critical Control Point Program for use in our central kitchens and the ServSafe Training Program for use in our cafes and central kitchens created by the Education Foundation of the National Restaurant Association. In addition to our quality assurance and safety programs at the cafes and central kitchens, all food delivery vehicles are refrigerated for food safety.

In 1999, we retained Strategic Restaurant Engineers, an industrial engineering firm focused on the food service industry, for an analysis of our central kitchens. Based on their analysis, we are implementing a series of changes in the management and operations of our central kitchens to reduce our operating costs, particularly with respect to the labor cost per unit of production.

We outsource some food preparation to third parties in order to reduce production costs. For example, Stockpot Soups makes all soups served in our cafes, bakeries provide us with artisan bread and pastries in each market and all our cookie dough is produced by a third party.

Cafes.

Our cafes are typically open from early morning to late afternoon. These hours of operation are designed to capture the breakfast, lunch and afternoon traffic. Typically, our cafes have one or two managers supported by senior hourly "lead" employees. Each hourly employee is trained to facilitate speed and quality of service, performing such functions as cashiering, limited food preparation, coffee and other drink preparation, greeting customers and bussing tables.

With the guidance of a district manager, each cafe manager or lead employee is responsible for ordering the appropriate products and quantities from the central kitchen. To aid in this process, we have developed extensive cafe-level reports that provide managers with trend and product-volume information. The use of these reports helps ensure adequate inventory levels and helps reduce the amount of unsold products.

Employee Training and Development.

We have developed a comprehensive program to train employees in customer service, operations and product knowledge. Our general categories of training include: product training and customer service for all employees, and store operations for our retail personnel.

Our retail employees are exposed to a high level of product training. We believe that our personnel must be able to provide customers with information on the food products we offer. In addition, we believe that customer service training and awareness is critical to our success. We reinforce the importance of training on a daily basis in our retail locations. In addition to product training, we train our retail employees in general store operations to achieve and maintain a high level of quality and customer service.

Our central kitchen employees are trained in food preparation in order to ensure food safety, quality and consistency.

Purchasing.

Our purchasing staff procures all of our food ingredients, products and supplies. We seek to obtain high quality ingredients, products and supplies from reliable sources at competitive prices. To that end, we continually research and evaluate various food ingredients, products and supplies for consistency and compare them to our specifications. Whenever practical, our purchasing staff seeks to consolidate purchases with one distributor, such as Marriott Distribution Services, which procures approximately 40% of our ingredients and packaging products.

Competition

The quick-service segment within the restaurant industry is highly competitive. We compete on the basis of numerous factors, including service, convenience, taste, quality, value and price. Competitors include sandwich shops, company cafeterias, delicatessens, pushcart vendors, fast food chains, catering companies and other providers that offer quick and inexpensive meals. Pret a Manger has successfully executed a similar concept in Great Britain and has recently opened two locations in New York City. We may be unable to compete successfully against current or future competitors, many of which have significantly greater financial and marketing resources than we do.

Cafe locations and other properties.

Cafes. Currently there are 39 BRIAZZ cafes operating in four metropolitan areas. Of these cafes, are in amenity locations. We have eleven cafes in Seattle, twelve cafes in San Francisco, nine cafes in Chicago and seven cafes in Los Angeles. We operate all of our cafes in leased locations. Currently half of our leases are for five- or ten-year terms and include options to extend the terms. Currently half of our cafe leases provide for fixed rent payments exclusively. However, approximately 25% of our cafe leases contain both minimum rent and percentage-of-sales rent provisions and approximately 25% of our cafe leases contain percent-of-sales rent provisions. To implement our growth strategy, we will require additional cafe sites which we believe will be available on commercially reasonable terms, although we have not identified properties or signed letters of intent with regard to the space necessary for our intended growth.

Central kitchens. We currently have one central kitchen in each of our four markets. Our Seattle central kitchen, with our corporate headquarters, occupies 35,665 square feet under a lease that terminates on October 30, 2006. Our San Francisco central kitchen occupies 7,940 square feet under a lease that terminates on October 31, 2001, with an option to renew for one five-year period. Our Chicago central kitchen occupies 11,557 square feet under a lease that terminates on March 31, 2002, with options to renew for up to three four-year periods. Our Los Angeles central kitchen occupies 14,500 square feet under a lease that terminates on February 28, 2002, with options to renew for up to three five-year periods. We expect these facilities will be adequate for our needs for the foreseeable future.

Other properties. Our corporate headquarters are located in Seattle, Washington, and with our Seattle central kitchen, occupy 35,665 square feet under a lease that terminates on October 30, 2006. We expect these facilities will be adequate for our needs over the next 18 months.

Intellectual Property

We regard our trademarks and service marks as an important factor in the marketing and branding of our products and services. Our registered trademarks and service marks include, among others, the text "BRIAZZ" and our stylized logo set forth on the front and back covers of this prospectus. We have registered all of our marks with the United States Patent and Trademark Office.

We have also registered our ownership of the Internet domain name "www.briazz.com." We also own a Washington state registration for "JAVA JUMBLES." We believe that our trademarks, service marks and other proprietary rights have significant value and are important to our brand-building efforts.

An individual in Mexico City, Mexico has registered the Internet domain name "www.cafebriazz.com." We are attempting to have ownership of the domain name transferred to us, but we cannot assure you we will be successful. We are not aware of any other infringing uses that could materially affect our business, nor any prior claim to BRIAZZ(R), our stylized logo or JAVA JUMBLES that would prevent us from using these marks.

We have certain copyrights such as the design of our menus, brochures and designs used in connection with our trademarks and service marks, and trade secrets such as recipes, methods and processes, marketing and promotional strategies and proprietary customer lists. We have not recorded any copyrights with the United States Copyright Office.

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In addition to registered trademarks, we consider our food product packaging (typically consisting of a clear plastic container with a bold label and product description), our box lunch packaging (consisting of a brown cardboard box printed with our logo) and the design of the interior of our cafes (consisting of bright lighting, walls lined with well-lit refrigerated cases, and metal designwork) to be strong identifiers of our brand. Although we consider our packaging and store design to be essential to our brand identity, we have not applied to register trademarks and trade dress for these features, and therefore cannot rely on the legal protections provided by trademark registration.

We intend to vigorously protect our proprietary rights. We cannot predict, however, whether steps taken by us to protect our proprietary rights will be adequate to prevent misappropriation of these rights or the use by others of cafe or retail features based upon, or otherwise similar to, our concept. We may be unable to prevent others from copying elements of our concept and any litigation to enforce our rights will likely be costly and may divert resources away from our day-to-day operations.

Information Systems

The company currently maintains four separate information systems. We maintain a point of sales system responsible for recording sales and rate of sale within our retail operations. We maintain an order entry system/billing system for orders taken outside the retail operations. In our kitchens, we maintain a food costing system to enable us to track actual food costs by recipe. Within our corporate offices, we utilize AccPac, an accounting system.

During 2001, we intend to begin the process of upgrading our information systems with a new retail point of sale system, a new branded sales order entry system with web integration and an upgraded food costing and labor management system. We anticipate the upgrades will cost approximately \$2.5 million. With the exception of our accounting system, our current systems are DOS-based and will need to be updated to support our anticipated growth. Our AccPac accounting system was upgraded during fall 1999.

Employees

As of December 31, 2000, we employed 94 full-time salaried employees and 482 hourly employees. Of these employees, 204 were involved in our central kitchen, 69 were involved in our box lunch, catering and wholesale operations, 239 were involved in cafe operations, and 64 were involved in administrative/corporate functions including senior management. We believe our relationship with our employees is good. None of our employees is a party to a collective bargaining agreement or is represented by a labor union.

Government Regulation

We must comply with local, state and federal government regulations, standards and other requirements for food storage, preparation facilities, food handling procedures, other good manufacturing practices requirements, and product labeling. The U.S. Department of Agriculture has broad jurisdiction of all meat and poultry products, and separate authority over non-meat and poultry products is exercised by the Food and Drug Administration. State and local jurisdictions also have separate, distinct authority over our food-related operations. Advertising and promotional activities are subject to the jurisdiction of the Federal Trade Commission that has jurisdiction over all consumer advertising with respect to unfair or deceptive business practices. State and local jurisdictions typically enforce similar consumer protection statutes.

Based on the nature of our existing operations, continuous inspection is required by the U.S. Department of Agriculture at our Seattle central kitchen.

A USDA inspector visits this kitchen on a daily basis and all regulated products are inspected and passed by USDA, as reflected on the label of these foods with the USDA mark of inspection. The scope of USDA inspection is dependent on the manner in which we prepare and market meat and poultry products and thus could change in the future if we elect to modify our business operations in this regard.

Our facilities are subject to licensing and regulation by state and local health, sanitation, safety, fire and other authorities, including licensing and regulation requirements for the sale of food. To date, we have not experienced an inability to obtain or maintain any necessary licenses, permits or approvals, including restaurant and retail licensing. The development and construction of additional cafes must also comply with applicable zoning, land use and environmental regulations. Various federal and state labor laws govern our relationship with our employees and affect operating costs. These laws include minimum wage requirements, overtime, unemployment tax rates, workers' compensation rates, citizenship requirements and sales taxes. In addition, the federal Americans with Disabilities Act prohibits discrimination on the basis of disability in public accommodations and employment.

Legal Proceedings

BRIAZZ is not currently a party to any material legal proceeding.

MANAGEMENT

The following table sets forth information regarding our executive officers, directors, and other key personnel as of February 1, 2000:

<TABLE>
<CAPTION>

Name	Age	Position
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<S>	<C> <C>	
Victor D. Alhadeff.....	54	Chief Executive Officer and Chairman of the Board
C. William Vivian.....	49	President, Chief Operating Officer and Director
Tracy Warner.....	37	Vice President Finance, Chief Financial Officer, Treasurer and Secretary
Nancy Lazara.....	45	Vice President Food
Joel Sjostrom.....	39	Vice President Retail Operations
John Carleton(1).....	56	Director
Richard Fersch(1)(2)...	51	Director
Dan Kourkoumelis(1)(2)..	49	Director
Paul Vignano(1)(2).....	28	Director
Howard Schultz.....	47	Strategic Advisor

</TABLE>

(1) Member of the audit committee.

(2) Member of the compensation committee.

Victor D. Alhadeff, Chief Executive Officer and Chairman of the Board. Mr. Alhadeff has served as our Chairman of the Board since founding BRIAZZ in 1995, and as our Chief Executive Officer since 1996. Mr. Alhadeff also served as our President from 1995 to 1996, Secretary from 1995 to 2001 and Treasurer from 1996 to 2001. In 1983, Mr. Alhadeff founded Egghead, Inc., a specialty retailer of personal computer software and accessories. Mr. Alhadeff served as Chairman of Egghead until 1990, when he purchased Egghead University, the software training division of Egghead. Egghead University was renamed Catapult, and Mr. Alhadeff served as its Chairman and Chief Executive Officer until 1993, when Catapult was purchased by IBM. Prior to founding Egghead, Mr. Alhadeff founded Equities Northwest Inc., a corporation that formed, marketed and operated oil and gas partnerships, in 1971, and served as its Chief Executive Officer until the company was sold in 1983. From 1969 to 1971, he served as a First Lieutenant in the United States Army. Mr. Alhadeff received a B.A. in Business Administration from the University of Washington in 1968.

C. William Vivian, President, Chief Operating Officer and Director. Mr. Vivian joined us in January 1999 as President and Chief Operating Officer. In January 1999, he also began serving as a director. From 1997 to 1998, Mr. Vivian was a Senior Vice President of the Cucina Presto division of Cucina! Cucina!, a restaurant chain. From 1995 to 1997, Mr. Vivian was a Regional Vice President for Noah's Bagels, a chain of retail bagel bakeries. From 1994 to 1995, Mr. Vivian was a Zone Director of Operations for Taco Bell, a fast food restaurant chain. During 1993, Mr. Vivian was Vice President of Operations for Rally's, a drive-in restaurant chain. Mr. Vivian serves as a director of Food Lifeline, an affiliate of America's Second Harvest, a redistributor of food products. Mr. Vivian received a B.A. in Biology from the University of California, San Diego in 1973 and a Master in Hotel Administration from Cornell

University in 1978.

Tracy Warner, Vice President Finance, Chief Financial Officer, Treasurer and Secretary. Ms. Warner has served as our Vice President Finance since August 1999, our Chief Financial Officer since August 2000 and our Treasurer and Secretary since January 2001. From June 1999 to August 1999, Ms. Warner served as our Controller. Prior to joining BRIAZZ, Ms. Warner served as Corporate Controller for The Armco Group, a property management company, from 1998 to 1999; Director of Finance/Controller for Oberto Sausage Company, a manufacturer of meat snacks, from 1997 to 1998; Assistant Treasurer/Controller for Philip Services, an international recycling and disposal company, from 1993 to 1997; and Senior Auditor for Coopers & Lybrand, a public accounting firm, from 1987 to 1993. Ms. Warner received a B.A. in Business Economics from the University of California, Santa Barbara in 1987.

Nancy Lazara, Vice President Food. Ms. Lazara has served as Vice President Food since joining BRIAZZ in 1998. Ms. Lazara is responsible for menu strategy, product development, quality assurance and

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product purchasing. Prior to joining us, Ms. Lazara was Vice President of Product Development for H-E-B Grocery Company, a San Antonio-based supermarket chain, from 1989 to 1996 and Vice President, Food Services for Larry's Markets, a Seattle-based supermarket chain, from 1984 to 1989. Ms. Lazara received a Grande Diplome from Le Cordon Bleu Cooking School in France in 1975.

Joel Sjostrom, Vice President Retail Operations. Mr. Sjostrom has served as Vice President Retail Operations since January 2000. Mr. Sjostrom was previously our Regional Vice President, California from 1998 to January 2000, and our California Market Manager from 1997 to 1998. From 1986 to 1997, Mr. Sjostrom served as a Regional Manager at Baker's Square, a restaurant chain. Mr. Sjostrom received a B.A. in Marketing and Management from the University of Minnesota in 1986.

John Carleton, Director. Mr. Carleton has served as one of our directors since October 1996. From 1995 to the present, he has served as Senior Vice President of Benaroya Capital Company, L.L.C., a private investment company. Mr. Carleton serves as a director of Multiple Zones, Inc., a reseller of computer products and services.

Richard Fersch, Director. Mr. Fersch has served as one of our directors since October 1996. Mr. Fersch is the President of Eddie Bauer, Inc., a retailer of private-label clothing, accessories and home furnishings. Mr. Fersch joined Eddie Bauer in 1988 as Vice President of Stores and was promoted to President in 1993. Mr. Fersch serves as a director of Spiegel, Inc., the parent company of Eddie Bauer.

Dan Kourkoumelis, Director. Mr. Kourkoumelis has served as one of our directors since April 1999. From 1967 through 1998, Mr. Kourkoumelis was employed in various positions by Quality Food Centers, Inc., a supermarket chain, and became one of its directors in April 1991. He was appointed Executive Vice President of QFC in 1983 and Chief Operating Officer in 1987, President in 1989 and served as Chief Executive Officer from 1996 to September 1998. Mr. Kourkoumelis serves as a director of Expeditors International of Washington, Inc., a logistics company, and The Great Atlantic & Pacific Tea Company, Inc., a supermarket chain.

Paul Vigano, Director. Mr. Vigano has served as one of our directors since February 2000. Mr. Vigano is a Principal at Whitney and Co., a venture capital firm, where he has served as an investment professional since 1997. From 1996 to 1998, Mr. Vigano attended the Graduate School of Business at Stanford University. From 1994 to 1996, he was an analyst for Goldman Sachs & Co. Paul is a director of VitaminShoppe.com, an online retailer of vitamins and supplements, and a number of private companies, including Brooks Sports, a manufacturer of running footwear and apparel, and Portico Bed and Bath, a retailer of home furnishings.

Howard Schultz, Strategic Advisor. Mr. Schultz served as one of our directors from October 1996 to January 2001. Since January 2001, Mr. Schultz has served BRIAZZ as a strategic advisor. Mr. Schultz is the founder and has been Chairman of Starbucks Corporation since its inception in 1985. Mr. Schultz serves as a director of eBay, Inc., an Internet trading company, and drugstore.com, an online drugstore.

Board of Directors

In accordance with our bylaws, our Board of Directors consists of eight directors, which currently includes two vacancies. Pursuant to a shareholders' agreement dated August 15, 1997 among us and certain of our shareholders, as amended, two of our directors are selected by the holders of our Series A preferred stock, one of our directors is selected by Whitney Equity Partners, L.P. as a holder of our Series B preferred stock and five of our directors are

selected by the holders of our capital stock. Upon the effectiveness of this registration statement, the shareholders' agreement will terminate and, immediately prior to the closing of this offering, all outstanding shares of our preferred stock will convert into shares of common stock. Following the closing of this offering, all of our directors will be elected by the holders of our common stock. Our directors are elected by the shareholders at each annual meeting and hold office until the next annual meeting and the shareholders and until their respective successors are elected and qualified.

Board Committees

The compensation committee of the Board of Directors recommends, reviews and approves the salaries, benefits and stock incentive plans for our executive officers. The compensation committee also administers our compensation plans. The members of the compensation committee are Messrs. Fersch, Kourkouvelis and Vigano.

The audit committee of the Board of Directors reviews, acts on and reports to the Board of Directors with respect to various auditing and accounting matters, including the recommendation of our auditors, the scope of the annual audits, the fees to be paid to the auditors, the performance of our independent auditors and our accounting practices. The members of the audit committee are Messrs. Carleton, Fersch, Kourkouvelis and Vigano.

Director Compensation

Directors who are also our officers or employees do not receive any compensation for their services as directors. Each non-employee director receives reimbursement for reasonable expenses of attending board meetings. In addition, we grant nonqualified stock options to each non-employee director. During fiscal 2000, we granted options to acquire 10,000 common shares to each of the following directors: Mr. Carleton, Mr. Fersch, Mr. Kourkouvelis and Mr. Schultz, a former director and currently a strategic advisor. Such options were fully vested upon grant and are exercisable for \$1.00 per share.

Compensation Committee Interlocks and Insider Participation

Our compensation committee currently consists of Messrs. Fersch, Kourkouvelis and Vigano. Mr. Schultz served as a member of our compensation committee until he became a strategic advisor in January 2001. Peter Castleman served as a member of our compensation committee until he resigned as a director and Mr. Vigano was appointed as his successor in February 2000. None of our executive officers serves as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving as a member of our board of directors or its compensation committee.

Indemnification and Limitation of Director and Officer Liability

Our articles of incorporation and our bylaws limit the liability of directors to the fullest extent permitted by the Washington Business Corporation Act as it currently exists or as it may be amended in the future. Consequently, subject to the Washington Business Corporation Act, no director will be personally liable to us or our shareholders for monetary damages resulting from his or her conduct as a director of BRIAZZ, except liability for:

- . Acts or omissions involving intentional misconduct or knowing violations of law;
- . Unlawful distributions; or
- . Transactions from which the director personally receives a benefit in money, property or services to which the director is not legally entitled.

Our articles of incorporation also provide that we may indemnify any individual made a party to a proceeding because that individual is or was a director or officer of ours, and this right to indemnification will continue as to an individual who has ceased to be a director or officer and will inure to the benefit of his or her heirs, executors or administrators. Any subsequent repeal of or modification to our articles of incorporation will not adversely affect any right of a director or officer of ours who is or was a director or officer at the time of such repeal or modification. To the extent the provisions of our articles of incorporation provide for indemnification of directors or officers for liabilities arising under the Securities Act of 1933, as amended, those provisions are, in the opinion of the Securities and Exchange Commission, against public policy as expressed in the Securities Act and they are therefore unenforceable.

Our articles of incorporation provide that we will indemnify our directors and officers and may indemnify our other officers and employees and other agents to the fullest extent permitted by law.

We maintain director and officer insurance for claims made against any of our directors, officers or employees.

Executive Compensation

The following table sets forth information concerning compensation paid for services rendered in the year ended December 31, 2000, to our Chief Executive Officer and each of our four most highly compensated executive officers whose total salary and bonus for such year exceeded \$100,000:

Summary Compensation Table

<TABLE>
<CAPTION>

Name and Principal Position	Annual Compensation		Long Term Compensation Awards	Other Annual Compensation
	Salary	Bonus	Shares Underlying Options(1)	
<S>	<C>	<C>	<C>	<C>
Victor D. Alhadeff..... Chief Executive Officer	\$150,000	\$ --	75,000	--
C. William Vivian..... President and Chief Operating Officer.....	194,369	31,920	50,000	--
Tracy Warner..... Vice President Finance and Chief Financial Officer	106,923	5,755	60,000	--
Nancy Lazara..... Vice President Food	112,223	17,199	30,000	--
Joel Sjostrom..... Vice President Retail Operations	111,130	6,750	60,000	--

</TABLE>

(1) Represents options granted under our stock option plan. We granted our employees options to purchase an aggregate of 816,100 shares of our common stock in fiscal 2000. The options listed in this table are exercisable for \$0.25 per share. The fair market value of one common share at the time of grant for one-third of Mr. Sjostrom's options was \$0.58. The fair market value of one common share at the time of grant for other options was \$2.08. The options granted to our employees, including the options set forth in this table, typically vest in annual installments over a four-year period and expire 10 years from the grant date.

Option Grants In Last Fiscal Year

The following table sets forth certain information regarding stock option grants to the officers named in the Summary Compensation Table during the fiscal year ended December 31, 2000. The potential realizable value is calculated based on the assumption that the common stock appreciates at the annual rate shown, compounded annually, from the date of grant until the expiration of its term. These numbers are calculated based on Securities and Exchange Commission requirements and do not reflect our projection or estimate of future stock price growth. The actual value realized may be greater or less than the potential realizable value set forth in the table. Potential realizable values are computed by:

- . multiplying the number of shares of common stock subject to a given option by the exercise price;
- . assuming that the aggregate stock value derived from that calculation compounds at the annual 5% or 10% rate shown in the table for the entire ten-year term of the option; and
- . subtracting from that result the aggregate option exercise price.

<TABLE>
<CAPTION>

Name	Number of Underlying Options Granted	% of Total Options Granted to Employees in Fiscal Year(1)	Exercise Price Per Share	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Share Price Appreciation for Option Term		
					0%	5%	10%
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Victor D. Alhadeff.....	75,000	9.2%	\$0.25	Nov. 1, 2010	\$137,250(2)	\$235,358	\$385,874
C. William Vivian.....	50,000	6.1%	\$0.25	Nov. 1, 2010	\$ 91,500(2)	156,905	257,249
Tracy Warner.....	60,000	7.4%	\$0.25	Nov. 1, 2010	\$109,800(2)	188,286	308,699
Nancy Lazara.....	30,000	3.7%	\$0.25	Nov. 1, 2010	\$ 54,900(2)	94,143	154,350
Joel Sjostrom.....	40,000	4.9%	\$0.25	Nov. 1, 2010	\$ 73,200(2)	125,524	205,799
	20,000	2.5%	\$0.25	May 1, 2010	\$ 6,600(3)	13,895	25,087

</TABLE>

(1) Based on an aggregate of 816,100 shares of our common stock subject to options granted to employees in fiscal 2000.

(2) Based on a fair market value of \$2.08 per share on the date of grant.

(3) Based on a fair market value of \$0.58 per share on the date of grant.

Option Exercise and Fiscal Year-End Values

The following table sets forth information concerning exercisable and unexercisable stock options held by the officers named in the Summary Compensation Table as of December 31, 2000. No shares were acquired on exercise of stock options by any of such officers during the year ended December 31, 2000.

Aggregated Option Exercises In Last Fiscal Year And
Fiscal Year-End Option Values

<TABLE>
<CAPTION>

Name	Number of Securities Underlying Unexercised Options at Fiscal Year-End		Value of Unexercised(1) In-the-Money Options at Fiscal Year-End	
	Exercisable	Unexercisable	Exercisable	Unexercisable
<S>	<C>	<C>	<C>	<C>
Victor D. Alhadeff.....	130,300	344,700	\$237,626	\$493,277
C. William Vivian.....	62,500	237,500	\$113,885	\$341,648
Tracy Warner.....	22,500	127,500	\$ 41,175	\$123,525
Nancy Lazara.....	32,600	87,400	\$ 59,213	\$104,434
Joel Sjostrom.....	23,761	126,239	\$ 43,349	\$120,893

</TABLE>

(1) Based on an assumed fair market value of BRIAZZ's common stock at December 31, 2000 of \$2.08 per share, minus the per share exercise price, multiplied by the number of shares issuable upon exercise of the option.

Compensation

1996 Amended Stock Option Plan

Our 1996 Amended Stock Option Plan was initially adopted by the Board of Directors and approved by shareholders in December 1995 and was last amended in January 2001. The plan currently provides that 6,000,000 shares of common stock be reserved for issuance upon the exercise of options granted thereunder, subject to adjustment for stock dividends, stock splits, reverse stock splits and other similar changes in our capitalization.

We have implemented a stock option program under the terms of the plan that we refer to as our "Fresh Options" program. The Fresh Options program currently provides for all hourly employees to receive a one-time grant of non-qualified stock options (within the meaning of Section 422 of the Internal Revenue Code of

1986, as amended) after working 1300 hours. The number of shares covered by the option is based on the employee's wages. Additional options may be granted to employees who remain employed for more than three years. Fresh Options are granted two times per year, on May 1st and November 1st.

Management level employees are eligible to receive an initial grant of stock

options at the next semi-annual grant date after the date of hire. The number of shares covered by the option is based on the salary level. If an hourly employee is promoted to the management level, an option to purchase additional shares is granted in an amount equal to that granted to a newly hired manager.

Senior management level employees are eligible to receive an initial grant of stock options at hire date and performance-based annual grants as determined on a case-by-case basis.

On March 3, 1997, the Board of Directors authorized the compensation committee to serve as the plan administrator. The exercise price per share for options granted pursuant to the plan is the fair market value of the shares at the date of grant, as determined by the plan administrator. Options typically vest in equal annual installments over a four-year period beginning on the grant date. Following the one-for-one hundred reverse stock split we effected in July 1999, we made a one-time grant of new options to existing option holders; the vesting of a portion of these options were accelerated as allowed by the plan provisions.

With certain exceptions, each outstanding option terminates, to the extent not previously exercised, upon the occurrence of the first of the following events: (i) the expiration of the term of the option, which shall be specified by the plan administrator at the time of grant (generally ten years; or, with respect to incentive stock options granted to greater-than-ten-percent shareholders, a maximum of five years); (ii) the date of an optionee's termination of employment with us for cause; (iii) the expiration of three months from the date of an optionee's termination of employment or contractual relationship with us for any reason other than cause, death or disability, unless, in the case of a non-qualified stock option, extended by the plan administrator until a date no later than the expiration date of the option; or (iv) the expiration of one year from the date of an optionee's death or the cessation of an optionee's employment with us by reason of disability, unless, in the case of a non-qualified stock option, the exercise period is extended by the plan administrator until a date not later than the expiration date of the option.

Upon exercise, the exercise price may be paid in cash or by (i) with the approval of the plan administrator, delivering shares of common stock previously held, (ii) having shares withheld or sold or margined from the number of shares to be received or (iii) complying with any other payment mechanisms the plan administrator may approve. The plan administrator may amend, modify or terminate the plan, or modify or amend options granted under the plan, except that no amendment with respect to an outstanding option which has the effect of reducing the holder's benefits may be made over the objection of the holder of the option (other than those provisions triggering acceleration of vesting of outstanding options).

As of September 3, 2000, options to acquire 2,076,330 shares of common stock have been granted and are outstanding and options to acquire 7,350 shares of common stock have been exercised under the plan. Of the outstanding options, 2,069,957 are at an exercise price of \$0.25 per share, 278 are at an exercise price of \$1.00 per share, 380 are at an exercise price of \$100.00, 2,469 are at an exercise price of \$272.00 per share and 3,246 are at an exercise price of \$300.00 per share. After this offering, it is anticipated that additional options will need to be granted to attract and retain employees.

Other Option Grants

As of September 3, 2000, we have granted outstanding options to acquire an aggregate of 404,863 shares of common stock to non-employee directors and former non-employee directors. Options granted to such persons are fully vested upon grant. Of the options to purchase such shares, 99,000 are exercisable for \$0.25 per share, 300,000 are exercisable for \$1.00 per share, 1,400 are exercisable for \$100.00 per share, 1,568 are

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exercisable for \$272.00 per share, 1,450 are exercisable for \$300.00 per share and 1,445 are exercisable for \$650.00 per share.

Until our stock option plan was amended in January 2001, non-employee directors were not eligible to receive options thereunder. Accordingly, while options have been granted to non-employee directors on the terms of our stock option plan, such options were granted outside of the plan.

Cash Incentive Plans

We administer annual cash incentive plans that are targeted toward specific groups of our employees, including senior management, managers, supervisors, sales specialists and other salaried employees.

During fiscal 1999, we administered an Officer Incentive Program that provided our senior management with the opportunity to earn a year-end cash

bonus of up to 30% of their annual salary, based upon our achievement of at least 88% of our pre-tax contribution goal. Pursuant to this program, we paid bonuses in fiscal 2000 to certain of our executive officers named in the Summary Compensation Table.

In fiscal 2000, we adopted a Senior Management Team Annual Incentive Plan. In the event that we exceeded our pre-tax contribution goal for 2000, participants were eligible to receive a cash bonus equal to the following percentage of their respective annual salaries: 35% for our President; 30% for Vice Presidents; 25% for employees at the "senior director" level; and 20% for employees at the "director" level. Our named executive officers were eligible to participate in this plan. No cash bonuses were paid under the terms of this plan; however, the Board of Directors may grant discretionary cash bonuses to one or more executive officers outside of this plan.

Although the board has not adopted a bonus plan for fiscal 2001, we anticipate that the Board will adopt such a bonus plan, under which our officers will be eligible to receive a cash bonus, based on their respective salaries, upon the occurrence of certain financial or performance goals.

2001 Employee Stock Purchase Plan

We are instituting an employee stock purchase plan that becomes effective upon the effectiveness of the offering, subject to shareholder approval. We intend that the plan will qualify under section 423 of the Internal Revenue Code. The stock purchase plan will permit our eligible employees to purchase common shares through payroll deductions of up to 10% of their cash compensation per year. The plan provides for six month offering periods, beginning on each January 1 and July 1, except for the first offering period, which begins on the date of this prospectus and ends on December 31, 2001. No employee may purchase more than \$12,500 in common stock in any offering period. We are authorizing the issuance of up to a total of 1,200,000 shares of common stock pursuant to the plan.

The price of common shares issued under the employee stock purchase plan will be the lesser of 85% of the fair market value on the first day of the offering period and 85% of the fair market value on the last day of the offering period, however the purchase price for common stock in the first offering period will be the lesser of 85% of the initial public offering price for the common stock and 85% of the fair market value on December 31, 2001.

Employment Agreements

Pursuant to an employment agreement we entered into with C. William Vivian, dated July 1999, Mr. Vivian has agreed to act as our President and Chief Operating Officer, working primarily from our base of operations in Seattle, Washington and any future base of operations located within 50 miles of Seattle, Washington.

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Mr. Vivian's compensation under the agreement includes a base annual salary of \$140,000 beginning in January 1999, which was adjusted to \$152,000 in May 1999 and \$200,000 in January 2000, and which is subject to annual review. Increases in Mr. Vivian's base salary may be made in our sole discretion. Mr. Vivian is eligible to participate in an incentive bonus plan adopted by the compensation committee, with an annual potential bonus of 30% of Mr. Vivian's base salary, which was increased to 35% in the Senior Management Team Annual Incentive Plan for fiscal 2000. Mr. Vivian is also eligible to receive annual vacation leave, reimbursement of reasonable travel costs and use of a company car, as further described in the agreement.

Mr. Vivian's employment agreement may be terminated by either party without cause. In the event that we terminate Mr. Vivian's employment without cause (as defined in the agreement), we agree to provide Mr. Vivian with monthly separation payments equal to Mr. Vivian's base monthly salary, for a period of 12 months, subject to Mr. Vivian providing us with a waiver and release of all claims.

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CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Mr. Alhadeff, our Chief Executive Officer and Chairman of the Board, is a co-obligor on our \$2,000,000 operating line of credit with US Bank. Mr. Alhadeff receives no compensation from us for serving in this capacity.

We are a party to a lease agreement dated November 6, 1998 with Benaroya Capital Company, LLC, pursuant to which we have agreed to lease a 517 square foot retail space in Metropolitan Park West, 1100 Olive Way, Seattle, Washington for the period from November 15, 1998 to May 31, 2003. Our monthly rent is the lesser of \$1,300 or 6% of our gross sales. As of December 31, 2000,

we have paid Benaroya Capital a total of \$23,211 in connection with our lease obligations. Our future rent obligations from January 1, 2001 to May 31, 2003 will be \$37,700 plus any additional amounts payable under the gross sales calculation described above. Benaroya Capital is controlled by Jack Benaroya, one of our principal shareholders.

Starbucks currently supplies the coffee for our cafes. During fiscal 2000, 1999 and 1998, we purchased a total of \$409,379, \$423,600 and \$384,624, respectively, in coffee and coffee-related supplies from Starbucks. During 1998 and a portion of 1999, we maintained a wholesale account with Starbucks. During fiscal 1999 and 1998, Starbucks purchased a total of \$477,421 and \$74,393 in BRIAZZ products. We terminated this wholesale account in 1999 due to insufficient profitability. Mr. Schultz, a former director and one of our principal shareholders, is the Chairman and Chief Executive Officer of Starbucks Corporation.

From April 1998 to October 2000, we leased 2,444 square feet for a cafe located at 2590 NE University Village, Seattle, Washington from U Village Imp. Limited Partnership. During fiscal 2000, 1999 and 1998, we paid U Village Imp. Limited Partnership \$109,469, \$121,625 and \$100,886, respectively, in connection with this lease. Stuart Sloan, one of our principal shareholders, is the President of U Village Imp., Inc., the general partner of U Village Imp. Limited Partnership.

PRINCIPAL SHAREHOLDERS

The following table indicates information as of December 31, 2000 regarding the beneficial ownership of our common stock by:

- . Each person known to the board of directors to own beneficially 5% or more of our common stock;
- . Each of our directors who hold shares of our common stock;
- . Each of the named executive officers (identified in the Summary Compensation table) who hold shares of our common stock; and
- . All of our current directors and executive officers as a group.

The information in the following table assumes no exercise of the underwriters' over-allotment option. Assuming:

- . the repurchase of 1,620 shares of common stock and Series A and Series B convertible preferred stock;
- . the issuance of 3,046,124 additional shares of Series C preferred stock in February 2001, and the conversion of our outstanding shares of Series A preferred stock, Series B preferred stock and Series C preferred stock into 22,782,165 shares of common stock; and

there were 22,787,665 shares of common stock outstanding and 101 BRIAZZ shareholders as of December 31, 2000.

Information with respect to beneficial ownership has been furnished by each director, officer or 5% or more shareholder, as the case may be. Except as otherwise noted below, the address for each person listed on the table is c/o Briazz, Inc., 3901 7th Avenue South, Suite 200, Seattle, Washington 98108-5206.

Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission which generally attribute beneficial ownership of securities to persons who possess sole or shared voting or investment power with respect to those securities and includes shares of common stock issuable pursuant to the exercise of rights of conversion, stock options or warrants that are immediately exercisable or exercisable within 60 days of December 31, 2000. These shares are deemed to be outstanding and to be beneficially owned by the person holding those options or warrants for the purpose of computing the percentage ownership of that person, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person. Unless otherwise indicated in the footnotes below, the persons or entities identified in the following table have sole voting and investment power with respect to all shares shown as beneficially owned by them, subject to applicable community property laws.

<TABLE>
<CAPTION>

Name	Number of Shares Beneficially Owned(1)	Percent Beneficially Owned	
		Before Offering	After Offering

<S>	<C>	<C>	<C>
Directors and Executive Officers:			
Victor Alhadeff.....	4,985,674 (2)	21.19%	. %
Richard Fersch.....	111,118 (3)	*	*
John Carleton.....	70,350 (4)	*	*
Paul Vigano.....	4,956,090 (5)	20.62	.
Dan Kourkoumelis.....	170,000 (6)	*	*
C. William Vivian.....	89,643 (7)	*	*
Tracy Warner.....	22,500 (8)	*	*
Nancy Lazara.....	42,068 (9)	*	*
Joel Sjostrom.....	29,441(10)	*	*
All directors and executive officers (9 persons).....	10,476,884	41.44	.
5% Shareholders:			
Alhadeff Limited Partnership II.....	4,985,674(11)	21.19	.
Whitney Equity Partners, L.P.....	4,956,090(12)	20.62	.
Jack Benaroya.....	4,056,883(13)	16.98	.
Howard Schultz	2,327,944(14)	9.91	.

</TABLE>

* Less than 1%

- (1) Includes shares currently owned, shares held by spouses or minor children, options and other securities currently exercisable or exercisable within 60 days after December 31, 2000 and all shares over which the individual has the right of control over voting or investment power. Immediately prior to the closing of this offering, each share of Series A convertible preferred stock will convert into 1.0634 shares of common stock, each share of Series B convertible preferred stock will convert into 1.0635 shares of common stock and each share of Series C convertible preferred stock will convert into 1.0447 shares of common stock. Upon conversion of the Series C convertible preferred stock, each warrant to acquire one share of Series C convertible preferred stock will automatically become a warrant to acquire 1.0447 shares of common stock.
- (2) Includes 1,403,979 shares issuable upon conversion of Series C convertible preferred stock, 608,573 shares issuable upon conversion of Series C convertible preferred stock issuable upon exercise of warrants exercisable at \$1.00 per share, 130,300 shares issuable upon the exercise of stock options, of which 129,850 are exercisable at \$0.25 per share and 450 are exercisable at \$272.00 per share, and 2,842,822 shares issuable upon conversion of Series C convertible preferred stock held by Alhadeff LTD Partnership II.
- (3) Includes 31,181 shares issuable upon conversion of Series C convertible preferred stock, 9,587 shares issuable upon conversion of Series C convertible preferred stock issuable upon exercise of warrants exercisable at \$1.00 per share and 70,350 shares issuable upon exercise of stock options, of which 10,000 are exercisable at \$0.25 per share, 60,000 are exercisable at \$1.00 per share, 200 are exercisable at \$100.00 per share and 150 are exercisable at \$300.00 per share. The address for Mr. Fersch is c/o Eddie Bauer, Inc., P.O. Box 97000, Redmond, Washington 98073-9708.
- (4) Shares issuable upon exercise of stock options, of which 10,000 are exercisable at \$0.25 per share, 60,000 are exercisable at \$1.00 per share, 200 are exercisable at \$100.00 per share and 150 are exercisable at \$300.00 per share. The address for Mr. Carleton is c/o Benaroya Capital Company, L.L.C., 1001 Fourth Avenue, Suite 4700, Seattle, Washington 98154.
- (5) Shares beneficially owned by Whitney Equity Partners, L.P., an investment firm in which Mr. Vigano is a Principal. See footnote 11 for a description of such shares. Mr. Vigano disclaims beneficial ownership of such shares except to the extent of his pecuniary interest in Whitney Equity Partners. The address for Mr. Vigano is c/o Whitney & Co., 4 Stamford Plaza, Stamford, Connecticut 06902.
- (6) Shares issuable upon exercise of stock options, of which 109,000 are exercisable at \$0.25 per share, 60,000 are exercisable at \$1.00 per share and 1,000 are exercisable at \$300.00 per share. The address for Mr. Kourkoumelis is 10079 Samish Island Road, Bow, Washington 98232.
- (7) Shares issuable upon exercise of stock options, of which 89,107 are exercisable at \$0.25 per share and 536 are exercisable at \$300.00 per share.

- (8) 22,500 shares issuable upon exercise of stock options exercisable at \$0.25 per share.
- (9) Shares issuable upon exercise of stock options, of which 41,732 are exercisable at \$0.25 per share, 150 are exercisable at \$272.00 per share and 186 are exercisable at \$300.00 per share.
- (10) Shares issuable upon exercise of stock options, of which 29,313 are exercisable at \$0.25 per share, 18 are exercisable at \$272.00 per share and 110 are exercisable at \$300.00 per share.
- (11) See footnote 2.
- (12) Includes 12,271 shares issuable upon conversion of Series B convertible preferred stock, 3,691,847 shares issuable upon conversion of Series C convertible preferred stock, 1,181,822 shares issuable upon conversion of Series C convertible preferred stock issuable upon exercise of warrants exercisable at \$1.00 per share and 70,150 shares issuable upon exercise of stock options held by Peter Cartleman, of which 10,000 are exercisable at \$0.25 per share, 60,000 are exercisable at \$1.00 per share and 150 are exercisable at \$300.00 per share. The address for Whitney Equity Partners is c/o Whitney & Co., 4 Stamford Plaza, Stamford, Connecticut 06902.
- (13) Includes 2,957,741 shares issuable upon conversion of Series C convertible preferred stock and 1,099,142 shares issuable upon conversion of Series C convertible preferred stock issuable upon exercise of warrants exercisable at \$1.00 per share. The address for Mr. Benaroya is c/o Benaroya Capital Company, L.L.C., 1001 Fourth Avenue, Suite 4700, Seattle, Washington 98154.
- (14) Includes 1,627,111 shares issuable upon conversion of Series C convertible preferred stock, 626,820 shares issuable upon conversion of Series C convertible preferred stock issuable upon exercise of warrants exercisable at \$1.00 per share and 74,013 shares issuable upon exercise of stock options, of which 10,000 are exercisable at \$0.25 per share, 60,000 are exercisable at \$1.00 per share, 1,000 are exercisable at \$100.00 per share, 1,568 are exercisable at \$272.00 per share and 1,445 shares are exercisable at \$650.00. The address for Mr. Schultz is c/o Starbucks Corporation, 2401 Utah Avenue South, Seattle, Washington 98134.

DESCRIPTION OF CAPITAL STOCK

Upon the closing of this offering, our authorized capital stock will consist of 100,000,000 shares of common stock, without par value, of which will be outstanding, and 50,000,000 shares of preferred stock, without par value, none of which will be outstanding. The following description of our capital stock and certain provisions of our articles of incorporation and bylaws is a summary, assumes the conversion of all outstanding shares of our preferred stock into an estimated 22,782,165 shares of common stock not later than the completion of this offering, and is qualified in its entirety by the provisions of the articles of incorporation and bylaws, copies of which have been filed as exhibits to the registration statement of which this prospectus is a part.

Common Stock

Holders of our common stock are entitled to one vote for each share held on all matters submitted to a vote of our shareholders, including the election of directors. There are no cumulative voting rights, and therefore, the holders of a majority of the shares of our common stock may elect all of our directors. Holders of our common stock are entitled to receive dividends if and when dividends are declared by our board of directors out of assets legally available for the payment of dividends, subject to preferential rights of any outstanding shares of preferred stock. In the event of a liquidation, dissolution or winding up of our affairs, whether voluntary or involuntary, after payment of our debts or other liabilities and making provisions for the holders of any outstanding shares of preferred stock, our remaining assets will be distributed ratably among the holders of shares of common stock and any preferred stock. Our common stock has no preemptive, redemption, conversion or subscription rights. The rights, powers, preferences and privileges of holders of common stock are subject to, and may be adversely affected by, the rights of the holders of shares of any series of preferred stock that we may designate and issue in the future. All of our outstanding shares of common stock are, and all shares of common stock to be issued pursuant to this offering will be, fully paid and nonassessable.

Preferred Stock

Our board of directors has the authority, without action by our shareholders, to issue up to an aggregate of 50,000,000 shares of preferred stock in one or

more classes or series. The board may fix the designations, preferences, rights and any qualifications, limitation or restrictions of the shares of each such series, including dividend rights, convertibility, voting rights, redemption rights, liquidation preferences and the number of shares constituting any series and the designation of such series. The issuance of preferred stock, while providing desirable flexibility in connection with possible acquisitions and other corporate purposes, could, among other things, adversely affect the voting power of the holders of common stock and, under certain circumstances, make it more difficult for a third party to gain control of BRIAZZ, discourage bids for our common stock at a premium or otherwise adversely affect the market price of our common stock. We currently have no plans to issue any preferred stock.

Warrants

As of September 3, 2000, we had warrants outstanding to purchase 5,443,303 shares of Series C preferred stock. Generally, each warrant contains provisions for the adjustment of the exercise price and the number of shares issuable upon the exercise of the warrant upon the occurrence of events such as stock dividends, stock splits, reorganizations, reclassifications and consolidations. Upon the conversion of all shares of our Series C preferred stock into shares of common stock, such warrants will become exercisable to purchase 5,686,636 shares of common stock.

Registration Rights

All our current shareholders have certain rights relating to the registration of their shares under state and federal securities laws. These rights, which are assignable, are outlined in a registration rights agreement between BRIAZZ and these shareholders. Commencing six months after the effective date of this registration

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statement, holders of (a) at least one-third of the shares of common stock issuable upon the conversion of our Series A preferred stock, (b) at least one-third of the shares of common stock issuable upon the conversion of our Series B preferred stock or (c) at least one-third of the shares of common stock issuable upon the conversion of our Series C preferred stock are entitled to demand on up to two occasions that we use our best efforts to register for public resale all of the shares of common stock they request be registered, provided that the proposed aggregate selling offering price would exceed \$5.0 million. We may postpone the filing for up to six months in any 12-month period if our board determines that filing a registration statement would be seriously detrimental to us and our shareholders.

In addition, under the agreement all of our shareholders are entitled to "piggyback" registration rights in connection with any registration by us of our securities for our own account or for the account of other security holders (other than in this offering and in any registration of securities to be issued to participants in a stock-based incentive plan). If we propose to register any shares of common stock under the Securities Act, our shareholders are entitled to receive notice and to include their shares in the registration statement, subject to certain limitations.

Our shareholders may also require us to register all or a portion of their common stock subject to these registration rights on Form S-3, when use of this form becomes available, provided that, among other limitations, the proposed aggregate offering price would be at least \$2.0 million. We may postpone the filing for up to 90 days in any 12-month period if our board determines that filing a registration statement would be seriously detrimental to us and our shareholders. All registration rights of a holder who holds less than 1% of our issued and outstanding common stock terminate when the holder can offer and sell all of his or her registrable securities pursuant to Rule 144, and as to all holders five years after this offering.

All registration rights are subject to conditions and limitations, among them the right of the underwriters of any offering to limit the number of shares of common stock held by the security holders to be included in the registration. We are generally required to bear all of the expenses of all registrations, except underwriting discounts and selling commissions. Registration of the shares of common stock held by security holders with registration rights would result in these shares becoming freely tradeable without restriction under the Securities Act immediately upon effectiveness of the registration statement.

Antitakeover Effects of Certain Articles and Bylaws Provisions and the Washington Business Corporation Act

Articles and Bylaws. Our articles of incorporation and bylaws contain provisions that may have the effect of delaying, deferring or preventing a change in control. Neither the articles of incorporation nor the bylaws provide for cumulative voting in the election of directors. Furthermore, the authorization of undesignated preferred stock makes it possible for the board

of directors to issue preferred stock with voting or other rights or preferences that could impede any attempt to change control of BRIAZZ.

Washington Business Corporation Act. Washington law imposes restrictions on certain transactions between a corporation and certain significant shareholders. Chapter 23B.19 of the Washington Business Corporation Act prohibits a "target corporation," with some exceptions, from engaging in certain significant business transactions with a person or group of persons that beneficially owns 10% or more of the voting securities of the target corporation (an Acquiring Person) for a period of five years after such acquisition, unless the transaction or acquisition of shares is approved by a majority of the members of the target corporation's board of directors prior to the time of acquisition. Transactions prohibited by this statute include, among others:

- . a merger or consolidation with, disposition of assets to, or issuance or redemption of stock to or from, the Acquiring Person;
- . termination of 5% or more of the employees of the target corporation as a result of the Acquiring Person's acquisition of 10% or more of the shares; or

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- . allowing the Acquiring Person to receive any disproportionate benefit as a shareholder.

After the five-year period, a "significant business transaction" may occur, as long as it complies with certain "fair price" provisions of the statute. A public corporation may not "opt out" of this statute. This provision may have the effect of delaying, deferring or preventing a change in control of BRIAZZ.

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is Mellon Investor Services LLC. Its address is 520 Pike Street, Seattle, Washington 98101, and its telephone number at this location is (206) 674-3030.

Listing

We have applied to have our common stock approved for quotation on the Nasdaq National Market under the trading symbol "BRZZ."

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SHARES ELIGIBLE FOR FUTURE SALE

Before this offering, there has been no public market for our common stock. Market sales of shares or the availability of shares for sale may decrease the market price of our common stock prevailing from time to time. Sales of substantial amounts of common stock in the public market, or the perception that such sales could occur, could adversely affect the market price of the common stock and could impair our future ability to raise capital through the sale of our equity securities.

Future sales of our common stock, and the availability of our common stock for sale, may depress the market price for our common stock. After this offering, . shares of common stock will be outstanding, assuming no exercise of the underwriters' over-allotment option and no exercise of options or warrants. All of the shares sold in this offering will be freely tradable. Except as set forth below, the remaining shares of common stock outstanding after this offering will be restricted as a result of securities laws or lock-up agreements. These remaining shares will be available for sale in the public market as follows:

<TABLE>
<CAPTION>

	Approximate Number of Shares
<S>	<C>
On the date of this prospectus.....	
90 days after the date of this prospectus.....	
180 days after the date of this prospectus.....	
Later than 180 days after the date of this prospectus.....	

</TABLE>

Each of our directors and executive officers and additional holders of a total of approximately . shares of our outstanding common stock have agreed to certain restrictions on his or her ability to sell, offer, contract or grant any option to sell, pledge, transfer, make any short sale or otherwise dispose

of shares of our common stock for a period of 180 days after the date of this prospectus, without the prior written consent of WR Hambrecht+Co. WR Hambrecht+Co may release all or a portion of the shares subject to this lock-up agreement at any time without notice.

In general, under Rule 144 under the Securities Act of 1933, as amended, as currently in effect, a person who has beneficially owned shares of our common stock for at least one year would be entitled to sell within any three-month period a number of shares that does not exceed the greater of:

- . 1% of the number of shares of our common stock then outstanding, which will equal approximately . shares immediately after this offering; or
- . the average weekly trading volume of our common stock on the Nasdaq National Market during the four calendar weeks preceding the filing of a notice on Form 144 with respect to the sale.

Sales under Rule 144 are also subject to manner of sale provisions and notice requirements and to the availability of current public information about us.

Under Rule 144(k), a person who is not deemed to have been one of our affiliates at any time during the 90 days preceding a sale, and who has beneficially owned the shares proposed to be sold for at least two years, including the holding period of any prior owner other than an affiliate, is entitled to sell the shares without complying with the manner of sale, public information, volume limitation or notice provisions of Rule 144.

Rule 701, as currently in effect, under the Securities Act of 1933, as amended, permits resales of shares in reliance upon Rule 144 but without compliance with certain restrictions, including the holding period requirement, of Rule 144. Most of our employees, officers, directors or consultants who purchased shares under a written compensatory plan or contract may be entitled to rely on the resale provisions of Rule 701. Rule 701 permits affiliates to sell their Rule 701 shares under Rule 144 without complying with the holding period requirements of Rule 144. Rule 701 further provides that non-affiliates may sell their shares in reliance on Rule 144 without having to comply with the holding period, public information, volume limitation or notice provisions of Rule 144. All holders of Rule 701 shares are required to wait until 90 days after the date of this

prospectus before selling their shares. However, substantially all Rule 701 shares are subject to lock-up agreements and will only become eligible for sale at the earlier of the expiration of the 180-day lock-up agreements or no sooner than 90 days after the offering upon obtaining the prior written consent of WR Hambrecht+Co.

We intend to file a registration statement on Form S-8 registering shares of our common stock subject to outstanding options or reserved for future issuance under our stock option plan, our options to non-employee directors, which are outside our stock option plan and our employee stock purchase plan. As of September 3, 2000, options to purchase a total of 2,076,330 shares were outstanding under our stock option plan and there were options to purchase 404,863 shares of common stock outside of our stock option plan. 3,968,170 shares of common stock are issuable upon exercise of options granted after September 3, 2000 or reserved for future issuance under our stock option plan, subject to shareholder approval of a recent increase of 3,165,962 shares. We have approved an employee stock purchase plan and reserved 1,200,000 shares for issuance under the plan, subject to shareholder approval. Common stock issued upon exercise of outstanding options after the filing of a registration statement on Form S-8, other than common stock issued to our affiliates, will be available for immediate resale in the open market without restriction.

PLAN OF DISTRIBUTION

In accordance with the terms of the underwriting agreement between us and WR Hambrecht+Co., LLC as the representative of the underwriters, the underwriters will purchase from us the following respective number of shares of common stock at the public offering price less the underwriting discounts and commissions described on the cover page of this prospectus.

<TABLE>
<CAPTION>

Underwriters	Shares
-----	-----
<S>	<C>
WR Hambrecht+Co., LLC.....	---
Total.....	---

</TABLE>

The underwriting agreement provides that the obligations of the underwriters are subject to conditions, including the absence of any material adverse change in our business, and the receipt of certificates, opinions and letters from us and counsel and independent accountants. Subject to those conditions, the underwriters are committed to purchase all of the shares of our common stock offered by this prospectus if any of the shares are purchased.

The underwriters propose to offer the shares of our common stock directly to the public at the offering price set forth on the cover page of this prospectus, as this price is determined by the OpenIPO process described below, and to certain dealers at this price less a concession not in excess of \$ per share. Any dealers that participate in the distribution of our common stock may be deemed to be underwriters within the meaning of the Securities Act, and any discount, commission or concession received by them and any provided by the sale of the shares by them might be deemed to be underwriting discounts and commissions under the Securities Act. After completion of the initial public offering of the shares, the public offering price and other selling terms may be changed by the underwriters. The underwriters have informed us that they do not intend discretionary sales to exceed 5% of the shares of the common stock offered by this prospectus.

The following tables shows the per share and total underwriting discount to be paid to the underwriters by us in connection with this offering. The underwriting discount has been determined through negotiations between us and the representative of the underwriters, and has been calculated as a percentage of the offering price. These amounts are shown assuming both no exercise and full exercise of the over-allotment option.

<TABLE>
<CAPTION>

<S>	Per		
	Share	No Exercise	Full Exercise
	-----	-----	-----
Public Offering Price.....	\$ <C>	\$ <C>	\$ <C>
Underwriting Discounts.....			
Proceeds, before expenses, to us.....			

</TABLE>

The expenses of the offering, exclusive of the underwriting discounts, will be approximately \$ million. These fees and expenses are payable entirely by us. These fees include, among other things, our legal and accounting fees, printing expenses, expenses incurred in connection with meetings with potential investors, filing fees of the Securities and Exchange Commission and the National Association of Securities Dealers, Inc., fees of our transfer agent and registrar and the listing fees of the Nasdaq National Market.

An electronic prospectus is available on the web site maintained by WR Hambrecht+Co and may also be made available on web sites maintained by other underwriters or selected dealers. Other than the prospectus in electronic format, the information on these web sites is not part of this prospectus and has not been approved or endorsed by us.

The Auction Process

The method of distribution being used by the underwriters in this offering is known as the OpenIPO process. It differs from that traditionally employed in underwritten public offerings. In particular, the public offering price will be based primarily on an auction conducted by the underwriters. The allocation of shares of

common stock will be determined primarily by the auction process. The following describes how WR Hambrecht+Co, some other underwriters and some selected dealers will conduct the auction process and confirm bids from prospective investors:

- . Before the registration statement relating to this offering becomes effective, the underwriters and participating dealers will solicit bids from prospective investors through the Internet and by telephone and facsimile. The bids will specify the number of shares of our common stock the potential investor proposes to purchase and the price the potential investor is willing to pay for the shares. These bids may be above or below the range set forth on the cover page of this prospectus. The minimum size of any bid is 100 shares.
- . The shares offered by this prospectus may not be sold, nor may offers to buy be accepted, prior to the time that the registration statement filed with the Securities and Exchange Commission becomes effective. A bid

received by WR Hambrecht+Co involves no obligation or commitment of any kind prior to the closing of the auction. Bids can be modified or revoked at any time prior to the closing of the auction.

- . Approximately two business days prior to the registration statement being declared effective, prospective investors will receive, by e-mail, telephone or facsimile, a notice indicating the proposed effective date.
- . After the registration statement relating to this offering becomes effective, potential investors who have submitted bids to WR Hambrecht+Co will be contacted by e-mail, telephone or facsimile. Potential investors will be advised that the registration statement has been declared effective and will be requested to confirm their bids.
- . The auction will close after the registration statement becomes effective at a time agreed to by us and WR Hambrecht+Co. The actual time at which the auction closes will be determined by us and WR Hambrecht+Co based on general market conditions during the period after the registration statement becomes effective. After the registration statement has been declared effective, the public offering price of the common stock may be set at a price that is outside of the range set forth on the cover of this prospectus.
- . All bids that are not confirmed before the time specified by the underwriters, or if the time is not specified, by the close of the auction, will be deemed withdrawn.
- . Once a potential investor affirmatively confirms its previous bid, the confirmation will remain valid unless subsequently withdrawn by the potential investor. Potential investors will be able to withdraw their bids at any time before the close of the auction by notifying WR Hambrecht+Co or a participating dealer.
- . If the public offering price range is changed before or after a potential investor affirmatively confirms a bid, or if the public offering price is outside the public offering range previously provided to the potential investor in the prospectus, the underwriters and participating dealers will notify potential investors of the change and that offers will not be accepted until the potential investor has again reconfirmed its bid regardless of whether the potential investor's initial bid was above, below or at the public offering price.
- . Following the closing of the auction, WR Hambrecht+Co will determine the highest price at which all of the shares offered, including shares that may be purchased by the underwriters to cover any over-allotments, may be sold to potential investors. This price, which is called the "clearing price," will be determined based on the results of all valid bids at the time the auction is closed. The clearing price will not necessarily be the public offering price, which will be set as described in "Determination of Public Offering Price" below. The public offering price will determine the allocation of shares to potential investors, with all bids submitted at or above the public offering price receiving a pro rata portion of the shares bid for.

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- . Once the auction closes and a clearing price is set as described below, WR Hambrecht+Co will accept the bids from those bidders whose bid is at or above the public offering price but may allocate to a prospective investor fewer shares than the number included in the investor's bid.
- . Bidders receiving a pro rata portion of the shares bid for will receive an allocation of shares on a round lot basis, rounded to multiples of 100 or 1000 shares, depending on the size of the bid. No bids will be rounded to a round lot higher than the original bid size. Because bids may be rounded down to round lots in multiples of 100 or 1000 shares, some bidders may receive allocations of shares that reflect a greater percentage decrease in their original bid than the average pro rata decrease. Thus, for example, if a bidder has confirmed a bid for 200 shares, and there is an average pro rata decrease of all bids of 30%, the bidder may receive an allocation of 100 shares (a 50% decrease from 200 shares), rather than receiving an allocation of 140 shares (a 30% decrease from 200 shares).
- . WR Hambrecht+Co or a participating dealer will notify successful bidders by e-mail, telephone or facsimile that the auction has closed and that their confirmed bids have been accepted. Other bidders will be notified that their bids have not been accepted.
- . Potential investors may at any time expressly request that all, or any specific, communications between them and the underwriters and participating dealers be made by specific means of communication,

including telephone and facsimile.

Some underwriters and selected dealers that participate in this offering may request prospective investors to confirm their bids prior to the effective date of the registration statement, if that practice is used by these institutions in connection with initial public offerings that are not conducted using the OpenIPO process. Bidders should carefully review the procedures of, and communications from, the institution through which they bid to purchase our shares. In general, approximately two business days before the registration statement is declared effective, underwriters and dealers will request potential investors to reconfirm the bids that they have submitted. If a bid is not reconfirmed prior to the close of the auction, it will be rejected. If a bid is reconfirmed, it may still be modified or revoked prior to the auction closing; however, if the reconfirmed bid is not revoked prior to the effectiveness of the registration statement and the closing of the auction, it will be considered a firm bid and may be accepted at the closing of the auction. These underwriters and dealers will also seek reconfirmation of bids in the event that the price range of the offering is changed, or if the initial public offering price is set at a price that is outside the range that has previously been provided to potential investors.

Determination of Public Offering Price

The public offering price for this offering will ultimately be determined by negotiation between us and the underwriters after the auction closes and will not necessarily bear any direct relationship to our assets, current earnings or book value or to any other established criteria of value, although these factors were considered in establishing the initial public offering price range. Prior to the offering, there has been no public market for our common stock. The principal factor in establishing the public offering price will be the clearing price resulting from the auction.

The clearing price is the highest price at which all of the shares offered, including the shares that may be purchased by the underwriters to cover any over-allotments, may be sold to potential investors, based on the valid bids at the time the auction is run. The shares subject to the underwriters' over-allotment option will be used to calculate the clearing price whether or not the option is actually exercised.

Factors considered in determining the initial public offering price range included an assessment of our management, operating results, capital structure and business potential and the demand for similar securities of comparable companies. Changes, if any, in the public offering price range will be based primarily on the bids received.

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The public offering price may be lower, but will not be higher, than the clearing price based on negotiations between us and the underwriters. The public offering price will always determine the allocation of shares to potential investors. Therefore, if the public offering price is below the clearing price, all bids that are at or above the public offering price will receive a pro rata portion of the shares bid for. If sufficient bids are not received, or if we do not consider the clearing price to be adequate, or if we and the underwriters are not able to reach agreement on the public offering price, then we and the underwriters will either postpone or cancel this offering. Alternatively, we may file a post-effective amendment to the registration statement in order to conduct a new auction.

The following simplified example illustrates how the public offering price will be determined through the auction process:

Company X offers to sell 1,000 shares in its public offering through the auction process. WR Hambrecht+Co, on behalf of Company X, receives five bids to purchase, all of which are kept confidential until the auction closes.

The first bid is to pay \$10 per share for 200 shares. The second bid is to pay \$9 per share for 300 shares. The third bid is to pay \$8 per share for 600 shares. The fourth bid is to pay \$7 per share for 400 shares. The fifth bid is to pay \$6 per share for 800 shares.

Assuming that all of these bids are confirmed and not withdrawn or modified before the auction closes, and assuming that no additional bids are received, the clearing price used to determine the public offering price would be \$8 per share, which is the highest price at which all 1,000 shares offered may be sold to potential investors who have submitted valid bids. However, the shares may be sold at a price below \$8 per share based on negotiations between Company X and the underwriters.

If the public offering price is the same as the \$8 per share clearing price, the underwriters will confirm bids at or above \$8 per share. Because

1,100 shares were bid for at or above the clearing price, each of the three potential investors who bid \$8 per share or more would receive approximately 90% of the shares for which bids were made. The two potential investors whose bids were below \$8 per share would not receive any shares in this example.

If the public offering price is \$7 per share, the underwriters will confirm bids that were made at or above \$7 per share. No bids made at a price of less than \$7 per share will be accepted. The four potential investors with the highest bids would receive a pro rata portion of the 1,000 shares offered, based on the 1,500 shares they requested, or two-thirds of the shares for which bids were made. The potential investor with the lowest bid would not receive any shares in this example.

Because bids that are reduced on a pro rata basis may be rounded down to round lots, a potential investor may be allocated less than two-thirds of the shares bid for. Thus, the potential investor who bid for 200 shares may receive a pro rata allocation of 100 shares (one half of the shares bid for), rather than receiving a pro rata allocation of 133 shares (two-thirds of the shares bid for).

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The following table illustrates the example described above, assuming that the initial public offering price is set at \$8 per share. The table also assumes that these bids are the final bids, and that they reflect any modifications that have been made to reflect any prior changes to the offering range, and to avoid the issuance of fractional shares.

Initial Public Offering of Company X

<TABLE>
<CAPTION>

	Bid Information			Auction Results			
	Shares Requested	Cumulative Shares Requested	Bid Price	Shares Allocated	Approximate Allocated Requested Shares	Clearing Price	Amount Raised
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
	200	200	\$10.00	180	90%	\$8.00	\$1,440
	300	500	9.00	270	90	8.00	2,160
Clearing Price (right arrow)	600	1,100	8.00	550	90	8.00	4,400
	400	1,500	7.00	0	0		
	800	2,300	6.00	0	0		
			Total:	1,000			\$8,000

</TABLE>

Requirements for Valid Bids

Valid bids are those that meet the requirements, including eligibility, account status and size, established by the underwriters or participating dealers. In order to open a brokerage account with WR Hambrecht+Co, a potential investor must deposit \$2,000 in its account. This brokerage account will be a general account subject to WR Hambrecht+Co's customary rules, and will not be limited to this offering. In addition, once the registration statement becomes effective and the auction closes, a prospective investor submitting a bid through a WR Hambrecht+Co brokerage account must have an account balance equal to or in excess of the amount of its bid or its bid will not be accepted by WR Hambrecht+Co. However, other than the \$2,000 described above, prospective investors will not be required to deposit any money into their accounts until after the registration statement becomes effective. No funds will be transferred to the underwriters, and any amounts in excess of \$2,000 may be withdrawn, at any time until the acceptance of the bid and the subsequent closing of this offering. Conditions for valid bids, including eligibility standards and account funding requirements of other underwriters or participating dealers other than WR Hambrecht+Co, may vary.

The Closing of the Auction and Allocation of Shares

The auction will close on a date estimated and publicly disclosed in advance by the underwriters on the web sites of WR Hambrecht+Co at www.wrhambrecht.com or www.openipo.com. The shares offered by this prospectus, or shares if the underwriters' over-allotment option is exercised in full, will be purchased from us by the underwriters and sold through the underwriters and participating dealers to investors who have submitted bids at or higher than the public offering price. These investors will be notified by e-mail, telephone, voice mail, facsimile or mail as soon as practicable following the closing of the auction that their bids have been accepted.

Each participating dealer has agreed with the underwriters to sell the shares it purchases from the underwriters in accordance with the auction process described above, unless the underwriters otherwise consent. The underwriters reserve the right to reject bids that they deem manipulative or disruptive in order to facilitate the orderly completion of this offering, and they reserve the right, in exceptional circumstances, to alter this method of allocation as they deem necessary to ensure a fair and orderly distribution of the shares of our common stock. For example, large orders may be reduced to ensure a public distribution and bids may be rejected or reduced by the underwriters or participating dealers based on eligibility or creditworthiness criteria. In addition, the underwriters or the participating dealers may reject or reduce a bid by a prospective investor who has engaged in practices that could have a manipulative, disruptive or otherwise adverse effect on the offering.

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Price and volume volatility in the market for our common stock may result from the somewhat unique nature of the proposed plan of distribution. Price and volume volatility in the market for the common stock after the completion of this offering may adversely affect the market price of the common stock.

We have granted to the underwriters an option, exercisable no later than 30 days after the date of this prospectus, to purchase up to an aggregate of . additional shares of our common stock at the offering price, less the underwriting discount, set forth on the cover page of this prospectus. To the extent that the underwriters exercise this option, the underwriters will have a firm commitment to purchase the additional shares, and we will be obligated to sell the additional shares to the underwriters. The underwriters may exercise the option only to cover over-allotments made in connection with the sale of shares offered. The underwriting agreement provides that we will indemnify the underwriters against specified liabilities, including liabilities under the Securities Act, or contribute to payments that the underwriters may be required to make.

We have agreed not to offer, sell, contract to sell, pledge, grant any option to purchase, make any short sale or otherwise dispose of any shares of common stock, or any options or warrants to purchase common stock other than the shares of common stock or options to acquire common stock issued under our stock plans, for a period of 180 days after the date of this prospectus, except with the prior written consent of WR Hambrecht+Co. Each of our directors and executive officers and additional holders of a substantial majority of our outstanding common stock have agreed to restrictions on his or her ability to sell, offer, contract or grant any option to sell, pledge, transfer or otherwise dispose of shares of our common stock for a period of 180 days after the date of this prospectus, without the prior written consent of WR Hambrecht+Co. The persons signing the lock-up agreements will be able to transfer their shares of common stock as a bona fide gift, to immediate family members or to a trust or partnership or other business entity, or as a distribution without compensation to partners, members or shareholders of a business entity, subject to the transferees agreeing to enter into a lock-up agreement.

In connection with the offering, the underwriters may purchase and sell shares of common stock in the open market. These transactions may include short sales, stabilizing transactions and purchases to cover positions created by short sales. Short sales involve the sale by the underwriters of a greater number of shares than they are required to purchase in the offering. "Covered" short sales are sales made in an amount not greater than the underwriters' option to purchase additional shares from the issuer in the offering. The underwriters may close out any covered short position by either exercising their option to purchase additional shares or purchasing shares in the open market. In determining the source of shares to close out the covered short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the overallotment option. "Naked" short sales are any sales in excess of such option. The underwriters must close out any naked short position by purchasing shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the common stock in the open market after pricing that could adversely affect investors who purchase in the offering. Stabilizing transactions consist of various bids for or purchases of common stock made by the underwriters in the open market prior to the completion of the offering.

The underwriters also may impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discount received by it because the representative has repurchased shares sold by or for the account of that underwriter in stabilizing or short covering transactions. These activities by the underwriters may stabilize, maintain or otherwise affect the market price of the common stock. As a result, the price of the common stock may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued by the underwriters at any time. These transactions may be effected on the Nasdaq

National Market, in the over-the-counter market or otherwise.

WR Hambrecht+Co currently intends to act as a market maker for the common stock following this offering. However, WR Hambrecht+Co is not obligated to do so and may discontinue any market making at any time.

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WR Hambrecht+Co is an investment banking firm formed in February 1998. In addition to this offering, WR Hambrecht+Co has engaged in the business of public and private equity investing and financial advisory services since its inception. The manager of WR Hambrecht+Co, William R. Hambrecht, has 40 years of experience in the securities industry.

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LEGAL MATTERS

Dorsey & Whitney LLP, Seattle, Washington, will pass upon the validity of the shares of our common stock being offered hereby. Perkins Coie LLP, Seattle, Washington, will pass upon certain legal matters in connection with this offering for the underwriters. Irwin L. Treiger, a partner of Dorsey & Whitney LLP, owns 16,057 shares of Series C preferred stock and warrants to purchase 6,156 shares of Series C preferred stock with an exercise price of \$1.00 per share.

EXPERTS

The financial statements as of December 27, 1998 and December 26, 1999 and for each of the three years in the period ended December 26, 1999 included in this prospectus have been so included in reliance on the report, which contains an explanatory paragraph relating to BRIAZZ' ability to continue as a going concern as described in Note 2 to the financial statements, of PricewaterhouseCoopers LLP, independent accountants, given on the authority of said firm as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

We have filed with the Securities and Exchange Commission 450 Fifth Street N.W., Washington, D.C. 20549, a registration statement on Form S-1 covering the shares of common stock being sold in this offering. We have not included in this prospectus all the information contained in the registration statement, and you should refer to the registration statement and its exhibits for further information.

Any statement in this prospectus about any of our contracts or other documents is not necessarily complete. If the contract or document is filed as an exhibit to the registration statement, the description contained in this prospectus is subject to the terms and conditions of such contract or document. You must review the exhibits themselves for a complete understanding of the contract or document.

You may review a copy of the registration statement, including exhibits and schedules filed with it, at the Commission's public reference facilities in Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C., 20549, and at the regional offices of the Commission located at 7 World Trade Center, 13th Floor, New York, New York 10048 and at the Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. You may also obtain copies of such materials from the Public Reference Section of the Commission, Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C., 20549, at prescribed rates. You may call the Commission at 1-800-SEC-0330 for further information on the public reference rooms. The Commission maintains a web site at www.sec.gov that contains reports, proxy and information statements and other information regarding registrants, such as BRIAZZ, that file electronically with the Commission.

You may read and copy any reports, statements or other information that we file with the Commission at the addresses indicated above, and you may also access them electronically at the web site set forth above. These Commission filings are also available to the public from commercial document retrieval services.

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BRIAZZ, INC.

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of Briazz, Inc.

In our opinion, the accompanying balance sheets and the related statements of operations, redeemable convertible preferred stock and stockholders' equity (deficit) and cash flows present fairly, in all material respects, the financial position of Briazz, Inc. at December 27, 1998 and December 26, 1999, and the results of its operations and its cash flows for each of the three years in the period ended December 26, 1999 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has reported operating losses since inception and needs to raise additional capital to fund future operating losses and planned growth. These are conditions that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ PricewaterhouseCoopers LLP
Seattle, Washington
April 17, 2000

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BRIAZZ, INC.
BALANCE SHEETS
(in thousands)

<TABLE>
<CAPTION>

	December 27, 1998	December 26, 1999	September 3, 2000	Pro forma stockholders' equity at September 3, 2000
			(unaudited)	(unaudited)
<S>	<C>	<C>	<C>	<C>
Assets				
Current assets.....				
Cash and cash equivalents.....	\$ 2,208	\$ 2,153	\$ 1,685	
Accounts receivable, net of allowance of \$25, \$54 and \$58.....	247	505	1,273	
Inventory.....	563	579	524	

Prepaid expenses and other current assets...	653	216	313
Current portion of restricted certificates of deposit.....	282	88	128
	-----	-----	-----
Total current assets..	3,953	3,541	3,923
Property and equipment, net.....	15,361	13,549	12,135
Restricted certificates of deposit, net of current portion (Note 4).....	549	442	383
Deposits and other assets.....	95	144	147
	-----	-----	-----
Total assets.....	\$ 19,958	\$ 17,676	\$ 16,588
	=====	=====	=====

Liabilities, Mandatorily Redeemable Convertible Preferred Stock, and Stockholders' Equity (Deficit)

Current liabilities

Line of credit borrowings.....	\$ --	\$ 2,000	\$ 2,000
Accounts payable.....	2,393	1,417	2,743
Overdraft.....	237	579	--
Accrued compensation....	900	1,108	1,176
Accrued and other liabilities.....	977	570	606
Convertible bridge notes payable.....	4,711	--	--
Current portion of long-term debt.....	289	281	199
	-----	-----	-----
Total current liabilities.....	9,507	5,955	6,724
	-----	-----	-----
Long-term debt, net of current portion.....	474	213	69
	-----	-----	-----

Commitments and contingencies (Notes 2, 4 and 9).....

Mandatorily redeemable convertible preferred stock, no par; 100 (1998) and 50,000 (1999 and 2000) shares authorized.....			
Series A, 33 designated; 31 (1998, 1999 unaudited and 2000 unaudited) and 0 (pro forma unaudited) shares issued and outstanding; liquidation value of \$10,443 and \$10,860 at December 26, 1999 and September 3, 2000.....	9,732	10,369	10,786
Series B, 34 designated; 29 (1998, 1999 unaudited and 2000 unaudited) and 0 (pro forma unaudited) shares issued and outstanding; liquidation value of \$21,917 and \$22,811 at December 26, 1999 and September 3, 2000.....	20,416	21,782	22,676
Series C, 30,000 designated; 0 (1998), 16,445 (1999), 18,725 (2000 unaudited) and 0 (pro forma unaudited) shares issued and outstanding;			

liquidation value of \$15,958 and \$19,612 at December 26, 1999 and September 3, 2000.....	--	15,874	19,063	
	-----	-----	-----	
Total mandatorily redeemable convertible preferred stock.....	30,148	48,025	52,525	
	-----	-----	-----	
Stockholders' equity (deficit)				
Common stock, no par; 20,000 (1998) and 100,000 (1999 and 2000) shares authorized; 21 (1998 and 1999), 24 (2000 unaudited) and 19,648 (pro forma unaudited) shares issued and outstanding.....	2,075	2,075	2,075	\$ 2,075
Additional paid-in capital.....	(2,655)	(3,620)	(4,653)	47,872
Deferred stock compensation.....			(1,161)	(1,161)
Accumulated deficit.....	(19,591)	(34,972)	(38,991)	(38,991)
	-----	-----	-----	-----
Total stockholders' equity (deficit).....	(20,171)	(36,517)	(42,730)	
	-----	-----	-----	
Total liabilities and stockholders' equity.....	\$ 19,958	\$ 17,676	\$ 16,588	\$ 9,795
	=====	=====	=====	=====

</TABLE>

The accompanying notes are an integral part of these financial statements.

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BRIAZZ, INC.

STATEMENT OF OPERATIONS
(in thousands, except share and per share data)

<TABLE>

<CAPTION>

	Years ended			Nine periods ended	
	December 28, 1997	December 27, 1998	December 26, 1999	September 5, 1999	September 3, 2000
	(unaudited)				
<S>	<C>	<C>	<C>	<C>	<C>
Sales.....	\$ 6,504	\$ 15,365	\$ 25,598	\$ 16,996	\$ 23,008
Cost of food and packaging.....	3,079	6,979	11,520	7,740	9,344
Occupancy expenses.....	916	2,393	3,602	2,415	2,597
Labor expenses (including amortization of deferred stock compensation expense of \$14 for September 3, 2000).....	2,866	6,690	9,506	6,530	7,469
Depreciation and amortization.....	625	1,785	2,628	1,837	1,840
Other operating expenses.....	1,135	2,501	2,419	1,700	1,806
General and administrative expenses (including amortization of deferred stock compensation expense of \$7 for September 3, 2000).....	3,404	6,492	6,033	4,099	3,828
Provision for asset impairment and store closure (Note 3).....	--	1,169	779	779	33
	-----	-----	-----	-----	-----
Total operating expenses.....	12,025	28,009	36,487	25,100	26,917
	-----	-----	-----	-----	-----

Loss from operations....	(5,521)	(12,644)	(10,889)	(8,104)	(3,909)
Other (expense) income					
Interest expense.....	(34)	(207)	(4,600)	(4,308)	(110)
Interest and other income.....	483	400	108	61	--
	449	193	(4,492)	(4,247)	(110)
Net loss.....	\$ (5,072)	\$ (12,451)	\$ (15,381)	\$ (12,351)	\$ (4,019)
Accretion of dividends on preferred stock....	\$ 1,068	\$ 1,951	\$ 2,421	\$ 1,412	\$ 2,235
Net loss attributable to common shareholders....	\$ (6,140)	\$ (14,402)	\$ (17,802)	\$ (13,763)	\$ (6,254)
Basic and diluted net loss per share.....	\$ (303.21)	\$ (710.72)	\$ (857.93)	\$ (663.28)	\$ (275.49)
Weighted-average shares used in computing basic and diluted net loss per share.....	20,250	20,264	20,750	20,750	22,701
Pro forma basic and diluted net loss per share (unaudited).....			\$ (0.89)		\$ (0.21)
Weighted-average shares used in computing pro forma basic and diluted net loss per share (unaudited).....			17,264,056		19,647,697

</TABLE>

The accompanying notes are an integral part of these financial statements.

F-4

BRIAZZ, INC.

STATEMENT OF REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY
(DEFICIT)
(in thousands)

<TABLE>

<CAPTION>

	Redeemable convertible preferred stock							Stockholders' equity (deficit)					
	Series A		Series B		Series C		Total	Common stock		Additional paid-in capital	Deferred stock compensation	Accumulated deficit	Total
	Shares	Amount	Shares	Amount	Shares	Amount		Shares	Amount				
Balance at December 30, 1996.....	31	\$ 8,531	--	\$ --	--	\$ --	\$ 8,531	20	\$ 2,025	\$ (116)	\$ --	\$ (2,068)	\$ (159)
Issuance of Series B preferred stock, net of issue costs.....	--	--	29	18,598	--	--	18,598	--	--	--	--	--	--
Accretion of mandatorily redeemable preferred stock.....	--	581	--	487	--	--	1,068	--	--	(1,068)	--	--	(1,068)
Issuance of common stock options for services.....	--	--	--	--	--	--	--	--	--	130	--	--	130
Net loss.....	--	--	--	--	--	--	--	--	--	--	--	(5,072)	(5,072)
Balance at December 28, 1997.....	31	9,112	29	19,085	--	--	28,197	20	2,025	(1,054)	--	(7,140)	(6,169)
Issuance of stock warrants with convertible debt.....	--	--	--	--	--	--	--	--	--	263	--	--	263
Accretion of													

mandatorily redeemable preferred stock.....	--	620	--	1,331	--	--	1,951	--	--	(1,951)	--	--	(1,951)
Issuance of common stock options for services.....	--	--	--	--	--	--	--	--	--	87	--	--	87
Common stock issued upon exercise of stock options...	--	--	--	--	--	--	--	1	50	--	--	--	50
Net loss.....	--	--	--	--	--	--	--	--	--	--	--	(12,451)	(12,451)

Balance at December 27, 1998.....	31	9,732	29	20,416	--	--	30,148	21	2,075	(2,655)	--	(19,591)	(20,171)
Issuance of stock warrants with convertible debt.....	--	--	--	--	--	--	--	--	--	1,446	--	--	1,446
Issuance of Series C preferred stock, net of issue costs.....	--	--	--	--	5,001	4,917	4,917	--	--	--	--	--	--
Issuance of Series C preferred stock upon conversion of convertible notes, including accrued interest.....	--	--	--	--	11,444	10,539	10,539	--	--	--	--	--	--
Accretion of mandatorily redeemable preferred stock.....	--	637	--	1,366	--	418	2,421	--	--	(2,421)	--	--	(2,421)
Issuance of common stock options for services.....	--	--	--	--	--	--	--	--	--	10	--	--	10
Net loss.....	--	--	--	--	--	--	--	--	--	--	--	(15,381)	(15,381)

Balance at December 26, 1999.....	31	10,369	29	21,782	16,445	15,874	48,025	21	2,075	(3,620)	--	(34,972)	(36,517)
Issuance of Series C preferred stock, net of issue costs (unaudited).....	--	--	--	--	2,250	2,235	2,235	--	--	--	--	--	--
Issuance of Series C preferred stock for service (unaudited).....	--	--	--	--	30	30	30	--	--	--	--	--	--
Accretion of mandatorily redeemable preferred stock (unaudited).....	--	417	--	894	--	924	2,235	--	--	(2,235)	--	--	(2,235)
Common stock issued upon exercise of stock options (unaudited).....	--	--	--	--	--	--	--	3	--	--	--	--	--
Change in unearned compensation....	--	--	--	--	--	--	--	--	--	20	--	--	20
Deferred compensation related to the grant of stock options (unaudited).....	--	--	--	--	--	--	--	--	--	1,182	(1,182)	--	--
Amortization of deferred compensation (unaudited).....	--	--	--	--	--	--	--	--	--	--	21	--	21
Net loss (unaudited).....	--	--	--	--	--	--	--	--	--	--	--	(4,019)	(4,019)

Balance at September 3, 2000 (unaudited).....	31	\$10,786	29	\$22,676	18,725	\$19,063	\$52,525	24	\$2,075	\$(4,653)	\$(1,161)	\$(38,991)	\$(42,730)
--	----	----------	----	----------	--------	----------	----------	----	---------	-----------	-----------	------------	------------

</TABLE>

The accompanying notes are an integral part of these financial statements.

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BRIAZZ, INC.

STATEMENT OF CASH FLOWS
(in thousands)

<TABLE>

<CAPTION>

	Years ended			Nine periods ended	
	December 28, 1997	December 27, 1998	December 26, 1999	September 5, 1999	September 3, 2000
					(unaudited)
<S>	<C>	<C>	<C>	<C>	<C>
Cash flows from operating activities					
Net loss.....	\$(5,072)	\$(12,451)	\$(15,381)	\$(12,351)	\$(4,019)
Adjustments to reconcile net loss to net cash used in operating activities					
Amortization of deferred compensation.....					21
Depreciation and amortization.....	625	1,785	2,628	1,837	1,840
Provision for asset impairment and store closure.....	--	1,169	779	779	33
Non-cash expense related to issuance of additional shares of Series C preferred stock for Senior Bridge borrowings.....	--	--	3,000	3,000	--
Non-cash interest expense.....	--	147	1,224	1,183	--
Non-cash expense related to issuance of stock-based options.....	130	87	10	--	20
Changes in Accounts					
receivable.....	(124)	(70)	(258)	196	(772)
Inventory.....	(133)	(252)	(16)	(11)	55
Prepaid expenses and other assets.....	(57)	(482)	212	139	(97)
Restricted certificates of deposit.....	(643)	(32)	301	--	19
Accounts payable....	1,631	463	(634)	(1,599)	1,296
Accrued compensation.....	381	384	208	171	68
Accrued and other liabilities.....	71	827	(407)	(116)	36
Other.....	79	84	197	29	86
Net cash used in operating activities.....	(3,112)	(8,341)	(8,137)	(6,743)	(1,414)
Cash flows from investing activities					
Purchases of property and equipment.....	(5,730)	(10,982)	(1,563)	(620)	(497)
Other.....	3	26	(28)	18	13
Net cash used in investing activities.....	(5,727)	(10,956)	(1,591)	(602)	(484)

Cash flows from financing activities					
Proceeds from sale of preferred stock, net of issuance costs...	18,598	--	4,917	4,812	2,235
Proceeds from line-of-credit borrowings...	--	--	2,000	2,000	--
Proceeds from convertible debentures.....	--	4,886	3,000	3,000	--
Proceeds from debt....	248	502	25	25	--
Proceeds from stock options exercised....	--	50	--	--	
Overdraft.....	--	--	--	--	(579)
Repayment of debt....	(180)	(179)	(269)	(225)	(226)
Net cash provided by financing activities.....	18,666	5,259	9,673	9,612	1,430
Net (decrease) increase in cash and cash equivalents.....	9,827	(14,038)	(55)	2,267	(468)
Cash and cash equivalents					
Beginning of period...	6,419	16,246	2,208	2,208	2,153
End of period.....	\$16,246	\$ 2,208	\$ 2,153	\$ 4,475	\$ 1,685
Supplemental disclosure of cash flow information					
Cash paid for interest.....	\$ 39	\$ 33	\$ 376		
Supplemental disclosure of non-cash investing and financing activities					
Debt to equity conversion.....	\$ --	\$ --	\$ 10,539	\$ 10,539	\$ --
Preferred stock issued for services.....					\$ 30

</TABLE>

The accompanying notes are an integral part of these financial statements.

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BRIAZZ, INC.

NOTES TO FINANCIAL STATEMENTS

1. Summary of operations and significant accounting policies

Operations

Briazz, Inc. ("Briazz" or the "Company") manufactures and distributes high quality, branded takeaway fast food, primarily offering lunch and breakfast meals and snacks through multiple, convenient points of distribution in urban and suburban locations. The Company commenced operations in 1995 in Seattle, and opened new markets in San Francisco in 1996, Chicago in 1997 and Los Angeles in 1998. The Company's business strategy is to solidify current markets and build Briazz into a national brand by expanding in major metropolitan areas across the United States. The Company's retail distribution network includes Briazz cafes and kiosks, as well as special order box lunch delivery. The Company also distributes its products through select strategic alliances. Each market operates a central kitchen, which prepares premium quality, fresh food daily.

Fiscal year and fiscal quarters

The Company's fiscal year ends on the Sunday nearest December 31. There were fifty-two weeks in each of fiscal 1997, 1998 and 1999. The Company's fiscal year comprises thirteen four-week fiscal periods. The Company's fiscal quarters comprise three four-week fiscal periods for the first three fiscal quarters and four four-week fiscal periods for the fourth fiscal quarter.

Interim financial information

The financial information at September 3, 2000 and for the nine periods ended September 3, 2000 and September 5, 1999 is unaudited but includes all adjustments, consisting of only normal recurring adjustments, that the Company considers necessary for a fair presentation, in all material respects, of its financial position, operating results and cash flows for the interim dates and periods presented. Results for the nine periods ended September 5, 1999 and September 3, 2000 are not necessarily indicative of results for the entire fiscal year or future periods.

Cash equivalents

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash equivalents are stated at cost, which approximates fair value. Restricted cash balances are not included as a component of cash and cash equivalents.

Concentration of credit risk

Cash and cash equivalents are invested in deposits with financial institutions that may, at times, exceed federally insured limits. The Company has not experienced any losses on its deposits of cash and cash equivalents.

Debt issue costs

Debt issue costs are capitalized and amortized to interest expense over the term of the underlying debt, utilizing the effective interest method. Unamortized debt issue costs are included in prepaid expenses and other current assets.

Inventory

Inventories, which consist primarily of food and packaging products, are stated at the lower of cost or market. Cost is determined by the first-in, first-out method.

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BRIAZZ, INC.

NOTES TO FINANCIAL STATEMENTS--(Continued)

Property and equipment

Property and equipment are stated at cost. Additions to property and equipment that significantly add to the productive capacity or extend the life of an asset are capitalized. Expenditures for maintenance and repairs are charged to expense. Cost and accumulated depreciation of assets sold are removed from the accounts and any gain or loss on disposition is recorded. Depreciation is provided using the straight-line method over estimated useful lives, which range from 3 to 10 years. Leasehold improvements are amortized over estimated useful lives or lease term, whichever is shorter.

Impairment of long-lived assets

The Company accounts for long-lived assets under Statement of Financial Accounting Standards No. 121 ("SFAS No. 121"), "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," which requires the Company to review for impairment of long-lived assets, whenever events or changes in circumstances indicate that the carrying amount of an asset might not be recoverable. When such an event occurs, management determines whether there has been an impairment by comparing the anticipated undiscounted future net cash flows to the related asset's carrying value. If an asset is considered impaired, the asset is written down to fair value, which is determined based either on discounted cash flows or appraised values, depending on the nature of the asset.

Stock warrants

Stock warrants issued together with debt securities are considered a cost of financing and are recorded as original issue discount and additional paid in capital at estimated fair value at date of issuance. The original issue discount is amortized over the life of the debt and is reported net of the related debt on the balance sheet.

Revenue recognition

Revenues are generally recognized at the point of sale at retail locations or upon delivery of the product for box lunch, catering and wholesale sales. For some wholesale products, where a right of return exists, revenue is recognized after return rights have lapsed.

Pre-operation costs

Costs associated with opening new locations are expensed as incurred.

Advertising and promotion

Advertising and promotion costs are expensed as incurred, and approximated \$308,000, \$714,000 and \$425,000 in 1997, 1998 and 1999, respectively.

Overdraft

Overdraft represents checks issued in excess of bank deposits and total approximately \$237,000 and \$579,000 at December 27, 1998 and December 26, 1999, respectively.

Income taxes

The Company recognizes deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statements or tax returns. Deferred tax liabilities and assets are determined based on the difference between the financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. A valuation allowance is established when necessary to reduce deferred tax assets to the amounts expected to be realized.

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BRIAZZ, INC.

NOTES TO FINANCIAL STATEMENTS--(Continued)

Stock-based compensation

The Company accounts for stock-based employee compensation arrangements in accordance with the provisions of Accounting Principles Board Opinion No. 25 ("APB No. 25"), "Accounting for Stock Issued to Employees" and complies with the disclosure provisions of Statement of Financial Accounting Standards No. 123 ("SFAS No. 123"), "Accounting for Stock-Based Compensation." Under APB No. 25, compensation expense is based on the difference, if any, on the date of the grant, between the deemed fair value of the Company's stock and the exercise price of the option. Unearned compensation is being amortized on an accelerated basis using the method prescribed in Financial Accounting Standards Board Interpretation No. 28 over the vesting period of the individual options.

The Company accounts for equity instruments issued to nonemployees in accordance with the provisions of SFAS No. 123 and Emerging Issue Task Force No. 96-18, "Accounting for Equity Instruments that are Issued to Other Than Employees for Acquiring or in Conjunction with Selling, Goods or Services."

Stock split

During 1999, the Company affected a 100-to-1 reverse stock split for common and mandatorily redeemable convertible preferred shareholders, option and warrant holders on record. All applicable share and per-share data in these financial statements have been restated to give effect to this reverse stock split for all periods presented.

Pro forma stockholders' equity and pro forma net loss per share (unaudited)

Immediately prior to the effective date of the offering, all of the redeemable convertible preferred stock outstanding will automatically convert into common stock at a one-to-one ratio. The pro forma effects of these transactions are unaudited and have been reflected in the accompanying Pro Forma Stockholders' Equity as of September 3, 2000.

Pro forma net loss per share for the year ended December 26, 1999 and the nine periods ended September 3, 2000 is computed using the weighted-average number of common shares outstanding including the pro forma effects of the automatic conversion of the Company's redeemable convertible preferred stock into shares of the Company's common stock effective upon the closing of the Company's initial public offering as if such conversion occurred at the beginning of the most recent fiscal year (December 28, 1998), or at the date of original issue, if later. The resulting pro forma adjustments include an increase in the weighted-average shares used to compute basic net loss per share of 17,243,306 shares for the year ended December 26, 1999 and 19,624,996 shares for the nine periods ended September 3, 2000 and excludes the deemed and accreted dividends related to the preferred stock. The calculation of pro forma diluted net loss per share excludes incremental common stock issuable upon the exercise of stock options and warrants, as the effect would be anti-dilutive.

Net loss per share

Basic and diluted net loss per share has been computed using the weighted-average number of shares of common stock outstanding during the period. The Company has excluded all outstanding options and warrants to purchase common stock from the calculation of diluted net loss per share, as such securities are antidilutive for all periods presented.

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BRIAZZ, INC.

NOTES TO FINANCIAL STATEMENTS--(Continued)

The following table presents the calculation of basic and diluted and pro forma (unaudited) basic and diluted net loss per share (in thousands, except share and per share data):

	Years ended			Nine periods ended	
	December 28, 1997	December 27, 1998	December 26, 1999	September 5, 1999	September 3, 2000
					(unaudited)
<S>	<C>	<C>	<C>	<C>	<C>
Net loss attributable to common stockholders....	\$ (6,140)	\$ (14,402)	\$ (17,802)	\$ (13,763)	\$ (6,254)
Weighted-average shares used in computing basic and diluted net loss per share.....	20,250	20,264	20,750	20,750	22,701
Basic and diluted net loss per share.....	\$ (303.21)	\$ (710.72)	\$ (857.93)	\$ (663.28)	\$ (275.49)
Pro forma (unaudited)					
Net loss attributable to common stockholders as above.....			\$ (17,802)		\$ (6,254)
Pro forma adjustment for accretion on mandatorily redeemable preferred stock.....			2,421		2,235
Pro forma net loss attributable to common stockholders.....			\$ (15,381)		\$ (4,019)
Shares used above.....			20,750		22,701
Pro forma adjustment to reflect effect of assumed conversion of convertible preferred stock.....			17,243,306		19,624,996
Weighted-average shares used in computing pro forma basic and diluted net loss per common share.....			17,264,056		19,647,947
Pro forma basic and diluted net loss per common share.....			\$ (0.89)		\$ (0.21)
Antidilutive securities not included in diluted net loss per share calculation					
Options to purchase common stock.....	10,559	10,584	2,427,751	469,279	2,531,625
Redeemable convertible preferred stock.....	59,939	59,940	16,504,434	16,504,434	18,784,222
Warrants to purchase common stock.....		2,443,297	5,443,297	5,443,297	5,443,297
	70,498	2,513,821	24,375,482	22,417,010	26,759,144

</TABLE>

BRIAZZ, INC.

NOTES TO FINANCIAL STATEMENTS--(Continued)

Comprehensive income

The Company has adopted the provisions of Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" ("SFAS No. 130") effective January 1, 1998. SFAS No. 130 requires the disclosure of comprehensive income and its components in a full set of general-purpose financial statements. Comprehensive income is the change in equity from transactions and other events and circumstances other than those resulting from investments by owners and distributions to owners. SFAS No. 130 had no impact on the Company and, accordingly, a separate statement of comprehensive income has not been presented.

Segments

Effective in January 1998, the Company adopted Statement of Financial Accounting Standards No. 131, "Disclosure about Segments of an Enterprise and Related Information" ("SFAS No. 131") and related disclosures about its products, services, geographic areas and major customers. The Company has determined that it operates in only two reportable segments: retail and other.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and that affected the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Reclassification of certain prior year amounts has been made to conform to current year classifications. The reclassifications have no effect on net income.

Fair value of financial instruments

Carrying amounts reported in the balance sheet for cash and cash equivalents, accounts receivable, restricted certificates of deposit, accounts payable and other accrued expenses approximate fair value because of their immediate or short-term nature. The fair value of line of credit borrowings approximates its carrying value because the stated rate of the debt reflects current market conditions. The fair value of long-term debt is not considered to be significantly less than its carrying amount because the stated rates for substantially all such debt reflects current market rates and conditions.

Recent accounting pronouncements

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Financial Instruments and for Hedging Activities" ("SFAS No. 133"), which provides a comprehensive and consistent standard for the recognition and measurement of derivatives and hedging activities. SFAS No. 133 was amended by SFAS 137, deferring the effective date to fiscal years beginning after June 15, 2000. In June 2000, SFAS 138 was issued, which amends provisions of SFAS 133. SFAS 138 will be implemented by the Company concurrently with SFAS 133. The Company does not anticipate the adoption of these standards will have a material impact on the Company's results of operations or financial condition when adopted, as the Company holds no derivative financial instruments and does not currently engage in hedging activities.

BRIAZZ, INC.

NOTES TO FINANCIAL STATEMENTS--(Continued)

In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 101 ("SAB No. 101"), "Revenue Recognition," which provides guidance on the recognition, presentation and disclosure of revenue in financial statements filed with the SEC. SAB No. 101 outlines the basic criteria that must be met to recognize revenue and provides guidance for disclosures related to revenue recognition policies. The Company has recognized

revenue and made disclosures in accordance with SAB No. 101. The adoption of SAB No. 101 did not have a material impact on the Company's financial position or results of operations.

In March 2000, the Financial Accounting Standards Board issued Interpretation No. 44 (FIN No. 44), "Accounting for Certain Transactions Involving Stock Compensation," an interpretation of the Accounting Principle Board Opinion 25 (APB 25). Among other things, this interpretation clarifies the definition of "employee" for purposes of applying APB 25, "Accounting for Stock Issued to Employees," the criteria for determining whether a plan qualifies as a noncompensatory plan, and the accounting for an exchange of stock compensation awards in a business combination. This interpretation is effective July 1, 2000, but certain conclusions in this interpretation cover specific events that occur after either December 15, 1998 or January 12, 2000. The adoption of FIN No. 44 did not have a material impact on the Company's financial position or results of operations.

2. Financial condition and fund-raising activities

At December 26, 1999, the Company had cash and cash equivalents of approximately \$2.2 million and redeemable convertible preferred stock and stockholders' equity of \$11.5 million. Since inception, the Company has raised cash of approximately \$42 million from sales of preferred and common stock. In addition to funding capital expenditures, which have approximated \$20 million since inception, cash provided by financing activities has funded the Company's investments in business and market development and related operating losses. Since inception through fiscal year end 1999, the Company has reported net losses of approximately \$35 million. In the near term, in any event through mid-2000, operating losses are expected to continue. Actions taken to reduce negative cash flow from operations, including improving operational efficiencies, cost controls and cutbacks and closing of certain unprofitable operating properties, commenced during the later part of 1999.

The Company's operating losses since inception, and its need to raise additional capital to fund future operating losses as well as to fund planned store growth, are conditions that raise substantial doubt about the Company's ability to continue as a going concern. The Company's ability to raise capital under acceptable terms is dependent upon, among other things, market conditions. While the Company has had successes in these endeavors in the past, there can be no assurance that its efforts will be successful in the future. In connection with a \$2.25 million private placement offering of shares of Series C Preferred Stock during March and April 2000, the Company received cash proceeds of approximately \$1.2 million upon closing of the sale of approximately 1.2 million shares (see Note 12).

3. Property and equipment

During 1997, Briazz opened five stores in each of Seattle and San Francisco and a central kitchen and two stores in Chicago. During 1998, the Company opened three stores in Seattle, six stores in San Francisco, seven stores in Chicago, and a central kitchen and five stores in Los Angeles. In 1999, the Company opened one store in Seattle and two stores in Los Angeles, and closed three stores, which had been opened approximately one year, two in the Los Angeles market and one in San Francisco.

The Company recorded a provision for asset impairment and store closure of \$1,169,000 and \$779,000 during 1998 and 1999, respectively, relating to certain store locations. Based on facts and circumstances

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BRIAZZ, INC.

NOTES TO FINANCIAL STATEMENTS--(Continued)

surrounding the respective asset's impairment, the Company recorded either a loss in the amount of the remaining net book value or of the excess of the remaining net book value over discounted projected cash flows. Included in the provision is approximately \$205,000 associated with the closure of stores in 1999, most of which represents impairment provisions for furniture and equipment removed from the closed stores.

Leasehold improvements at the three locations closed in 1999 had previously been written off as part of the 1998 provision for asset impairment.

Property and equipment consists of the following (in thousands):

<TABLE>
<CAPTION>

December 27, December 26,
1998 1999

<C> <C>

<S>

Leasehold improvements.....	\$ 9,209	\$ 9,978
Furniture, fixtures and equipment.....	8,719	9,135
Vehicles.....	1,201	1,209
	-----	-----
	19,129	20,322
Accumulated depreciation and amortization.....	(3,768)	(6,773)
	-----	-----
Furniture and equipment, net.....	\$15,361	\$13,549
	=====	=====

</TABLE>

Included in accounts payable and accrued and other liabilities are amounts relating to purchases of property and equipment of approximately \$150,000 and \$1.0 million at December 26, 1999 and December 27, 1998, respectively.

4. Leases

The Company leases store, central kitchen and office facilities and certain office equipment under terms of operating leases, which typically cover five years, some of which have options for an additional five year term. Rents are either fixed base amounts, variable amounts determined as a percentage of sales, or a combination of base and percentage rents. Lease provisions typically also require additional payments for maintenance and other expenses. Rent expense approximated \$760,000, \$1.9 million and \$2.5 million during 1997, 1998 and 1999, respectively.

Minimum annual rent commitments for leases at December 26, 1999 are as follows (in thousands):

<TABLE>	
<S>	<C>
For the fiscal year	
2000.....	\$ 2,331
2001.....	2,311
2002.....	1,992
2003.....	1,644
2004.....	1,514
Thereafter.....	3,292

	\$13,084
	=====

</TABLE>

The Company has letters of credit of \$530,000 with a bank, collateralized by restricted bank deposits. These letters of credit serve as collateral for performance under various facility lease obligations. Amounts of restricted bank deposits scheduled to be released during the next fiscal year are classified as current assets.

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BRIAZZ, INC.

NOTES TO FINANCIAL STATEMENTS--(Continued)

5. Debt

During 1998, the Company entered into a \$2 million revolving line-of-credit agreement and a \$3 million term loan agreement with a bank, each of which was guaranteed by the founder and significant shareholder of the Company and collateralized by all Company property, equipment and inventory. The agreements provided for borrowings through April 1999, and for the Company to maintain certain financial covenants in connection with these agreements. There were no amounts outstanding under either of these agreements during 1998.

During 1999, the Company borrowed \$2 million under terms of its line-of-credit agreement. Also during 1999, the term loan agreement terminated and the line of credit agreement was amended to extend the maturity date of loans made pursuant to the facility. In January 2000, the line-of-credit agreement was replaced by a \$2 million line-of-credit, pursuant to which the Company and its founder are jointly and severally obligated. Borrowings under the new agreement, which contain no financial covenants, are collateralized by all Company property, equipment and inventory, and are due November 30, 2000 (see Note 12).

During 1998, the Company issued \$5 million of 10% convertible subordinated notes, due December 1999 (the "Subordinated Notes"), with detachable stock warrants. The warrants were recorded at their estimated fair value, calculated using the Black Scholes model, of \$263,000 as original issue discount. This original issue discount was amortized over the term of the notes, had an unamortized balance of \$230,000 at December 27, 1998, and was fully amortized when the notes converted. Accrued interest on the notes approximated \$59,000 at

December 27, 1998. On August 31, 1999, the Subordinated Notes, together with related accrued interest, were automatically converted into shares of Series C preferred stock pursuant to terms of the note agreements.

During April 1999, the Company issued \$3 million of 15% Senior Bridge Notes ("Senior Notes"), with detachable stock warrants and conversion premium rights. On August 31, 1999, the Senior Notes, together with related accrued interest, were automatically converted into shares of Series C preferred stock pursuant to terms of the note agreements. Additionally, such holders also received another three million shares of Series C preferred stock as a conversion premium, the estimated fair value of which is \$3 million and has been recorded as a Senior Notes financing cost included in interest expense. Costs associated with the borrowings were amortized into interest expense over the life of the borrowing. Warrants issued with the Senior Notes were recorded at their estimated fair value of \$1,446,000 as original issue discount. This original issue discount was amortized over the term of the Senior Notes and had an unamortized balance of \$905,000 when the notes converted. The net carrying amount of the convertible debt was credited to preferred stock upon conversion.

Long-term debt comprised obligations totaling \$763,000 and \$494,000 at December 27, 1998 and December 26, 1999, respectively, that was incurred in connection with the purchase of certain property and equipment. The net book value of property and equipment pledged as collateral on this debt approximated \$689,000 at December 26, 1999. Payments on the debt are due in monthly installments over four to five years. Long-term debt future annual maturities total \$281,000 in 2000, \$156,000 in 2001, \$47,000 in 2002, and \$10 in 2003.

Interest paid in cash approximated \$39,000, \$33,000 and \$376,000 during 1997, 1998 and 1999, respectively.

6. Mandatorily redeemable convertible preferred stock and stockholders' equity (deficit)

During 1996, the Company's Board of Directors authorized 100,000 shares of preferred stock, of which 33,000 shares were designated as Series A Convertible Preferred Stock ("Series A"), and the Company completed a private placement in which approximately 31,000 shares of Series A were issued for \$273 per share. During 1997, the Company's Board of Directors designated approximately 34,000 shares of preferred

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BRIAZZ, INC.

NOTES TO FINANCIAL STATEMENTS--(Continued)

stock as Series B Convertible Preferred Stock ("Series B"), and the Company completed a private placement in which approximately 29,000 shares of Series B were issued for \$650 per share. The Series A and Series B stock have preference over common stock upon liquidation of the Company, carry equal voting rights with the Company's common stock and have the right to participate in any dividend payable on the common stock based on the number of shares convertible into common stock.

During 1999, the Company's Board of Directors and shareholders approved amendments to the Company's Articles of Incorporation, increasing the number of authorized shares to 100 million shares of no par common stock and 50 million shares of preferred stock, of which 30 million shares are designated as Series C Convertible Preferred Stock ("Series C").

In August 1999, the Company completed a private placement of Series C in which 5,001,000 shares were issued for \$1 per share. Costs associated with the offering were recorded as a decrease in preferred stock. Series C has preference over Series A and B stock, and together with Series A and Series B stock, has preference over common stock upon liquidation of the Company, has equal voting rights with the Company's common stock, and has the right to participate in any dividend payable on common stock based on the number of shares convertible into common stock.

In connection with the Series C offering, holders of Series A and Series B stock consented to, among other things, extending the mandatory redemption date for those securities from what was between the sixth and eighth anniversary of issuance to between the ninth and eleventh anniversary. Series A, B and C stock is subject to redemption between the ninth and eleventh anniversary of issuance upon written request of the majority of the outstanding shareholders of the respective class of stock. The Company shall redeem at this time and on each of the first and second anniversaries thereof at least one third of such stock outstanding on the redemption date held by those shareholders requesting redemption; the earliest redemption date is October 2005. The redemption price will be the original purchase price of the respective series plus an imputed dividend of 8% per annum cumulative calculated from the date of issuance, less any dividends paid. Dividends on redeemable preferred stock and stock issue costs are being accreted over the period from issuance to the earliest

redemption date using the effective interest method. Each share of Series A, B and C stock is convertible at any time into one share of common stock at the option of the holder. Each share of Series A, B and C stock will automatically be converted into one share of common stock upon the earlier of (i) immediately prior to the closing of an underwritten public offering of shares of common stock registered under the Securities Act of 1933 meeting certain specified criteria, or (ii) upon the cumulative conversion of more than half, two-thirds or a majority of the issued shares of the Series A, B or C stock, respectively. Anti-dilution provisions within the Series A, B and C agreements may be triggered by certain events, in which case the conversion rate may change.

As described in Note 5, effective August 31, 1999, approximately 11.4 million shares of Series C stock were issued to holders of Senior Bridge Notes and Subordinated Notes upon automatic conversion of such Notes. Senior Notes of \$3,169,000, including accrued interest of \$169,000, and Subordinated Notes of \$5,275,000, including accrued interest of \$388,000, for a total of \$8,444,000 were converted. Senior Note holders also received an additional three million shares of Series C as a conversion premium pursuant to terms of the note agreement.

In connection with issuances of convertible subordinated and senior bridge notes, the Company issued detachable stock warrants. Under provisions of the stock warrant agreement, each warrant entitles the holder to purchase either 50% in the case of Subordinated Notes or 100% in the case of Senior Notes (i) of the number of securities which the original principal amount of the notes would purchase at the price per security paid by investors in an offering of Series C stock, or (ii) of the number of shares of common stock which the original principal amount of debt would purchase at a price per share equal to \$650. Each warrant has a maximum term of five years. As a result of the August 1999 issuance of Series C stock, the warrants became exercisable and

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BRIAZZ, INC.

NOTES TO FINANCIAL STATEMENTS--(Continued)

represent rights to purchase approximately 5.5 million shares of Series C at an exercise price of \$1.00 per share. No warrants were exercised in fiscal year 1999.

7. Stock options

The Company maintains the Briazz 1996 Stock Option Plan (the "Plan") to provide for granting of incentive stock options and nonqualified stock options to employees, directors, consultants and certain other non-employees as determined by the Plan Administrator. The Company has authorized approximately 3.3 million shares of common stock for issuance under the Plan. The date of grant, option price, vesting period and other terms specific to options granted under the Plan are to be determined by the Plan Administrator. Options granted under the Plan expire ten years from date of grant and vest over periods ranging from date of grant to five years.

The Company recorded expense of approximately \$130,000, \$87,000 and \$10,000 for 1997, 1998 and 1999, respectively, related to options issued to non-employees in consideration for services.

The fair value of options granted is estimated using an option-pricing model with the following assumptions: dividend yield of 0%, volatility of 0% for employee grants and 45% for non-employee grants, risk-free interest rates of between 4.7% and 6.9%, and expected lives of seven to ten years.

The following information has been restated for the 1999 reverse stock split.

A summary of stock option activity is presented below:

<TABLE>

<CAPTION>

	Shares	Weighted- average exercise price
	-----	-----
<S>	<C>	<C>
Options outstanding, December 29, 1996.....	4,794	\$ 94.00
Options granted.....	5,900	365.00
Options forfeited.....	(135)	100.00

Options outstanding, December 28, 1997.....	10,559	245.00
Options granted.....	2,484	279.00
Options exercised.....	(500)	100.00
Options forfeited.....	(1,959)	226.00

Options outstanding, December 27, 1998.....	10,584	264.00
Options granted.....	2,424,515	0.95
Options forfeited.....	(7,348)	102.61

Options outstanding, December 26, 1999.....	2,427,751	\$ 1.92
	=====	

</TABLE>

Had the Company applied the provisions of FAS 123 to all stock option grants, the Company's net loss would have been increased to the pro forma amounts indicated below (in thousands):

<TABLE>
<CAPTION>

	Years ended		
	December 28, 1997	December 27, 1998	December 26, 1999
	-----	-----	-----
<S>	<C>	<C>	<C>
As reported:			
Net loss attributable to common stockholders.....	\$ (6,140)	\$ (14,402)	\$ (17,802)
Net loss per share, basic.....	\$ (303.21)	\$ (710.72)	\$ (857.93)
Pro forma:			
Net loss attributable to common stockholders.....	\$ (6,340)	\$ (14,566)	\$ (17,907)
Net loss per share, basic.....	\$ (313.09)	\$ (718.81)	\$ (862.99)

</TABLE>

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BRIAZZ, INC.

NOTES TO FINANCIAL STATEMENTS--(Continued)

The weighted-average fair value and exercise price of options granted were as follows during the years ended December:

<TABLE>
<CAPTION>

	Weighted-average					
	Exercise price			Fair value		
	1997	1998	1999	1997	1998	1999
	-----	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Exercise price at grant						
Equal to market.....	\$272.00	\$279.00	\$.95	\$119.00	\$85.00	\$.10
Greater than market.....	650.00	--	--	1.00	--	--

</TABLE>

The following table summarizes information about options outstanding at December 31, 1999:

<TABLE>
<CAPTION>

Exercise price	Options outstanding			Options exercisable		
	Shares	Remaining contractual life	Weighted-average exercise price	Shares	Weighted-average exercise price	
	-----	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>	<C>
\$ 0.25	2,114,807	9.8	\$ 0.25	325,075	\$ 0.25	
1.00	300,278	9.8	1.00	300,278	1.00	
100.00	1,785	8.5	100.00	1,737	100.00	
272.00-300.00	9,438	7.8	286.70	4,479	279.67	
650.00	1,443	7.0	650.00	1,443	650.00	
	-----			-----		
\$ 0.25-\$650.00	2,427,751	9.6	\$ 1.92	633,012	\$ 4.34	
	=====			=====		

</TABLE>

8. Income taxes

No provision for income taxes was recorded for 1999, 1998 or 1997 due to taxable losses incurred during these periods. A valuation allowance has been recorded against deferred tax assets as it has not been determined that it is

more likely than not that these deferred tax assets will be realized.

As of December 26, 1999, the Company has net operating loss carryforwards of approximately \$31.7 million for federal income tax purposes, which expire beginning 2011 through 2019. The Company may be subject to annual limitations on the amount of net operating loss which can be utilized in a year.

Deferred tax assets are summarized as follows (in thousands):

	December 27, December 26, 1998 1999	
	-----	-----
<S>	<C>	<C>
Net operating loss carryforwards.....	\$ 5,428	\$ 10,197
Provision for asset impairment.....	398	668
Other.....	257	466
	-----	-----
	6,083	11,331
Less: Valuation allowance.....	(6,083)	(11,331)
	-----	-----
Net deferred tax assets.....	\$ --	\$ --
	=====	=====

</TABLE>

9. Retirement savings plan

On November 1, 1999, the Company established a retirement savings plan that qualifies under Section 401(k) of the Internal Revenue Code. The Plan is a standard defined contribution plan and covers all qualified employees. Contributions to this plan are made at the discretion of the employee. The Company does not match employee contributions.

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BRIAZZ, INC.

NOTES TO FINANCIAL STATEMENTS--(Continued)

10. Commitments and contingencies

The Company is subject to various legal proceedings and claims that arise in the ordinary course of business. Company management currently believes that resolution of such legal matters will not have a material adverse impact on the Company's financial position, results of operations or cash flows.

In 1999, the Company entered into an employment agreement with the President and Chief Operating Officer. The agreement provides for severance payments equal to one year's base salary in the event the Company terminates employment without cause.

11. Related party transactions

The Company purchases and sells certain supplies and products from a company whose Chairman and Chief Executive Officer is a director and principal shareholder in Briazz. Purchases in 1998 and 1999 were, approximately, \$385,000 and \$424,000, respectively. Sales in 1998 and 1999 were approximately, \$74,000 and \$477,000, respectively. The Company terminated its agreement to sell products to the related party company in 1999.

A principal shareholder has guaranteed the \$2 million revolving line of credit and a \$3 million term loan in 1998 and 1999, as discussed in Note 5.

12. Segment information

The Company operates in two reportable segments: retail and wholesale and other. Retail store operations consist of sales generated through the Company's cafes and kiosks, box lunches and catering. Wholesale and other consists of sales through wholesale and grocery accounts, which are aggregated. Management evaluates segment performance primarily based on sales and segment gross margins. Asset information is not reported at the segment level, as the Company does not produce such information internally.

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BRIAZZ, INC.

NOTES TO FINANCIAL STATEMENTS--(Continued)

The following table presents certain financial information for each segment (amounts in thousands).

<TABLE>

<CAPTION>

	Retail	Wholesale and Other	Total
	-----	-----	-----
<S>	<C>	<C>	<C>
Year ended December 28, 1997			
Net sales.....	\$ 6,000	\$ 504	\$ 6,504
Costs of products and packaging.....	2,436	643	3,079
	-----	-----	-----
Gross margins.....	\$ 3,564	\$ (139)	\$ 3,425
	=====	=====	=====
Year ended December 27, 1998			
Net sales.....	\$14,706	\$ 659	\$15,365
Costs of products and packaging.....	6,620	359	6,979
	-----	-----	-----
Gross margins.....	\$ 8,086	\$ 300	\$ 8,386
	=====	=====	=====
Year ended December 26, 1999			
Net sales.....	\$23,023	\$2,575	\$25,598
Costs of products and packaging.....	9,978	1,542	11,520
	-----	-----	-----
Gross margins.....	\$13,045	\$1,033	\$14,078
	=====	=====	=====
Nine periods ended September 5, 1999 (unaudited)			
Net sales.....	\$15,434	\$1,562	\$16,996
Costs of products and packaging.....	6,757	983	7,740
	-----	-----	-----
Gross margins.....	\$ 8,677	\$ 579	\$ 9,256
	=====	=====	=====
Nine periods ended September 3, 2000 (unaudited)			
Net sales.....	\$19,667	\$3,341	\$23,008
Costs of products and packaging.....	8,326	1,018	9,344
	-----	-----	-----
Gross margins.....	\$11,341	\$2,323	\$13,664
	=====	=====	=====

</TABLE>

13. Subsequent events (unaudited)

Store openings and closures

During the nine periods ended September 3, 2000, the Company opened two facilities in the Los Angeles market and closed one facility in the Seattle market. Stores in operation at September 3, 2000 totaled 37, which, by market, comprised 10 in Seattle, 11 in San Francisco, 9 in Chicago and 7 in Los Angeles.

Borrowings

The Company has a line of credit agreement with a bank (Note 5). During 2000, the line of credit agreement was amended to extend the maturity date of loans made pursuant to the facility through November 2000. The Company renewed the line through January 31, 2002. On January 31, 2001, the Company amended the line to extend the maturity date through January 31, 2002. Under the renewal agreement monthly principal payments are due of \$10,000 per month from February through May 2001, \$15,000 per month from June through September 2001 and \$20,000 per month from October 2001 through January 2002.

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BRIAZZ, INC.

NOTES TO FINANCIAL STATEMENTS--(Continued)

Related party transactions

In fiscal year 2000 the Company purchased approximately \$409,000 of products from a company whose Chairman and Chief Executive Officer is a director and principal shareholder in Briazz.

A principal shareholder guaranteed the renewed line of credit (see Note 11 and Borrowings in Note 12).

Redeemable preferred stock and stockholders' equity

In May 2000, the Company completed a private placement of Series C Preferred Stock, in which 2,250,000 shares were issued for \$1.00 per share.

In March 2000, the Company issued 30,000 preferred stock for service consultants valued at \$1.00 the fair value of preferred stock. The amount is reflected as a noncash item in the statement of cash flow.

In January 2001, the Company's board of directors and shareholders approved amendments to the Company's Articles of Incorporation and certain actions to be taken by the Company, as follows:

- . Amending the series B conversion rate and the series B conversion price to equal \$0.50 each;
- . Repurchase by the Company of shares of common stock, mandatorily redeemable convertible preferred series B stock at a price of \$0.01 per share from shareholders who wish to sell under the redemption transactions;
- . Designation of series C stock as excluded from the definition of "additional stock" under the articles;
- . Waiver of subscription, notice and other rights contained in section 4 of the shareholders agreement with respect to the issuance of series C stock previously and as anticipated currently and the shares of common stock issuable upon conversion of the series C stock; and
- . Amending the shareholders' agreement to restate and redefine certain terms relating to transfer, series C investor and subscription rights.

In connection with a \$3 million private placement offering of shares of Series C Preferred Stock as of January 29, 2001, the Company received commitments to purchase 3 million shares at \$1.00 per share. At the time of issuance of the convertible preferred stock, the Company has deemed the fair value of its common stock to exceed the issue price of the convertible preferred stock. As a result, the Company will record a beneficial conversion feature in accordance with the EITF 98-5 "Accounting for Convertible Securities with Beneficial Conversion features or contingently adjustable conversion ratios" at the time of issuance of the preferred stock. Accordingly, the beneficial conversion feature is calculated as of January 29, 2001, the commitment date, as the difference between the conversion price and the fair value of the common stock multiplied by the number of shares into which the security is convertible (intrinsic value). The Company has calculated the beneficial conversion feature at \$3,000,000. The beneficial conversion feature is analogous to a dividend and will be recognized as a return to the preferred shareholders immediately upon conversion on the earliest conversion date (see Note 6) using the effective interest yield method.

In January 2001, the Company repurchased 20,250 shares of common stock, 20,077 shares of Series A redeemable convertible preferred stock and 9,753 shares of Series B redeemable convertible preferred stock from shareholders at \$0.01 per share.

At various times throughout fiscal year 2000 and 2001, the Company triggered the anti-dilution provisions of the Series A, B and C agreements. As a result, as of January 2001 the conversion rates became 1.0634, 1.0635 and 1.0447 for Series A, B, and C, respectively.

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BRIAZZ, INC.

NOTES TO FINANCIAL STATEMENTS--(Continued)

Store leases

During 2000, the Company entered into lease agreements for five facilities. Lease agreements generally are for five-year terms, provide for base rents and/or percentage rents or a combination thereof, and require security deposits and such other customary terms. The Company terminated one lease agreement for a store which was closed in fiscal year 2000.

Stock options

Subsequent to December 26, 1999 and through December 31, 2000, the Company issued approximately 866,000 stock options to employees with exercise prices of \$0.25. The grant of these options will result in a deferred stock compensation charge of approximately \$1.2 million in fiscal year 2000, assuming no cancellations or additional stock option grants with exercise prices below the deemed fair value of the Company's common stock. The deferred stock

compensation will be expensed in future periods beginning in fiscal year 2000, generally over a four-year vesting period. Options exercised and cancelled in fiscal year 2000 approximate 7,000 and 263,000, respectively.

Initial public offering

In November 2000, the Board of Directors authorized management of the Company to file a registration statement with the Securities and Exchange Commission permitting the Company to sell shares of its common stock to the public.

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BRIAZZ, INC.

SCHEDULE II--VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

Years Ended December 28, 1997, December 27, 1998 and December 26, 1999
(in thousands)

<TABLE>
<CAPTION>

	Balance at Beginning of Period	Charged to Expense	Deduction	Balance at End of Period
<S>	<C>	<C>	<C>	<C>
1997				
Deferred tax asset valuation allowance....	\$ 232 =====	\$1,733 =====	\$-- =====	\$ 1,965 =====
1998				
Deferred tax asset valuation allowance....	1,965 =====	4,118 =====	-- =====	6,083 =====
1999				
Deferred tax asset valuation allowance....	6,083 =====	5,248 =====	-- =====	11,331 =====

</TABLE>

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REPORT OF INDEPENDENT ACCOUNTANTS ON FINANCIAL STATEMENT SCHEDULE

To the Board of Directors of Briazz, Inc:

Our report on the financial statements of Briazz, Inc is included herein. In connection with our audits of such financial statements, we have also audited the related financial statement schedule of Briazz, Inc.

In our opinion, the financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information required to be included therein.

PRICEWATERHOUSECOOPERS LLP

Seattle, Washington
April 17, 2000

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[BRIAZZ LOGO]

Until . . . , 2001 (25 days after the date of this offering), all dealers that effect transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers' obligations to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 13. Other Expenses of Issuance and Distribution.

The table below lists the fees and expenses, other than underwriting discounts and commissions, which the registrant will pay in connection with the offering described in this registration statement. All the expenses are estimates, except the Securities and Exchange Commission registration fee, the NASD filing fee and the Nasdaq National Market listing fee.

<TABLE>

<CAPTION>

	Amount

<S>	<C>
Securities and Exchange Commission registration fee.....	\$ 5,750
NASD filing fee.....	2,800
NASDAQ National Market listing fee.....	72,875
Legal fees and expenses.....	300,000
Accounting fees and expenses.....	300,000
Printing and engraving expenses.....	250,000
Transfer agent and registrar fees.....	15,000
Blue Sky fees and expenses.....	5,000
Miscellaneous expenses.....	150,000

Total.....	\$1,101,425
	=====

</TABLE>

Item 14. Indemnification of Directors and Officers.

Sections 23B.08.500 through 23B.08.600 of the Washington Business Corporation Act authorize a court to award, or a corporation's board of directors to grant, indemnification to directors and officers on terms sufficiently broad to permit indemnification under certain circumstances for liabilities arising under the Securities Act of 1933, as amended (the "Securities Act"). Article IX of the registrant's bylaws provides for indemnification of the registrant's directors, officers, employees and agents to the maximum extent permitted by the WBCA. The directors and officers of BRIAZZ also may be indemnified against liability they may incur for serving in that capacity pursuant to a liability insurance policy maintained by BRIAZZ for such purpose.

Section 23B.08.320 of the Washington Business Corporation Act authorizes a corporation to limit a director's liability to the corporation or its shareholders for monetary damages for acts or omissions as a director, except in certain circumstances involving intentional misconduct, knowing violations of law or illegal corporate loans or distributions, or any transaction from which the director personally receives a benefit in money, property or services to which the director is not legally entitled. Article 7 of BRIAZZ's Amended and Restated Articles of Incorporation (Exhibit 3.1 hereto) contains provisions implementing, to the fullest extent permitted by the Washington Business Corporation Act, such limitations on a director's liability to BRIAZZ and its shareholders.

The Underwriting Agreement (Exhibit 1.1 hereto) provides for indemnification by the underwriters of BRIAZZ and its executive officers and directors and by BRIAZZ's of the underwriters, for certain liabilities, including liabilities arising under the Securities Act, in connection with matters specifically provided in writing by the underwriters for inclusion in this registration statement.

We maintain director and officer insurance for claims made against any of our directors, officers or employees.

Item 15. Recent Sales of Unregistered Securities.

Since January 1, 1998, the registrant has issued and sold the following unregistered securities:

1. In December 1998, BRIAZZ issued subordinated convertible bridge notes and warrants to 31 investors for an aggregate amount of \$4,886,594. The notes bore interest at 10% per annum.

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2. In April 1999, BRIAZZ issued senior bridge notes and warrants to 28 investors for an aggregate amount of \$3,000,000. The notes bore interest at 15% per annum.
3. In August 1999, BRIAZZ issued 5,001,005 shares of Series C preferred stock to 24 investors at \$1.00 per share, or an aggregate amount of \$5,001,000.
4. In August 1999, in connection with the Series C private placement, the subordinated convertible bridge notes converted into 5,443,493 shares

of Series C preferred stock. The warrants issued in connection with the subordinated convertible bridge notes may be exercised for 2,443,297 shares of Series C preferred stock at \$1.00 per share, or an aggregate amount of \$2,443,297.

5. In August 1999, in connection with the Series C private placement, the senior bridge notes converted into 6,000,000 shares of Series C preferred stock. The warrants issued in connection with the senior bridge notes may be exercised for 3,000,000 shares of Series C preferred stock at \$1.00 per share, or an aggregate amount of \$3,000,000.
6. In March, April and May 2000, BRIAZZ issued 2,250,004 shares of Series C preferred stock to 22 investors at \$1.00 per share, or an aggregate amount of \$2,250,000.
7. In February 2001, BRIAZZ issued 3,046,124 shares of Series C preferred stock to 29 investors at \$1.00 per share, or an aggregate amount of \$3,046,124.
8. Since inception, BRIAZZ has issued an aggregate of 3,471,436 options to purchase common stock, with exercise prices ranging from \$0.25 to \$650.00, to employees, directors and advisors under BRIAZZ's stock option plan or otherwise. Of these options, options for 182,535 have been cancelled without being exercised, options for 7,350 have been exercised and options for 3,281,551 shares remain outstanding.

The sales and issuances of securities described in paragraphs 1-7 above were exempt from Securities Act registration pursuant to Rule 506 of Regulation D under the Securities Act, as all investors were "accredited investors" as defined in Rule 501(a) of Regulation D. The sales and issuances of securities described in paragraph 8 above were exempt from Securities Act registration pursuant to Rule 506 of Regulation D under the Securities Act, as options were granted to "accredited investors" as defined in Rule 501(a) of Regulation D, or were exempt from Securities Act registration under Rule 701 under the Securities Act, on the basis that these options were offered and sold in accordance with a written compensatory benefit plan or contract.

No underwriters were used in connection with any of these sales and issuances.

All outstanding shares of our preferred stock are convertible, at their respective conversion ratios, at any time into shares of our common stock. In addition, all outstanding shares of our preferred stock will be converted automatically, at their respective conversion ratios, into shares of our common stock not later than the completion of this offering.

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Item 16. Exhibits and Financial Statement Schedules.

(a) Exhibits

<TABLE>

<CAPTION>

Exhibit

Number

Description

<C>

<S>

1.1*	Form of Underwriting Agreement.
3.1*	Amended and Restated Articles of Incorporation.
3.2*	Amended Bylaws.
5.1*	Opinion of Dorsey & Whitney LLP.
10.1*	1996 Amended Stock Option Plan.
10.2*	Form of Option Agreement (Fresh Options).
10.3*	Form of Option Agreement (Non-Fresh Options).
10.4*	2001 Employee Stock Purchase Plan.
10.5	Form of Warrant.
10.6	Employment Agreement between BRIAZZ and Charles William Vivian dated July 14, 1999.
10.7	Retail Lease between BRIAZZ and Benaroya Capital Company regarding 1100 Olive Way, Seattle, WA dated November 6, 1998.

- 10.8 Form of Registration Rights Agreement among BRIAZZ and certain of our shareholders dated August 15, 1997, as amended.
- 10.9 Agreement between BRIAZZ and Stusser Realty Group Limited Partnership dated January 1998.
- 10.10 Sublease between BRIAZZ and Stusser Electric Company regarding 3901 7th Avenue South, Seattle, WA dated February 6, 1998.
- 10.11 Sublease Amendment between BRIAZZ and Stusser Electric Company regarding 3901 7th Avenue South, Seattle, WA dated August 28, 2000.
- 10.12 Lease between BRIAZZ and Mission-Taylor Properties regarding 225 Mendell St., San Francisco, CA dated June 28, 1996.
- 10.13 Amendment to Lease between BRIAZZ and Mission-Taylor Properties regarding 225 Mendell St., San Francisco, CA dated May 25, 2000.
- 10.14 Lease between BRIAZZ and Time Realty Investments, Inc. regarding 200 Center St., El Segundo, CA dated December 15, 1997.
- 10.15 Industrial Building Lease between BRIAZZ and Walnut Street Properties, Inc. regarding 1642 Lake Street, Chicago, IL dated April 7, 1997.
- 10.16 Promissory Note made by BRIAZZ and Victor Alhadeff in favor of U.S. Bank National Association in the principal amount of \$2,000,000 dated December 30, 1999.
- 10.17 Commercial Security Agreement among BRIAZZ, Victor Alhadeff and U.S. Bank National Association dated December 30, 1999.
- 23.1 Consent of PricewaterhouseCoopers LLP.
- 23.2* Consent of Dorsey & Whitney LLP (included in Exhibit 5.1).
- 24.1 Power of Attorney (included on signature page).

</TABLE>

* To be filed by amendment.

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(b) Financial Statement Schedules

The following financial schedule is filed herewith:

Schedule II--Valuation and Qualifying Accounts

Other financial statement schedules are omitted because they are inapplicable or the requested information is shown in our consolidated financial statements, and related notes.

Item 17. Undertakings.

(1) The undersigned registrant hereby undertakes to provide to the underwriter at the closing specified in the underwriting agreements, certificates in such denominations and registered in such names as required by the underwriter to permit prompt delivery to each purchaser.

(2) Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question of whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

(3) The undersigned registrant hereby undertakes that:

(a) For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be a part of this registration statement as of the time it was declared effective.

(b) For the purposes of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the city of Seattle, state of Washington, on January 31, 2001.

BRIAZZ, Inc.

/s/ Victor D. Alhadeff

By: _____
 Victor D. Alhadeff
 Chief Executive Officer and
 Chairman of the Board of Directors

POWER OF ATTORNEY

Each person whose signature appears below constitutes and appoints each of Victor D. Alhadeff, C. William Vivian and Tracy Warner, his or her attorney-in-fact and agent, with the full power of substitution and re-substitution, for them in any and all capacities, to sign any and all amendments (including post-effective amendments, and any registration statement relating to the same offering as this registration that is to be effective upon filing pursuant to Rule 462(b) under the Securities Act of 1933, as amended) to this registration statement. Further, each person constitutes and appoints Victor D. Alhadeff, C. William Vivian and Tracy Warner, his or her attorney-in-fact and agent to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that said attorneys-in-fact, or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, as amended, this registration statement has been signed by the following persons in the capacities and on the dates indicated below.

<TABLE>

<CAPTION>

Signature -----	Title -----	Date ----
<S> /s/ Victor D. Alhadeff _____ Victor D. Alhadeff	<C> Chief Executive Officer and Chairman of the Board of Directors (chief executive officer)	<C> January 31, 2001
/s/ C. W. Vivian _____ C. William Vivian	President, Chief Operating Officer and Director	January 31, 2001
/s/ Tracy Warner _____ Tracy Warner	Vice President, Finance and Chief Financial Officer (principal finance and accounting officer)	January 31, 2001
/s/ John Carleton _____ John Carleton	Director	February 1, 2001
/s/ Richard Fersch _____ Richard Fersch	Director	January 31, 2001
/s/ Dan Kourkoumelis _____ Dan Kourkoumelis	Director	January 31, 2001
/s/ Paul Vigano _____ Paul Vigano	Director	February 1, 2001

</TABLE>

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EXHIBIT INDEX

<TABLE>	<CAPTION>
Exhibit	Number
-----	-----
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3.2*	Amended Bylaws.
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23.2*	Consent of Dorsey & Whitney LLP (included in Exhibit 5.1).
24.1	Power of Attorney (included on signature page).

</TABLE>

* To be filed by amendment.

THE SECURITIES EVIDENCED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR APPLICABLE STATE LAW, AND NO INTEREST THEREIN MAY BE SOLD, DISTRIBUTED, ASSIGNED, OFFERED, PLEDGED OR OTHERWISE TRANSFERRED UNLESS (i) THERE IS AN EFFECTIVE REGISTRATION STATEMENT UNDER THE ACT AND APPLICABLE STATE SECURITIES LAWS COVERING ANY SUCH TRANSACTION INVOLVING SAID SECURITIES OR (ii) THE COMPANY RECEIVES AN OPINION OF LEGAL COUNSEL FOR THE HOLDER OF THESE SECURITIES STATING THAT SUCH TRANSACTION IS EXEMPT FROM REGISTRATION OR THE COMPANY OTHERWISE SATISFIES ITSELF THAT SUCH TRANSACTION IS EXEMPT FROM REGISTRATION.

No. WC-__

Warrant to Purchase _____ Shares of
Series C Convertible Preferred Stock

WARRANT TO PURCHASE SERIES C CONVERTIBLE PREFERRED STOCK
of
BRIAZZ, INC.

THIS CERTIFIES that, for value received, _____, is entitled, upon the terms and subject to the conditions hereinafter set forth, to subscribe for and purchase from BRIAZZ, INC., a Washington corporation (the "Company"), _____ shares of Series C Convertible Preferred Stock ("Series C Stock") at a purchase price per share of \$1.00. The purchase price per share of the Series C Stock upon exercise of this Warrant is sometimes referred to herein as the "Exercise Price." The number and exercise price, if any, of such shares are subject to adjustment as provided in Sections 8 and 9 hereof.

1. Term of Warrant. Subject to the terms and conditions set forth herein, this Warrant will be exercisable during the term commencing on the date hereof and ending at 5:00 p.m. Pacific Time on _____.

2. Exercise of Warrant.

(a) The purchase rights represented by this Warrant are exercisable by the registered holder hereof, in whole or in part, at any time, or from time to time, during the term hereof as described in Section 1 above, by the surrender of this Warrant and the Notice of Exercise annexed hereto duly completed and executed on behalf of the holder hereof, at the office of the Company in Seattle, Washington (or such other office or agency of the Company as it may designate by notice in writing to the registered holder hereof at the address of such holder appearing on the books of the Company), and upon payment in cash or check acceptable to the Company of the purchase price of the shares of Series C Stock thereby purchased, whereupon the holder of this Warrant will be entitled to receive a certificate for the number of shares of Series C Stock so purchased and, if this Warrant is exercised in part, a new Warrant for the

unexercised portion of this Warrant; provided, however, that it shall be a condition to the exercise of this Warrant that the holder hereof shall agree, or shall have agreed, in writing to become bound by the terms of that certain Amended and Restated Shareholders' Agreement among the Company and its shareholders, dated as of August 15, 1997 (the "Shareholders' Agreement"), as the same may from time be amended and/or restated, if then in effect. The Company agrees that if at the time of surrender of this Warrant and purchase the holder hereof will be entitled to exercise this

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Warrant, the shares of Series C Stock so purchased will be deemed to be issued to such holder as the record owner of such securities as of the close of business on the date on which this Warrant shall have been exercised as aforesaid.

(b) Notwithstanding any provisions herein to the contrary, if the fair market value of one share of Series C Stock is greater than the Exercise Price (at the date of calculation as set forth below), in lieu of exercising this Warrant for cash, the holder may elect to receive shares equal to the value (as determined below) of this Warrant (or the portion thereof being canceled) by surrender of this Warrant at the principal office of the Company together with the properly endorsed Notice of Exercise and notice of such election in which event the Company shall issue to the Holder a number of such shares of Series C Stock computed using the following formula:

$$X = \frac{Y (A - B)}{A}$$

Where X = the number of shares of Series C Stock to be issued to the holder

Y = the number of shares of Series C Stock purchasable under the Warrant or, if only a portion of the Warrant is being exercised, the portion of the Warrant being canceled (at the date of such calculation)

A = the fair market value of one share of Series C Stock (at the date of such calculation)

B = Exercise Price (as adjusted to the date of such calculation)

For purposes of the above calculation, fair market value of one share of Series C Stock shall be determined by the Company's Board of Directors in good faith; provided, however, that where there exists a public market for the Company's Common Stock at the time of such exercise, the fair market value of one share of Series C Stock shall be the product of (i) the average of the closing bid and asked prices of the Common Stock quoted in the Over-The-Counter Market Summary

or the last reported sale price of the Common Stock or the closing price quoted on the Nasdaq National Market or on any exchange on which the Common Stock is listed, whichever is applicable, as published in the Western Edition of The Wall Street Journal for the five (5) trading days prior to the date of determination of fair market value and (ii) the number of shares of Common Stock into which each share of Series C Stock is convertible at the time of such exercise. Notwithstanding the foregoing, in the event the Warrant is exercised in connection with the Company's initial public offering of Common Stock, the fair market value shall be the product of (i) the per share offering price to the public of the Company's initial public offering, and (ii) the number of shares of Common Stock into which each share of Series C Stock is convertible at the time of such exercise.

(c) Certificates for shares of Series C Stock purchased hereunder and, on partial exercise of this Warrant, a new Warrant for the unexercised portion of this Warrant will be delivered to the holder hereof promptly as practicable after the date on which this Warrant shall have been exercised as aforesaid.

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3. No Fractional Securities or Scrip. No fractional shares or scrip representing fractional shares will be issued upon the exercise of this Warrant. In lieu of any fractional share to which the holder would otherwise be entitled, the Company shall make a cash payment equal to the Exercise Price multiplied by such fraction.

4. No Rights as Shareholders. This Warrant does not entitle the holder hereof to any voting rights, dividends, participation rights or other rights as a shareholder of the Company prior to the exercise hereof.

5. Exchange and Registry of Warrant. The Company will maintain a registry showing the name and address of the registered holder of this Warrant. This Warrant may be surrendered for exchange, transfer or exercise, in accordance with its terms, at the office of the Company, and the Company will be entitled to rely in all respects, prior to written notice to the contrary, upon such registry.

6. Loss, Theft, Destruction or Mutilation of Warrant. Upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of this Warrant, and in case of loss, theft or destruction, of indemnity or security reasonably satisfactory to it, and upon reimbursement to the Company of all reasonable expenses incidental thereto, and upon surrender and cancellation of this Warrant, if mutilated, the Company will make and deliver a new Warrant of like tenor and dated as of such cancellation, in lieu of this Warrant.

7. Saturdays, Sundays and Holidays. If the last or appointed day for the taking of any action or the expiration of any right required or granted herein is a Saturday or a Sunday or will be a legal holiday or the equivalent

for banks generally in the State of Washington, then such action may be taken or such right may be exercised on the next succeeding day not a legal holiday or the equivalent for banks generally in the State of Washington.

8. Adjustment Rights. The Exercise Price and the number of shares purchasable hereunder are subject to adjustment from time to time, as follows:

(a) Recapitalization, Merger, Sale of Assets. If at any time, there is a capital reorganization (other than a combination, reclassification, exchange or subdivision of shares otherwise provided for herein), or a merger or consolidation of the Company with or into another corporation in which the Company is not the surviving corporation, or the sale of the Company's properties and assets as, or substantially as, an entirety to any other person, then, as a part of such reorganization, merger, consolidation or sale, lawful provision will be made so that the holder of this Warrant shall thereafter be entitled to receive upon exercise of this Warrant, during a period beginning on the effective date of such reorganization, merger consolidation or sale and ending at 5 p.m. Seattle, Washington time on the tenth (10th) day after the effective date (whereupon this Warrant shall terminate to the extent not previously exercised) and upon payment of the exercise price then in effect, the number of shares of stock or other securities or property of the successor corporation resulting from such merger or consolidation, to which a holder of the Series C Stock deliverable upon exercise of this Warrant would have been entitled in such capital reorganization, merger, consolidation or sale if this Warrant had been exercised immediately before such reorganization, merger, consolidation or sale. The Company shall notify the holder hereof of any such reorganization, merger, consolidation or sale or reclassification, split,

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subdivision or combination of shares not later than the effective date thereof. In any such case, appropriate adjustment (as determined in good faith by the Company's Board of Directors) will be made in the application of the provisions of this Warrant with respect to the rights and interests of the holder after the reorganization, merger, consolidation or sale to the end that the provisions of this Warrant (including adjustment of the Exercise Price and number of shares purchasable upon exercise of this Warrant) will be applicable after that event, as near as reasonably may be, in relation to any shares or other property deliverable after that event upon exercise of this Warrant.

(b) Reclassification. If the Company at any time reclassifies the Series C Stock or otherwise changes any of the securities as to which purchase rights under this Warrant exist into the same or a different number of securities of any different class or classes, this Warrant will thereafter represent the right to acquire such number and kind of securities as would have been issuable as the result of such change with respect to the securities which were subject to the purchase rights under this Warrant immediately prior to such reclassification or other change.

(c) Split, Subdivision or Combination of Shares. If the Company at

any time while this Warrant remains outstanding and unexpired splits, subdivides or combines the securities as to which purchase rights under this Warrant exist, the Exercise Price will be proportionately decreased in the case of a split or subdivision or proportionately increased in the case of a combination. Upon each adjustment in the Exercise Price, the number of such securities purchasable hereunder will be adjusted, to the nearest whole share, to the product obtained by multiplying the number of shares purchasable immediately prior to such adjustment in the Exercise Price by a fraction (i) the numerator of which will be the Exercise Price immediately prior to such adjustment, and (ii) the denominator of which will be the Exercise Price immediately after such adjustment.

(d) Authorized Shares. The Company covenants that during the period the Warrant is outstanding, it will reserve from its authorized and unissued Series C Stock (and shares of its Common Stock for issuance upon conversion of the Series C Stock) a sufficient number of shares to provide for the issuance of the Series C Stock upon the exercise of any purchase rights under this Warrant and the issuance of Common Stock upon conversion of the Series C Stock. The Company further covenants that its issuance of this Warrant will constitute full authority to its officers who are charged with the duty of executing stock certificates to execute and issue the necessary certificates for the Series Convertible Preferred Stock upon the exercise of the purchase rights under this Warrant.

9. Conversion into Common Stock. If while the Warrant is exercisable for Series C Stock all of the Company's outstanding shares of the Series C Stock are, at any time prior to the expiration hereof (as determined in accordance with Section 1 above), redeemed or converted into shares of Common Stock in accordance with the Company's Amended and Restated Articles of Incorporation and the rights and preferences of the Series C Stock incorporated therein (the "Articles"), then this Warrant will immediately become exercisable for a number of shares of Common Stock equal to the number of shares of Common Stock that would have been received if this Warrant had been exercised in full and the Series C Stock received thereupon been simultaneously converted immediately prior to such event, and the Exercise Price will be immediately adjusted by multiplying the Exercise Price by the ratio used to determine the

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number of shares of Common Stock to be issued upon conversion of each share of the Series C Stock adjusted, to the nearest whole share. The Company shall notify the holder hereof of any such redemption or conversion not later than the effective date of such redemption or conversion. This Warrant shall remain so exercisable during a period beginning on the effective date of such redemption or conversion and continuing for the remainder of the term of this Warrant.

10. Notice of Adjustments. Whenever the Exercise Price or number of shares purchasable hereunder will be adjusted pursuant to Section 8 or 9 hereof, the Company shall issue a certificate signed by its Chief Financial Officer setting forth, in reasonable detail, the event requiring the adjustment, the

amount of the adjustment, the method by which such adjustment was calculated and the Exercise Price and number of shares purchasable hereunder after giving effect to such adjustment, and shall cause a copy of such Certificate to be transmitted to the holder of this Warrant within 10 days of such event.

11. Warranties and Covenants. The Company warrants and covenants that this Warrant and all shares to be issued hereunder, when issued in accordance with the terms hereof will be, duly and validly issued, fully paid and non-assessable, and free of all liens, claims and encumbrances. The Company further warrants and covenants that this Warrant constitutes a valid and legally binding obligation of the Company, enforceable in accordance with its terms.

12. Transferability; Compliance with Securities Laws.

(a) This Warrant may not be transferred or assigned in whole or in part without compliance with all applicable federal and state securities laws by the transferor and transferee (including the delivery of investment representation letters and legal opinions reasonably satisfactory to the Company, if requested by the Company). Subject to such restrictions, prior to the Expiration Time, this Warrant and all rights hereunder are transferable by the holder hereof, in whole or in part, at the office or agency of the Company. Any such transfer will be made in person or by the holder's duly authorized attorney, upon surrender of this Warrant together with the Assignment Form attached hereto properly endorsed.

(b) The Holder of this Warrant, by acceptance hereof, acknowledges that this Warrant and the shares of Series C Stock or Common Stock issuable upon exercise hereof or conversion thereof are being acquired solely for the holder's own account and not as a nominee for any other party, and for investment, and that the holder will not offer, sell or otherwise dispose of this Warrant or any shares of Series C Stock or Common Stock issuable upon exercise hereof or conversion thereof, except under circumstances that will not result in a violation of the Securities Act of 1933, as amended (the "Securities Act"), or any state securities laws. Upon exercise of this Warrant, the holder shall, if requested by the Company, confirm in writing, in a form satisfactory to the Company, that the shares of Series C Stock or Common Stock so purchased are being acquired solely for holder's own account and not as a nominee for any other party, for investment, and not with a present view toward distribution or resale.

(c) The Series C Stock and Common Stock have not been and will not (except as provided in the Registration Rights Agreement) be registered under the Securities Act or applicable state securities laws and this Warrant may not be exercised except (i) by an "accredited investor" as defined in Rule 501(a) under the Securities Act that acquired this Warrant directly from the Company; or (ii) by a holder that is an "accredited investor" and

provides the Company with evidence satisfactory to the Company (which may at the

Company's option be required to include an opinion of counsel) to the effect that no violation of the registration provisions of the Securities Act or applicable state securities laws will result from such exercise. Each certificate representing Common Stock, Series C Stock or other securities issued in respect of the Common Stock or Series C Stock upon any conversion, stock split, stock dividend, recapitalization, merger, consolidation or similar event, will be stamped or otherwise imprinted with a legend substantially in the following form (in addition to any legend required under applicable securities laws):

"THE SECURITIES EVIDENCED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR APPLICABLE STATE LAW, AND NO INTEREST THEREIN MAY BE SOLD, DISTRIBUTED, ASSIGNED, OFFERED, PLEDGED OR OTHERWISE TRANSFERRED UNLESS (i) THERE IS AN EFFECTIVE REGISTRATION STATEMENT UNDER THE ACT AND APPLICABLE STATE SECURITIES LAWS COVERING ANY SUCH TRANSACTION INVOLVING SAID SECURITIES OR (ii) THE COMPANY RECEIVES AN OPINION OF LEGAL COUNSEL FOR THE HOLDER OF THESE SECURITIES STATING THAT SUCH TRANSACTION IS EXEMPT FROM REGISTRATION OR THE COMPANY OTHERWISE SATISFIES ITSELF THAT SUCH TRANSACTION IS EXEMPT FROM REGISTRATION."

13. Miscellaneous.

(a) Issue Date. The provisions of this Warrant will be construed and will be given effect in all respects as if it had been issued and delivered by the Company on the date hereof. This Warrant will be binding upon any successors or assigns of the Company. This Warrant shall constitute a contract under the laws of the State of Washington and for all purposes will be construed in accordance with and governed by the laws of said state.

(b) Notices. All notices and other communications called for or required by this Warrant shall be in writing to the parties at their respective addresses stated on Schedule 1 to the Agreement, or to such other address as a party may subsequently specify and shall be deemed to have been received (i) upon delivery in person, (ii) upon the passage of seventy-two (72) hours following post by first class registered or certified mail, return receipt requested, with postage prepaid, (iii) upon the passage of twenty-four (24) hours following post by overnight receipted courier service, or (iv) upon transmittal by confirmed telex or facsimile provided that if sent by facsimile a copy of such receipt requested and postage prepaid, with an indication that the original was set by facsimile and the date of its transmittal.

(c) Attorneys' Fees. In any litigation, arbitration or court proceeding between the Company and the holder relating hereto, the prevailing party will be entitled to reasonable attorneys' fees and expenses and court costs incurred in enforcing this Warrant.

(d) Charges, Taxes and Expenses. Issuance of certificates for shares of Series C Stock upon the exercise of this Warrant will be made without charge to the holder hereof for any issue or transfer tax or other incidental expense in respect of the issuance of such certificate, all of which taxes and expenses will be paid by the Company, and such certificates will be issued in the name of

the holder of this Warrant or in such name or names as may be directed by the holder of this Warrant; provided, however, that in the event certificates for shares of Series C

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Stock are to be issued in a name other than the name of the holder of this Warrant, this Warrant when surrendered for exercise will be accompanied by the Assignment Form attached hereto duly executed by the holder hereof.

IN WITNESS WHEREOF, BRIAZZ, INC., has caused this Warrant to be executed by the undersigned officer thereunto duly authorized.

Dated _____, 2000

BRIAZZ, INC.

By: _____
Victor D. Alhadeff,
Chief Executive Officer

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EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (this "Agreement") is made this 14th day of July, 1999, between BRIAZZ, Inc. a Washington corporation, ("Employer") and Charles William Vivian ("Employee").

RECITALS

A. Employer is in the business of preparing and serving food products. For the purposes of this Agreement, the term "Affiliate" means any entity currently existing or subsequently organized or formed that directly or indirectly controls, is controlled by or is under common control with Employer, whether through the ownership of voting securities, by contract or otherwise.

B. As a condition precedent to and as an incentive to Employer to hire Employee, Employer and Employee wish to enter into this Agreement setting forth the terms and conditions of employment.

AGREEMENT

Based upon the consideration of the mutual covenants herein contained, and other good and valuable consideration, the sufficiency and receipt of which are hereby acknowledged, the parties hereto agree as follows:

1. Employment. Employer hereby employs Employee, and Employee agrees to be employed as President and Chief Operating Officer. Employee will report to the Chief Executive Officer of Employer, and Employee shall render such further services and duties as the Chief Executive Officer of Employer may reasonably require. Employee's base of operations shall be the Employer's offices in Seattle, Washington, although the position requires extensive travel. Employee acknowledges and agrees that Employer may move the base of its operations to another location and such move shall not violate this Agreement provided that such move is within fifty [50] miles of Employer's current offices. Employee shall devote his full time and attention to achieving the purposes of Employer and discharging his responsibilities. Employee shall comply with all rules, policies and procedures of Employer as modified from time to time, including, without limitation, rules and procedures set forth in the Employer's employee handbook as adopted and modified from time to time. Employee shall perform all of his responsibilities in a way which is in complete compliance with all applicable laws. If requested by the shareholders of Employer to do so, Employee shall serve on the Board of Directors of Employer for no consideration other than that provided for in this Agreement.

07/01/99 1:06 PM

2. At Will Employment. Employee's employment with Employer shall be at will and shall be for no specific term, and either Employee or Employer may terminate the employment relationship at any time, with or without cause or advance notice, subject to the provisions of Sections 5 and 6 regarding payments upon termination.

3. Compensation. For the duration of Employee's employment hereunder, the Employee shall be entitled to compensation which shall be computed and paid pursuant to the following subparagraphs.

3.1 Salary. For the duration of Employee's employment hereunder, Employee shall be paid an annual gross salary of one hundred and forty thousand dollars (U.S) (\$140,000.00 USD) per year beginning with January 11, 1999, with the actual amount paid to be prorated for the actual period of employment and payable in equal installments in accordance with Employer's normal payroll practices, subject to appropriate deductions and withholding. In addition, Employer will adjust Employee's annual gross salary to one hundred and fifty two thousand dollars (U.S.) (\$152,000.00 USD) on May 3, 1999, (to compensate Employee for additional costs associated with housing) with the actual amount paid to be prorated for the actual period of employment and payable in equal installments in accordance with Employer's normal payroll practices, subject to appropriate deductions and withholding.. Employer shall review Employee's salary on or about July 1, 1999 and every year of Employee's employment thereafter, as part of a review of Employee's performance and shall consider whether an increase in salary shall be made, provided however that the decision of whether to make any adjustments to salary is in the sole discretion of Employer and further provided that adjustments shall not decrease the amount of salary payable to Employee. As agreed, BRIAZZ will reimburse Employee's relocation costs up to \$6,000 which will be subject to Federal Income Tax.

3.2 Incentive Bonus. Employee shall be eligible to participate in an incentive bonus plan adopted by the Compensation Committee of the Board of Directors ("Compensation Committee"). Any such bonus program will provide for bonus based on performance against goals established by the Employer and other factors, per the discretion of the Compensation Committee.

Employee's annual bonus potential will be thirty percent (30%) of Employee's base salary. The actual amount of bonuses earned by Employee, if any, will be determined at the discretion of the Compensation Committee in accordance with a plan adopted by said committee, and such plan may provide that earned bonuses will be paid in cash compensation. The earned bonus for fiscal year 1999 will be prorated for the actual period worked. Employee understands and agrees that the Compensation Committee retains the right to modify or eliminate any bonus incentive plan it adopts from time to time, for any reason, and such modification may include, without limitation, the payment of the bonus in stock grants or options.

3.3 Stock Options. Employee will receive a grant of 100,000 stock options on Employee's date of hire, subject to required corporate approvals, the terms and conditions of Employer's stock option plan and Employee's entry into a stock option agreement with Employer. The grant price of the options will be set at the February, 1999 Board Meeting. The stock option agreement between Employer and Employee shall provide that the term "cause" as used in Employer's stock option plan, shall have the same meaning as set forth herein. In the event of a merger, consolidation or liquidation of the company, Employee's stock options will vest according to the Amended 1996 - Briazz, Inc. Stock Option Plan.

4. Other Benefits.

4.1 Certain Benefits. Employee shall be eligible to participate in employee benefit programs established by Employer for personnel on a basis commensurate with Employee's position and in accordance with Employer's policies from time to time, but nothing herein shall require the adoption or maintenance of any such plan. In addition, Briazz will reimburse employee for his January, 1999 COBRA costs. Employee's health insurance eligibility date is February 1, 1999 providing enrollment forms are completed.

4.2 Paid Leave. For the duration of Employee's employment hereunder, Employee shall be provided paid leave in accordance with Employer's paid leave policies. Initially, Employee shall begin to accrue paid vacation leave on a pro rata basis with each pay period at the rate of three (3) weeks paid vacation leave annually. Employer may modify its paid leave policies from time to time at Employer's discretion. As agreed, Employee will be taking two (2) weeks of paid vacation earlier than when the time will be accrued in May, 1999.

4.3 Expenses. Employer shall reimburse Employee in accordance with company policies and procedures for reasonable expenses necessarily incurred in the performance of duties hereunder against appropriate receipts and vouchers indicating the specific business purpose for each such expenditure. As agreed, Employee may also be reimbursed for reasonable travel costs to home in California of up to two (2) times per period. Employee may work travel plans around regular business trips to minimize expenses and schedule flight arrangements at least seven (7) days in advance to secure lower fares.

4.4 Use of Company Car. Employer will provide Employee with use of a company car. Employee shall be responsible for taxes attendant to benefits provided under this provision, which Employer will treat as compensation. Employee's use of Company car shall in no way give Employee rights of ownership in the Company car. Employee shall comply with Employer's policies, procedures and regulations associated with use of Company vehicles, which policies, procedures and regulations may change from time to time at the discretion of

5. Termination By Employer.

5.1 For Cause. Employer shall have the right to immediately terminate Employee's services and this Agreement for Cause upon notice of termination. "Cause," as used herein, means any material breach of this Agreement by Employee which, if susceptible to cure, has not been cured after Employee has been given thirty (30) days to cure the breach; failure of Employee to satisfactorily perform Employee's responsibilities in the good faith discretion of the Board of Directors, provided that Employee is not assigned unreasonable responsibilities in view of his role as a president and chief operating officer and further provided that Employee has been given thirty (30) days to cure the failure and cure was not effected within that time period; failure of Employee to comply with policies and procedures of Employer; unethical practices; dishonesty; disloyalty; conduct which would constitute a criminal offense; or any reason that would constitute cause under the laws of the State of Washington.

Upon termination of Employee's employment hereunder for Cause or upon the death of Employee, all compensation described herein shall cease as of the termination date or, in the event of death, the last day of the month in which Employee's death occurred and Employee shall have no rights to any other compensation or payments.

5.2 Without Cause. If Employer terminates Employee's employment without cause, Employer will provide Employee with monthly separation payments in the amount of Employee's base monthly salary at the time of termination for a period of twelve (12) months, provided that Employee executes and delivers to Employer a waiver and release of all claims in the form of Exhibit A herein accordance with its terms and conditions and does not revoke or rescind same. This severance agreement would also be honored if Employee's employment is terminated in the event of a merger, acquisition or liquidation.

Except as provided in this Section 5, upon termination by Employer without Cause, Employee shall not be entitled to any further compensation, payments or severance.

6. Termination By Employee. Employee may terminate this employment relationship at any time. In the event of notice of termination by Employee, Employer may, at its option, elect to: permit Employee to continue performing some or all of his responsibilities of this Agreement until the end of the notice period; accelerate such termination date to any date at the discretion of Employer; or maintain the termination date provided by Employee but relieve Employee of some or all duties and authority after notice of termination has been provided. All compensation, payments and unvested benefits shall cease

on the termination date.

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7. Confidential Information and Inventions.

7.1 Confidential Information. Employee shall protect and hold in strictest confidence all Confidential Information and will not use, except in connection with Employer's work, disclose, or give to others, during or after Employee's employment, any of the Employer's Confidential Information or any Confidential Information of Affiliates, customers or consultants. "Confidential Information" is information about Employer or relating to Employer's business (or the business of its Affiliates, customers or consultants) that has economic value to Employer or Affiliates or is deemed proprietary and confidential by Employer, whether wholly or partially developed by Employee or provided to Employee, and whether embodied in a tangible medium or merely remembered, including, but not limited to, technical or non-technical data, formulas, recipes, compilations, programs, devices, drawings, processes, techniques, financial data, lists of customers or suppliers, specific terms of contracts and personnel information.

All tangible items embodying or disclosing any of the Confidential Information shall be and remain the property of Employer. Upon termination of Employee's employment with Employer or at any time at Employer's request, Employee shall deliver to Employer, along with any other Employer property, all records of inventions, ideas, and works, and all materials and documents, and any copies in Employee's possession or control relating to Confidential Information. Employee understands that all property on Employer's premises, including computers and storage media, is subject to inspection at any time by Employer with or without notice.

7.2 Inventions, Ideas, Patents and Copyrights

7.2.1 Disclosure and Assignment of Inventions. Employee shall promptly disclose to Employer, and only to Employer, any invention, idea or work of Employee (developed alone or with others) conceived or made during the term of Employee's employment by Employer (or within three months after Employee's employment) in any way connected with Employee's employment, or otherwise related to Employer's actual or anticipated business, marketing, research or development. Subject to the limitations stated below, Employee hereby assigns to Employer all title and rights in and to all such inventions, ideas and works, whether previously existing or to be developed or created hereafter, including but not limited to all patents, rights to patents, trade secrecy rights, and copyrights, worldwide. Any such works made within the scope of employment are or will be "works made for hire" for Employer under the copyright laws, and the foregoing assignment will apply to any other works described above. Employee will cooperate with Employer and sign all papers

deemed necessary by Employer to enable it to obtain, maintain, protect, enforce, and defend patents, copyrights, or other legal protections covering such inventions, ideas and works and to confirm Employer's exclusive ownership of all rights in them. Employee irrevocably appoints Employer as Employee's agent to execute and deliver any and all such assignments or other instruments Employee fails or refuses to execute and deliver promptly. Without limiting the preceding, Employee agrees that Employer may in its discretion edit, modify, recast, use, and promote any such inventions, ideas or works, and derivatives thereof, with or without the use of Employee's name or image.

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7.2.2 License. If and to the extent that Employee makes use, or has made use, in the course of Employee's employment, of any items or intellectual properties previously developed by Employee or developed by Employee outside of the scope of this Agreement, Employee hereby grants to Employer a nonexclusive, royalty-free, perpetual, irrevocable, worldwide license (with right to sublicense) to make, use, sell, offer for sale, copy, distribute, import, modify, and otherwise to practice and exploit any and all such items and intellectual properties.

7.2.3 Excluded Inventions. Employee has been given the opportunity to prepare and attach hereto a list of all inventions, patent applications and patents made or conceived by Employee prior to the date hereof, which are subject to prior agreement or which Employee desires to exclude from the Agreement. If no such list is attached, Employee hereby represents and warrants to Employer that there are no such inventions, patent applications or patents. Employee understands and acknowledges having been given notice herein that, in accordance with Employer's policy and Washington law, this Agreement does not apply to, and that Employee shall have no obligation to assign to Employer, any invention for which no Employer trade secrets and no equipment, supplies, or facilities of Employer were used and which as developed entirely on Employee's own time, unless: (i) the invention relates directly to the business of Employer, (ii) the invention relates to actual or demonstrably anticipated research or development work of Employer, or (iii) the invention results from any work performed by Employee for Employer.

8. Remedies. Notwithstanding other provisions of this Agreement regarding dispute resolution, Employee agrees that Employee's violation of Section 7 of this Agreement would cause Employer irreparable harm which would not be adequately compensated by monetary damages, and that an injunction may be granted by any court or courts having jurisdiction, restraining Employee from violation of the terms of this Agreement, upon any breach or threatened breach of Employee of obligations set forth in Section 7. The preceding sentence shall not be construed to limit Employer from any other relief or damages to which it may be entitled as a result of Employee's breach of any provision of this Agreement, including Section 7.

9. Dispute Resolution. Except for the right of Employer and Employee to seek injunctive relief in court, any controversy, claim or dispute of any type arising out of or relating to employment or provisions of Employment Agreement shall be resolved in accordance with the provision regarding resolution of disputes, which will be the sole and exclusive procedure for the resolution of any disputes. Matters subject to these provisions include, without limitation, claims or disputes based on statute, contract, common law and tort and will include, for example, matters pertaining to termination, discrimination, harassment, compensation and benefits. Matters to be resolved under these procedures would include claims and dispute arising out of statutes such as Title VII of the Civil Rights Act, the Age Discrimination in Employment Act, and similar state laws. Nothing in this provision is intended to restrict Employee from submitting any matter to an administrative agency with jurisdiction over such matter.

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9.1 Mediation. Employer and Employee will make a good faith attempt to resolve any and all claims and disputes by submitting them to mediation in Seattle, Washington before resorting to arbitration or any other dispute resolution procedure. The mediation of any claim or dispute must be conducted in accordance with the then-current American Arbitration Association ("AAA") national rules for the resolution of employment disputes pertaining to mediation, by a mediator who has had both training and experience as a mediator of general employment and commercial matters. If the parties to this agreement cannot agree on a mediator, then the mediator will be selected by the AAA in accordance with the criteria described in this provision. Within 30 days after the selection of the mediator, Employer and Employee and their respective attorneys will meet with the mediator for one mediation session of at least four hours. If the claim or dispute cannot be settled during such mediation session or mutually agreed continuation of the session, either Employer or Employee may give the mediator and the other party to the claim or dispute written notice declaring the end of the mediation process. All discussions connected with this mediation provision will be confidential and treated as compromise and settlement discussions. Nothing disclosed in such discussions, which is not independently discoverable, may be used for any purpose in any later proceeding.

9.2 Arbitration. If any claim or dispute has not been resolved by mediation under the Mediation Provisions of this Employment Agreement, then the claim or dispute will be determined by arbitration in Seattle, Washington in accordance with the then-current AAA national rules for the resolution of employment disputes pertaining to arbitration, except as modified herein. The arbitration will be conducted by a sole neutral arbitrator who has had both training and experience as an arbitrator of general employment and commercial matters and who is and for at least 10 years has been, a partner, a shareholder, or a member in a law firm. If Employer and Employee cannot agree on an arbitrator, then the arbitrator will be selected by the AAA applying the criteria in this provision. No person who has served as a mediator under the

mediation provision, however, may be selected as the arbitrator for the same claim or dispute. Reasonable discovery shall be permitted and the arbitrator may decide any issue as to discovery. The arbitrator may decide any issue as to whether or as to the extent to which, any dispute is subject to the dispute resolution provisions in this Agreement and the arbitrator may award any relief permitted by law. The arbitrator must base his or her award on the provisions of these dispute resolution provisions and applicable law and must render his or her award in a writing which includes an explanation of the reasons for the award. Judgment upon the award may be entered by any court having jurisdiction of the matter and the decision of the arbitrator will be final and binding. The statute of limitations applicable to the commencement of a lawsuit will apply to the commencement of an arbitration under this provision.

10. Fees. Unless otherwise agreed, the prevailing party shall be entitled to its reasonable costs and attorneys' fees incurred in any litigation relating to the interpretation or enforcement of this Agreement.

11. Disclosure. Employee agrees fully and completely to reveal the terms of this Agreement to any future employer or potential employer of Employee and authorizes Employer, at its election, to make such disclosure.

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12. Representation of Employee. Employee represents and warrants to Employer that Employee is free to enter into this Agreement and that Employee has no commitment, arrangement or understanding to or with any party which restrains or is in conflict with Employee's performance of the covenants, services and duties provided for in this Agreement. Employee agrees to indemnify Employer and to hold Employer harmless against any and all liabilities or claims arising out of any unauthorized act or acts by Employee which, the foregoing representation and warranty to the contrary notwithstanding, shall be in violation, or shall constitute a breach, of any such commitment, arrangement or understanding.

13. Conditions of Employment. Employer's obligations to Employee under this Agreement are conditioned upon Employee's timely compliance with requirements of the United States immigration laws.

14. Assignability. This Agreement shall be binding upon Employee, Employee's heirs, personal representatives and permitted assigns and on Employer, its successors and assigns. During Employee's employment hereunder, this Agreement may not be assigned by either party without the written consent of the other; provided, however, that Employer may in its sole discretion assign its rights and obligations under this Agreement without Employee consent to a successor by sale, merger or liquidation, if such successor carries on Employer's business substantially in the form in which it is being conducted at the time of the sale, merger or liquidation.

15. Notices. Any notice required or permitted to be given hereunder shall be sufficient if in writing, by registered or certified mail, to the Chief Executive Officer of Employer at BRIAZZ, Inc., 3901 7th Avenue South, Suite 200, Seattle, WA 98108. Notices to the Employee may, at the discretion of Employer, alternatively be hand delivered to Employee.

16. Severability. In the event that any provision of this Agreement or compliance by any of the parties with any provision of this Agreement shall constitute a violation of any law, or be deemed unenforceable or void, then such provision, to the extent only that it is in violation of law, or is deemed void or unenforceable, shall be deemed modified to the extent necessary so that it is no longer unenforceable, void or in violation of law in the applicable jurisdiction and such provision shall be enforced to the fullest extent permitted by law. If such modification is not possible, said provision, to the extent that it is in violation of law, void or unenforceable, shall be deemed severable from the remaining provisions of this Agreement, which provisions shall remain binding on the parties.

17. Entire Agreement. This instrument contains the entire agreement of the parties, and supersedes any prior or contemporaneous statements or understandings by or between the parties. This Agreement may be changed only by an agreement in writing signed by the party against whom enforcement of any waiver, change, modification, extension or discharge is sought, and any such modification on behalf of Employer must be signed by the Chairman and Chief Executive Officer of Employer. This Agreement shall be governed by and construed in accordance with the laws of the State of Washington, excluding choice of law provisions.

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18. Waiver of Breach. The waiver by Employer of a breach of any provision of this Agreement by Employee shall not operate or be construed as a waiver of any subsequent breach by Employee.

19. Third-Party Beneficiaries. Affiliates of Employer are and shall be third-party beneficiaries of this Agreement.

BRIAZZ, INC.

/s/ VICTOR ALHADEFF

Victor Alhadeff
Chairman and Chief Executive Officer

Charles William Vivian

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RETAIL LEASE

THIS LEASE AGREEMENT made this 6th day of November 1998, by and between Benaroya Capital Company, LLC, a Washington limited liability company (the "Lessor") and Briazz, Inc., a Washington Corporation (the "Lessee").

1. (a) Premises. Lessor does hereby lease to Lessee those certain premises, to -----

wit: 517 square feet of retail space on the first (1st) floor, Suite 110, as outlined on the Floor Plan attached hereto as Exhibit A and more particularly depicted on the Space Plan attached hereto as Exhibit B in the Building known as Metropolitan Park West located at 1100 Olive Way in Seattle, Washington (hereinafter called "Premises"). Lessor may, at any time during the Lease Term, increase the size of the Premises by 174 square feet to 691 square feet with no increase in Base Rent to Lessee, as outlined in Section 3. Lessor will provide the demising wall to accommodate Lessee's expansion. The Building is hereafter sometimes referred to as the "Project", legally described as follows:

Lots 6, 7, 8, 9, 10, and 11, Block 50, Second Addition to the Town of Seattle as laid off by heirs of Sarah A. Bell (deceased), (Commonly known as heirs of Sarah A. Bell's 2nd Addition to the City of Seattle), according to Plat recorded in Volume 1 of Plats, page 121, in King County, Washington.

TOGETHER WITH that portion of vacated alley formerly running through Block 50, vacated by City of Seattle Ordinance No. 88702, as would attach by operation of law.

2. Term. This Lease shall be for a term of Fifty-Four and One-Half (54-1/2) ----

months commencing November 15, 1998 (the "Commencement Date") and terminating May 31, 2003.

3. (a) Monthly Minimum Rent. Lessee covenants and agrees to pay Lessor at 1001 -----

Fourth Avenue, Suite 4700, Seattle, WA 98154, or to such other party or at such other place as Lessor may hereafter designate, Monthly Minimum Rent in the following amounts according to the schedule below and Additional Rent, as provided elsewhere in this lease in advance without offset or deduction, on or before the first (1st) day of each month of the Lease term:

Period -----	Monthly Minimum Rent -----
11/15/98 - 5/31/03	\$1,300.00

(b) Percentage Rent. Percentage Rent is 6%. Lessee shall pay to Lessor

without demand the amount, if any, by which Lessee's Gross Sales resulting from business conducted in, on, from or through the Premises during each full or partial calendar month of the Lease Term multiplied by the Percentage Rent Rate exceeds the Monthly Minimum Rent payable for that full or partial month ("Percentage Rent").

Monthly Percentage Rent, is to be paid on or before fifteen (15) days after the end of each calendar month of the Lease Term.

The term "gross sales", as used herein, means the selling price of all goods, merchandise and services sold in, upon and/or any part of the Premises by Lessee or any other person, firm or corporation, and shall include, but not be limited to, sales or charges for cash or credit regardless of collections, sales by vending devices, including coin telephone, rent income, mail or telephone orders received or filled and paid for at the Premises, all deposits not refunded to purchasers, fees, commissions, catalog sales, and sales by any subleases, concessionaire, licensee or otherwise. Excluded from gross sales shall be returns and refunds to customers and the amount of any sales tax or other excise tax imposed upon said sale and charges (but only if such sales tax, excise tax or similar tax is billed to the purchaser as a separate item). Each sale upon installment or credit shall be treated as a sale for the full price in the month during which such sale is made, regardless of the time when Lessee receives payment from its customer.

Percentage reports of gross sales are due on or before the fifteenth (15th) of each month during the Term of this Lease. Lessee shall submit to Lessor a written report, in a form prescribed by Lessor, wherein Lessee shall set forth in reasonable detail the amount of gross sales during the preceding month. Lessee shall also furnish to Lessor with each monthly gross sales report a certified copy of each retail sales tax report which the State of Washington requires of Lessee. Within thirty (30) days after the close of each calendar year, Lessee shall tender to Lessor a written statement, certified by Lessee, setting forth in reasonable detail the amount of gross sales and a computation of the amount of percentage rent payable for each calendar year. All certificates required above shall be by an authorized officer, partner, or the owner of Lessee.

Lessee shall keep true, full and accurate books of account setting forth gross sales, together with any other information which will in any way affect the determination of rent payable hereunder. Lessor shall be allowed after five days prior notice, to inspect Lessee's books of account at the Premises and to procure audits thereof by a certified Public Accountant. If in the judgment of such accountant Lessee's books of account are incomplete or improperly reflect the information necessary to an accurate determination of the rents payable hereunder, or if the audit shall show that the reports submitted by Lessee understated Lessee's gross sales by more than three percent (3%) thereof for any year covered by audit, the

costs and fees for such audit shall be paid by Lessee as additional rent hereunder. If such audit shall disclose any willful or intentional effort to understate gross sales, then, at Lessors' option, Lessee may be required to surrender possession of the Premises under the provisions of Paragraph 26 herein.

The fixing of a portion of the rent on the percentage of sales of the business to be done by Lessee is for the sole purpose of determining the total rents to be paid by Lessee and does not create a partnership or joint venture relationship between the parties hereto. Lessor assumes no liability hereunder for the operation of the business of the Lessee.

4. Use. Lessee shall use and occupy the Premises for the purposes of a --- sandwich cafe and for no other purposes, without prior written consent of Lessor, and shall comply with all governmental laws, ordinances, regulations, orders and directives and insurance requirements applicable to Lessee's use of the Premises, Lessee's use of the space will be for the sale of quality food for consumption within or outside the premises, for take-out or for delivery, for the

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operation of catering services and for "home meal replacement" style food and for the sale of beverages (non-alcoholic) for consumption on or off the premises. Lessee's use of the space shall be limited to the sale or distribution of the following;

- a. Soups, prepackaged salads and prepackaged sandwiches;
- b. Pastries and baked goods, including bagels;
- c. Bottled water and bottled or canned juices, made-to-order and/or blended juice drinks and any other beverages (excluding alcoholic beverages);
- d. Espresso, espresso beverages, coffee (whether liquid, whole or ground) and coffee beverages provided the aforementioned is not Lessee's primary business; and
- e. Pre-made, pre-grilled, pre-baked or reheated sandwiches (such as paninis and calzones). Notwithstanding the foregoing, Lessee will be allowed to warm paninis within the Premises.

Lessee's menu may change from time to time with the consent of Lessor, and Lessee will be allowed to sell other incidental food or logo items that are incidental to and consistent with Lessee's main menu, without Lessor's consent

Lessee shall not occupy or use or permit any portion of the Premises to be occupied or used in such a manner or for any purpose which would increase the cost of insurance coverage upon the Premises, the building or the contents thereof. Additionally, Lessee may not change the permitted use of the premises without Lessor's consent.

5. Exclusive Use: During the Term of this Lease, Lessor will not suffer or permit any other party to use as its primary business any part of the Building within which the premises are located for the sale of;
- a. Soups, prepackaged salads and prepackaged sandwiches;
 - b. Pre-made, pre-grilled, pre-baked or reheated sandwiches (such as paninis and calzones).

This paragraph will not apply to lunchrooms or cafeterias provided by other Lessee's in conjunction with their office use.

6. Rules and Regulations. Lessee agrees to comply with any Rules and -----
Regulations attached hereto, any recorded Covenants, Conditions and Restrictions affecting the Project, as well as such other reasonable rules and regulations as may from time to time be adopted by Lessor for the management, good order and safety of common areas, the building and its Lessee(s). Lessee shall be responsible for the compliance with such rules and regulations by its employees, agents and invitees. Lessor's failure to enforce any of such rules and regulations against Lessee or any other Lessee shall not be deemed to be a waiver of same.

7. Maintenance. Lessee agrees by taking possession that the Premises are in -----
tenantable and good condition. Lessee shall at its expense and at all times keep, maintain, repair and replace the Premises, including but not limited to storefronts, exterior doors and windows, Lessee division walls and mechanical, electrical, sprinkler and other utility systems located within or serving the Premises, together with connections to utility distribution systems, in good condition, repair and order and in accordance with applicable laws, ordinances, rules, regulations and requirements of government authorities and insurance rating bureaus. Lessee agrees to maintain a preventative maintenance contract providing for the regular inspection and maintenance of the heating and air conditioning systems with a licensed mechanical contractor and containing terms and specifications acceptable to Lessor. Lessee shall further keep the Premises and adjoining common areas in a neat, clean, safe and sanitary condition; protect water, drain, gas and other pipes to prevent freezing or clogging and repair all leaks and damage caused thereby; replace all glass and panels in windows and doors of the Premises which become cracked, broken or damaged.

Except for the items to be maintained by Lessee outlined above, Lessor will, throughout the term of this lease, maintain in good condition and repair the building of which the premises are a part, the Common Areas, and other building systems outside the premises. Any damage to the premises caused by Lessor's failure to maintain and repair the building within which the premises are located must be remedied at lessor's expense. Lessor will perform its maintenance duties in such a way as to minimize the adverse impact on Lessee's business on the premises.

8. Utilities and Fees. Lessee agrees to pay promptly when due all charges for

light, heat, water, sewer, garbage, fire protection and other utilities and services to the Premises, and all license fees and other governmental charges levied on Lessee's property and the operation of Lessee's business on the Premises. Lessor shall not be liable for any injury or damages suffered as a result of the interruption of utilities or services by fire, or other casualty, strike, riot, vandalism, the making of necessary repairs or improvements, or other causes beyond Lessor's reasonable control.

9. Personal Property Taxes. Lessee shall pay, or cause to be paid, before

delinquency, any and all taxes levied, assessed and/or which become payable during the Lease Term hereof upon all or any part of Lessee's leasehold improvements, equipment, furniture, fixtures and other personal property located in the Premises. In the event any or all of the Lessee's leasehold improvements, equipment, furniture, fixtures and other personal property shall be assessed and taxed with the real property, Lessee shall pay to Lessor its share of such taxes within ten (10) days after delivery to Lessee by Lessor of a statement in writing setting forth the amount of such taxes applicable to Lessee's property.

10. Monthly Operating Expense Adjustments. Lessee shall pay as additional

monthly rent its prorata share of all expenses incurred by Lessor for operation of the Project during the term or any extension hereof, as follows:

- A. Real Estate taxes and assessments, together with any assessments.
- B. Usual and necessary costs of operation, maintenance and repair as determined by standard accounting practice, including without limitation, all utilities and services not metered or charged directly to Lessee, insurance (including, but not limited to the insurance provided for under Paragraph 16 C below), painting, upkeep and repair of building exterior, roofing, parking, landscaping, and all common areas and facilities. If any portion of the Property, or any system or equipment is replaced by Lessor, the cost of such replacement will be prorated over its useful life.

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- C. A Management fee equal to three percent (3%) of Lessee's monthly rent, including Monthly Minimum Rent, Percentage Rent and any Additional Rent. Lessor shall from time to time estimate and provide notice to Lessee of its monthly expense based upon existing or expected costs. Such monthly estimated amount shall be paid by Lessee on or before the first day of each month. Lessor, annually or upon termination hereof, shall compute Lessee's actual expenses. Any overpayment shall be applied as a credit to Lessee against future expense payments. Any deficiency shall be paid to Lessor by Lessee within fifteen (15) days

after the date of Lessor's statement. Lessor's records showing expenditures made for such expenses shall be available for Lessee's inspection at any reasonable time.

D. The determination of actual costs and estimated costs allocable to the Premises shall be made by Lessor. Lessor or its agent shall keep records showing all expenditures made for the items enumerated above, which records shall be available for inspection and audit by Lessee. The Lessee shall have the right, at reasonable times and upon reasonable prior notice to the Lessor to audit the Lessor's records relating to the actual costs and estimated costs allocable to the Premises for a particular Lease Year, which audit must be conducted within one (1) year after Lessee's receipt of the statement of actual costs allocable to the Premises for that particular Lease Year. If such audit is not conducted within such one (1) year period, then the matters set forth in the statement of actual costs allocable to the Premises for that particular Lease Year shall be deemed conclusive. The Lessee shall pay the costs and expenses of such audit unless such audit reveals that the Lessor has overstated the amount due from Lessee for the Lease Year in question by an amount equal to 5% or more of the actual costs allocable to the Premises for that particular Lease Year in which event the Lessor shall pay up to \$1,000 in payment of the actual costs incurred by Lessee in the performance of such audit.

11. Lessor's Reservations. Lessor reserves the right without liability to

Lessee: (a) (with twenty-four hours notice except in cases of emergency) to inspect the Premises, and to show them to prospective Lessees, partners or lenders and if they are vacated, to prepare them for re-occupancy; (b) to retain at all times and to use in appropriate instances keys to doors within and into the Premises; (c) to make repairs, alterations, additions or improvements, whether structural or otherwise, in or about the building, and for such purposes to enter upon the Premises and during the continuance of any work, to close common areas and to interrupt or temporarily suspend building services and facilities, all without affecting any of Lessee's obligations hereunder, so long as the Premises are reasonably accessible; and (d) generally to perform any act relating to the safety, protection and preservation of the Premises or building.

12. Assignment and Subletting. Lessee shall not either voluntarily or by

operation of law assign, transfer, convey or encumber this Lease or any interest under it, or sublet its right to occupy or use all or any portion of the Premises without Lessor's prior written consent which shall not be unreasonably withheld. In order to preserve Lessee's flexibility, any request for assignment or subletting by Lessee may include a statement by Lessee of whether the request is conditioned on Lessor's willingness to waive its right to recapture as outlined below. In the absence of such a statement it shall be conclusively presumed that there is no such condition. Among the criteria to be used by Lessor in evaluating a request

for assignment or subletting will be (i) the proposed use of the Premises; (ii) the anticipated impact, if any, on parking; (iii) the financial capacity of the assignee/sublessee to perform the obligations under this Lease; (iv) the compatibility of the proposed user with the remainder of the tenants and operation of the Building. Lessor reserves the right to recapture (unless Lessee's request was specifically conditioned on Lessor's willingness to waive such right) the Premises or applicable portion thereof in lieu of giving its consent by notice given to Lessee within twenty (20) days after receipt of Lessee's written request for assignment or subletting. Such recapture shall terminate this Lease as to the applicable space effective on the prospective date of assignment or subletting, which shall be the last day of a calendar month and not earlier than sixty (60) days after receipt of Lessee's request hereunder. In the event that Lessor shall not elect to recapture and shall thereafter give its consent, Lessee shall pay Lessor a reasonable fee, not to exceed One Thousand And No/100 Dollars (\$1,000.00) to reimburse Lessor for processing costs incurred in connection with such consent. Lessor's consent shall not release or discharge Lessee from future liability under this Lease and shall not waive Lessor's right to consent to any future assignment or sublease. Any assignment or subletting without Lessor's consent shall be void and shall, at Lessor's option, constitute a default under this Lease.

The Lessee shall not assign its interest in or under this Lease for security purposes, nor shall the Lessee grant any security interest, lien or encumbrance against its interest in this Lease or in or to any property in or affixed to the Premises without the prior written consent of the Lessor, which consent shall be granted, withheld or conditioned in Lessor's sole discretion. In no event shall the Lessee grant, or allow to exist, any security interest in, or lien or encumbrance against the fee title to the Premises, the building in which the Premises is located or the real property on which the building is located. Notwithstanding the foregoing, Lessee may assign its interest in or under this Lease for security purposes, and/or grant any security interest, lien or encumbrance against its interest in this Lease or in or to any trade fixtures, equipment, counters, and other such property ("Tenant Fixtures") in or affixed to the Premises, but only if the same does not result in any security interest arising in, or lien or encumbrance attaching to the fee title to the Premises, the Building in which the Premises is located, floor covering installed by Lessee, or the real property on which the Building is located (which real property shall include any fixtures, other than Tenant Fixtures installed by Lessee such as toilets, lavatory equipment, non-ornamental lighting fixtures, and other similar generic fixtures not integral to the Lessee's store design and/or us of the Premises).

The exercise of any right by the beneficiary of such an interest to remove the Tenant Fixtures is subject to compliance by such interest holder with Lessee's obligations to restore the Premises upon such removal pursuant to the provisions of Paragraph 13.

Notwithstanding any other provision of this Lease, Lessee may, without notice to, or consent of Lessor, transfer all or any portion of the

Premises or the Lease to any of the following parties, so long as the same is not done for the principal purpose of transferring the Lease in a manner otherwise prohibited hereunder and the following criteria are met: 1) There is no change of use in the Premises, 2) Lessee remains primarily liable under any sublet, transfer or assignment, and 3) the proposed transferee, assignee or sublessee has an adequate capacity (both experience and financial) to perform the obligations under the Lease: a successor corporation related to Lessee by merger,

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consolidation, non-bankruptcy reorganization, or governmental action; any party acquiring all or substantially all of the assets of Lessee. Subject to the other terms of this paragraph, a merger, amalgamation, or reorganization of Lessee, or sale or transfer, or issuance, or resale of Lessee's capital stock of any class shall not be deemed an assignment, subletting or any other transfer of the Lease or the Premises.

Notwithstanding any other provision of this Lease, any shareholder of Lessee may voluntarily, or through the applicable laws of intestacy, transfer all or any portion of that person's capital stock or other interest in Lessee to one or more Family Members, without the consent of, or notice to, Lessor. "Family Member" means the spouse, parents, children and lineal descendants (natural or adopted) of such shareholder and any trust established solely for the benefit of such shareholder and/or such shareholder's spouse, parents, children, and/or lineal descendants.

13. Alterations. After obtaining the prior written consent of Lessor, Lessee -----
may make minor alterations, additions and improvements in said Premises (so long as such alterations, additions or improvements are not structural in nature and not visible from the exterior of the Premises) at its sole cost and expense. Lessee agrees to save Lessor harmless from any damage, loss, or expense arising therefrom and to comply with all laws, ordinances, rules and regulations. Upon termination of this Lease, all alterations, additions and improvements made in, to or on the Premises (including without limitation all electrical, lighting, plumbing, heating, air conditioning, and communications equipment and systems, doors, windows, partitions, drapery, carpeting, shelving, counters, and physically attached fixtures unless excluded by written agreement annexed hereto), shall remain upon and be surrendered as a part of the Premises; provided however, upon Lessor's request, Lessee shall remove those additions, alterations, or improvements as may be specified by Lessor, and repair and restore the Premises to its original condition at Lessee's sole cost and expense prior to expiration of the Term.

14. Liens. Lessee shall keep the Premises free from any liens arising out of -----
any work performed, materials furnished, equipment supplied, or obligations incurred by or on behalf of Lessee. No work performed, material furnished,

equipment supplied or obligations incurred by or on behalf of Lessee shall be deemed to be for the immediate use and benefit of Lessor so that no mechanic's lien or other lien shall be allowed against Lessor's estate in the premises. Lessee shall provide, at Lessee's own cost, waivers of lien signed by any party (including the Lessee) who performs work, furnishes materials, or supplies equipment to the Premises. Lessor may require, at Lessee's sole cost and expense, a lien release and completion bond in an amount equal to either the actual contract price or one and one-half times the estimated cost of any improvements, additions or alterations in the Premises which Lessee desires to make, to insure Lessor against any liability for lien and to insure completion of the work.

15. Signs. All signs or symbols placed by Lessee in the windows and doors of -----
the Premises, or upon any exterior part of the building, shall be subject to Lessor's prior written approval. Prior to termination of this Lease, Lessee will remove all signs placed by it upon the Premises, and will repair any damages caused by such removal.

16. Insurance.

A. Lessee shall pay for and maintain, during the entire Lease Term, the following policies of insurance:

(i) Commercial general liability insurance, including products, completed operations coverage and auto liability insurance covering Lessee's operations and the Premises with limits of not less than \$2,000,000 per occurrence. Such policies shall contain contractual liability insurance covering all liability assumed by Lessee under the provisions of this Lease and a copy of said policy will be delivered to Lessor prior to commencement of the Term.

(ii) Special cause of loss "all risk" perils property insurance upon all building improvements and alterations on the Premises for which Lessee is responsible and upon Lessee's property in the amount of one hundred percent (100%) full replacement cost. The policy shall include Lessor and Lessor's mortgagee, if any, as additional insureds, as their interests may appear, with a loss payable clause in favor of Lessor and Lessor's mortgagee to the extent of their interest in the property.

B. Each policy provided by Lessee shall expressly provide that it shall not be subject to cancellation or material change without at least thirty (30) days prior written notice to the Lessor. Lessee shall furnish Lessor, prior to commencement of the Term, with insurance certificates naming Lessor as additional insured and, upon request, copies of such policies required to be maintained hereunder.

C. Lessor shall pay for and maintain property insurance during the entire Lease Term for the perils of Special cause of loss ("all risk") and earthquake. Such insurance shall be in the amount of one hundred percent (100%) full replacement value of the Building and Lessor's improvements.

17. Indemnity Against Liability for Loss or Damage

A. Lessee assumes all liability for and shall indemnify, hold harmless and defend Lessor from and against all loss, damage or expense which the Lessor may sustain or incur, and against any and all claims, demands, suits and actions whatsoever, including expense of investigation and litigation, on account of injury to or death of persons, including without limitation employees of Lessor, employees of Lessee or its affiliated companies or on account of damage to or destruction of property, including without limitation property owned by and property in the care, custody or control of Lessor during the Term, due to or arising in any manner from:

(i) The acts or negligence of Lessee or any contractor, subcontractor, or agent of Lessee or their respective employees;

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(ii) The condition, use or operation of the Premises and/or materials or substances used by Lessee or any of its contractors, subcontractors or agents of Lessee or by their respective employees, regardless of whether or not furnished by Lessor under this Lease or otherwise;

(iii) Any damage or injury to persons or property arising out of Lessee's breach or this Lease, including, but not limited to, obligations of Lessee under Section 7, Maintenance.

B. Lessor shall have no liability to Lessee as a result of loss or damage to Lessee's property or for death or bodily injury caused by the acts or omissions of other tenants in the project or by third parties (including criminal acts).

C. Lessee shall not be obligated to indemnify Lessor for the portion of any claim or liability caused by or arising from the act, or negligence of Lessor.

D. It is mutually understood and agreed that the assumption of liabilities and indemnification provided for in this Section 16 shall survive any termination of this Lease.

18. Damage or Destruction. If any of the Premises, or a substantial part of the

building in which the Premises are located, shall be damaged or destroyed by fire or other insured casualty, and repair of the damage can not be completed within one hundred twenty (120) days, following receipt by Lessor of actual notice of such damage or destruction Lessor shall have the option either (a) to repair or rebuild within a reasonable time utilizing the insurance proceeds to effect such repair, or (b) not to repair or rebuild, and to cancel this Lease on thirty (30) days notice. If Lessor fails to give Lessee written notice of its election within thirty (30) days from the date of damage, or if the restoration of the Premises cannot be completed within one hundred twenty (120) days from date of notice, Lessee may cancel this Lease at its option on three (3) days notice. During the period of untenability, rent shall abate in the same ratio as the portion of the Premises rendered untenable bears to the whole of the Premises; provided that if the damage is due to the fault or neglect of Lessee, there shall be no abatement of rent.

If the Premises or the building in which the Premises are located shall be damaged or destroyed by fire or other insured casualty, and repair of the damage can be completed within one hundred twenty (120) days, Lessor shall repair or rebuild within a reasonable time utilizing the insurance proceeds to effect such repair.

If any part of the Premises or the building in which the Premises are located shall be damaged or destroyed by an uninsured casualty Lessor shall have the option either (a) to repair or rebuild within a reasonable time, or (b) not to repair or rebuild, and to cancel this Lease on thirty (30) days notice. In the event of cancellation by Lessor as a result of an uninsured casualty, Lessee shall have the right, within five (5) days following Lessor's notice of cancellation, to override such cancellation by agreeing to repair the damage at Lessee's sole cost and expense. In such event, the Lessee shall repair or rebuild within a reasonable time following the damage or destruction.

19. Eminent Domain. If the whole of the Premises shall be taken by any public

authority under the power of eminent domain, or purchased by the condemnor in lieu thereof, then the term of this Lease shall cease as of the date possession is taken by such public authority. If only part of the Premises shall be so taken, the Lease shall terminate only as to the portion taken, and shall continue in full force and effect as to the remainder of said Premises, and the monthly rent shall be reduced proportionately; provided, however, if the remainder of the Premises cannot be made tenantable for the purposes for which Lessee has been using the Premises or if more than twenty-five percent (25%) of the rentable square footage of the Premises shall be so taken, then either party, by written notice to the other, given at least thirty (30) days prior to the date that possession must be surrendered to the public authority, may terminate this Lease effective as of such surrender of possession. If any part of the building other than the Premises shall be so taken so as to render in Lessor's opinion the

termination of this Lease beneficial to the remaining portion of the building, Lessor shall have the right within sixty (60) days of said taking to terminate this Lease upon thirty (30) days written notice to Lessee. In the event of any taking, whether whole or partial, Lessor shall be entitled to all awards, settlements, or compensation which may be given for the land and buildings. Lessee shall have no claim against Lessor for the value of any unexpired term of this Lease. Lessee shall have the right to seek an independent and separate award from the condemning authority so long as such award does not diminish the amount of the award payable to Lessor.

20. Insolvency. If Lessee shall be declared insolvent or bankrupt, or if

Lessee's leasehold interest herein shall be levied upon or seized under writ of any court of law, or if a trustee, receiver or assignee be appointed for the property of Lessee, whether under operation of State or Federal statutes, then Lessor may, at its option, immediately, without notice (notice being expressly waived), terminate this Lease and take possession of said Premises.

21. Default and Re-Entry. If Lessee fails to keep or perform any of the

covenants and agreements herein contained, then the same shall constitute a breach hereof, and if Lessee has not remedied such breach within three (3) days after written notice thereof from Lessor if the breach is non-payment of rent or other charges, or within ten (10) days after written notice thereof from Lessor in the event of the breach of any other covenant, except that if the breach cannot reasonably be cured within such ten (10) day period, then if Lessee fails to commence to cure within such ten (10) day period and thereafter, diligently prosecute such cure to completion, then Lessor may, at its option, without further notice or demand:

- A. Cure such breach for the account and at the expense of Lessee (including entry upon the Premises to make repairs on behalf of the Lessee where Lessee has failed to make such repairs as required under this Lease) and such expense shall be deemed additional rent due on the first of the following month; or
- B. Re-enter the Premises, remove all persons therefrom, take possession of the Premises and remove all personal property therein at Lessee's risk and expense and (1,) terminate this Lease, or (2) without terminating the Lease or in any way affecting the rights and remedies of Lessor or the obligations of Lessee, re-let the whole or any part of the Premises as agent for Lessee, upon such terms and conditions as are commercially reasonable. In either event, any moneys received from Lessee and any deposit or other amounts held by

Lessor may first be applied by Lessor to any damages suffered by Lessor as a result of such default, including without limitation,

costs and expenses incurred on re-entry and re-letting, any unamortized tenant improvements and commissions, cleaning, necessary repairs, restoration and alteration (but only as needed to return the Premises to the condition Tenant was obligated to leave them in at the expiration of the Lease), and any commissions incurred on re-letting, and the balance of such amounts may be applied toward payment of other sums due to Lessor hereunder. In the event the Premises are re-let for Lessee's account, Lessee shall pay to Lessor monthly any deficiency; however, Lessor shall not be required to pay any excess to Lessee. Upon termination of this Lease or of Lessee's right to possession, Lessor has the right to recover from Lessee: (1) The worth of the unpaid rent that had been earned at the time of such termination; (2) The worth of the amount of the unpaid rent that would have been earned after the date of such termination; and (3) Any other amount, including court, attorney and collection costs, necessary to compensate Lessor. "The Worth," as used in Section (1) is to be calculated allowing interest at 18% per year (or, if applicable, at such lower rate as may represent the highest legal limit allowed in the State of Washington). "The worth" as used for Section (2) is to be computed by discounting the amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of termination. The above remedies of Lessor are cumulative and in addition to any other remedies now or hereafter allowed by law or elsewhere provided for in this Lease.

22. Removal of Property. Any property of Lessee removed by Lessor in accordance

with Section 20 above may be stored by Lessor or may be deposited on any area adjacent to the building at the sole risk and expense of Lessee and without any further responsibility of Lessor, and Lessor may at its sole discretion without or after removing said property, without obligation to do so and without notice to Lessee, sell or dispose of the same at public or private sale for the account of Lessee, in which event the proceeds therefrom may be applied by Lessor upon any indebtedness due from Lessee to Lessor. Lessee waives all claims for damages that may be caused by Lessor re-entering the Premises and removing or disposing of said property as herein provided.

23. Costs and Attorneys' Fees. In the event either party shall commence legal

action to enforce any provision of this Lease, the court shall award to the prevailing party all reasonable attorneys' fees and all costs incurred in connection therewith, including fees and costs on appeal. Any action relating to this Lease shall be brought in the County in which the Premises are located in King County, Washington.

24. Subrogation Waiver. Lessor and Lessee each herewith and hereby release and

relieve the other and waive its entire right of recovery against the other for loss or damage arising out of or incident to the perils of fire, explosion or any other perils described in the "all risk" insurance and the

events covered under the liability insurance coverage's required under this Lease, whether due to the negligence of either party, their agents, employees or otherwise. Each party shall obtain from its respective insurer under each insurance policy that it maintains a waiver of all rights of subrogation which the insurer may have against the other party for claims that are released under this Section 23.

25. Holding Over. If Lessee, with the express consent of Lessor, shall hold -----

over after the expiration of the term of this Lease, Lessee shall remain bound by all the covenants and agreements herein, except that (a) the tenancy shall be from month-to-month and (b) the monthly rent to be paid by Lessee shall be determined by multiplying the monthly rent in effect immediately preceding such expiration times 150%. If Lessee holds possession of the Demised Premises after the expiration of the Lease without the express written consent of Lessor, Lessee shall remain bound by all the covenants and agreements herein, except that (a) the tenancy shall be from month-to-month and (b) the monthly rent to be paid by Lessee shall be the greater of twice the Monthly Minimum Rent in effect immediately preceding such expiration or the total rent which other Lessee's have agreed to pay for the Premises during the period of such holdover, if Lessor has leased all or part of the Premises to other Lessees effective upon the expiration or termination of this Lease. Any such tenancy may be terminated with twenty (20) days prior notice as provided by Washington State law.

In the event of any unauthorized holding over, Lessee shall also indemnify and hold Lessor harmless from and against all liability, losses, claims, causes of action, damages, costs and expenses (including without limitation attorney fees) resulting from Lessee's failure to surrender the Premises, including without limitation claims made by succeeding Lessees resulting from Lessee's failure to surrender the Premises.

Survival of Lessee's Obligations. Lessee's obligations under this Section 24 shall survive the expiration or termination of this Lease.

26. Subordination and Attornment: Mortgagee Protection.

A. Subordination-Notice to Mortgagee. At the request of Lessor, Lessee shall promptly execute, acknowledge and deliver, all instruments which may be required to subordinate this Lease to any existing or future mortgages, deeds of trust and/or other security documents on or encumbering the Premises or on the leasehold interest held by Lessor, and to any extensions, renewals, or replacements thereof, provided that the mortgagee or beneficiary, as the case may be, shall agree to recognize this Lease in the event of foreclosure if Lessee is not in material default at such time.

B. Lessee's Certificate. Lessee shall at any time and from time to time upon not less than five (5) days prior written notice from Lessor execute,

acknowledge and deliver to Lessor a statement in writing (a) certifying that this Lease is unmodified and in full force and effect (or, if modified, stating the nature of such modification and certifying that this Lease as so modified is in full force and effect), and the date to which the rental and other charges are paid in advance, if any; and (b) acknowledging that there are not, to Lessee's knowledge, any uncured defaults on the part of the Lessor or Lessee hereunder, or specifying such defaults if any are claimed; and (c) setting forth the date of commencement of rents and expiration of the Lease Term hereof; and, (d) such other information as the Lessor shall reasonably require. Any such statement may be relied upon by any prospective purchaser on encumbrancer of all or any portion of the Premises of which the Premises are a part.

C. Mortgagee Protection Clause. Lessee agrees to notify any mortgagee and/or trust deed holders, by registered mail, with a copy of any notice of default served upon the Lessor, provided that Prior to such notice Lessee has been notified in writing (by way of Notice of Assignment of Rents and Lease, or otherwise) of the addresses of such mortgagees and/or trust deed holders. Lessee further agrees that if Lessor shall have failed to cure such default, then the mortgagees and/or trust deed holders have thirty (30) days within which to cure such default or if such default cannot be cured within that time, then such additional time as may be necessary if within such thirty (30) days any mortgagee and/or trust deed holder has commenced and is diligently pursuing the remedies necessary to cure such default (including but not limited to commencement of foreclosure proceedings if necessary to effect such cure), in which event this Lease shall not be terminated if such remedies are being so diligently pursued.

27. Surrender of Possession. Lessee shall, prior to the termination of this -----
Lease or of Lessee's right to possession, remove from the Premises all personal property and trade fixtures and those alterations, additions, improvements or signs which may be required by Lessor to be removed, pursuant to Sections 13 and 15 above, and shall repair or Pay for all damage to the Premises caused by such removal. All such property remaining and every interest of Lessee in the same shall be conclusively presumed to have been conveyed by Lessee to Lessor under this Lease as a bill of sale, without compensation, allowance, or credit to Lessee. Lessee shall upon termination of this Lease or of Lessee's right of possession, deliver all keys to Lessor and peacefully quit and surrender the Premises without notice, neat and clean, and in as good condition as when Lessee took possession, except for reasonable wear and tear as determined by Lessor and except for damage by casualty or condemnation.

28. Late Payment and Interest. If any amount due from Lessee is not received in -----
the office of Lessor on or before the third (3rd) day following the date

upon which such amount is due and payable, a late charge of five percent (5%) of said amount shall become immediately due and payable, which late charge Lessor and Lessee agree represents a fair and reasonable estimate of the processing and accounting costs that Lessor will incur by reason of such late payment. All past due amounts owing to Lessor under this Lease, including rent, shall be assessed interest at an annual percentage rate of eighteen percent (18%) from the date due or date of invoice, whichever is earlier, until paid.

29. Conduct of Business. Subject to Section 18 hereof, Lessee shall conduct and -----

carry on its business in the Premises continuously during the Lease Term and shall keep the Premises open for business during such minimum business hours of such days of the Lease term as Lessor from time to time may designate which will be a minimum of eight (8) hours a day, Monday through Friday. Said eight (8) hour period will fall between 7:00 am and 6:00 pm. Lessee shall carry a full and complete stock of seasonable merchandise and/or provide services at reasonable prices, and shall maintain adequate personnel for the efficient service of its customers. Lessee shall operate Lessee's business in a manner calculated to produce the maximum volume of gross sales.

30. Notice. Any notice, communication or remittance required or permitted by -----

this Lease by either party to the other shall be deemed given, served or delivered, in writing, delivered personally or by courier or by telephonic facsimile transmission with automatic confirmation, addressed to the Lessor at the address specified for the payment of rent under paragraph 3 of this Lease or to Lessee at the Premises or to such other address as either party may designate to the other in writing from time to time. Lessor's current fax number is 206-447-9384:

31. No Waiver or Covenants. Time is of the essence of this Lease. Any waiver by -----

either party of any breach hereof by the other shall not be considered a waiver of any future similar or other breach.

32. Entire Agreement. It is expressly understood and agreed by Lessor and -----

Lessee that there are no promises, agreements, conditions, understandings, inducements, warranties, or representations, oral or written, express or implied, between them, other than as herein set forth and that this Lease shall not be modified in any manner except by an instrument in writing executed by the parties.

33. Binding on Heirs, Successors and Assigns. The covenants and agreements of -----

this Lease shall be binding upon the heirs, executors, administrators, successors and assigns of both parties hereto, except as hereinabove provided.

34. Lessor's Assignment. It is fully understood that Lessor shall have the full

right to assign this Lease, without any notice to Lessee, thereby relieving
Lessor from all and any liabilities; provided however, that the assignee
assumes all Lessor's responsibilities as set forth in this Lease.

35. Environmental. See Exhibit E attached and incorporated into this Lease by

this reference.

36. Force Majeure. Lessor shall have no liability to Lessee on account of the

following acts of "force majeure," which shall include (a) the inability of
Lessor to fulfill, or delay in fulfilling, any of Lessor's obligations
under this Lease by reason of strike, lockout, other labor trouble, dispute
or disturbance; (b) governmental regulation, moratorium, action, inaction,
preemption or priorities or other controls, including delays in receipt of
permits; (c) shortages of fuel, supplies or labor; (d) any failure or
defect in the supply, quantity or character of electricity or water
furnished to the Premises by reason of any requirement, act or omission of
the public utility or others furnishing the Building with electricity or
water; or (e) for any other reason, whether similar or dissimilar to the
above, or for act of God, beyond Lessor's reasonable control. If this Lease
specifies a time period for performance of an obligation of Lessor, that
time period shall be extended by the period of any delay in Lessor's
performance caused by any of the events of force majeure described herein.

37. Limitation of Liability. The recourse of Lessee to recover any claim

against Lessor arising under this Lease shall be limited to Lessor's
interest in the Building and to the rents, issues and profits from the
Building. Lessee waives any and all recourse for any such liability against
Lessor's partners, shareholders, trustees or beneficiaries, or any property
or assets of Lessor other than the Building.

38. Brokers; Agency Disclosure; Brokerage Relationships. Lessee and Lessor

acknowledge that neither party has entered into any relationship with
brokers, finders or other persons and Lessee and Lessor shall defend,
indemnify and hold each other harmless from all claims and liabilities or
expenses arising from agreements or other arrangements made by or on behalf
of the indemnifying party with any brokers, finders, or other persons

39. Exhibits. The following exhibits or riders are made a part of this Lease

and are incorporated herein by reference:

Exhibit A - Floor Plan of Premises

40. This Lease supersedes and replaces the previous Lease, and all subsequent amendments between the parties (for space within the building) dated May 1, 1996.

LESSOR: BENAROYA CAPITAL COMPANY, LLC

LESSEE: BRIAZZ, INC.

/s/ Larry R. Benaroya

By: /s/ VICTOR ALHADEFF

By: Larry R. Benaroya
Its: Manager

Its: CHAIRMAN & CEO

Date 2/5/99

Date: 1-28-99

STATE OF WASHINGTON]
] ss.
COUNTY OF KING]

I certify that I know or have satisfactory evidence that Larry R. Benaroya is the person who appeared before me, a Notary Public in and for the State of Washington duly commissioned and sworn, and acknowledged that he is the Manager of Benaroya Capital Company, LLC, a Washington limited liability company, who executed the within and foregoing instrument, and acknowledged the instrument to be the free and voluntary act and deed of said company for the uses and purposes therein mentioned, and on oath stated that affant is authorized to execute said instrument on behalf of said company.

IN WITNESS WHEREOF I have hereunto set my hand and affixed my official seal the day and year first above written.

[STAMP]

/s/ Rebecca A. Bethel

Notary Public in and for the
State of Washington

residing at Seattle

Comission expires 11/9/02

Print Name Rebecca A. Bethel

STATE OF WASHINGTON]

] ss.

COUNTY OF KING]

I certify that I know or have satisfactory evidence that Victor Alhadeff

is the person who appeared before me, a Notary Public in and for the State of
Washington duly commissioned and sworn, and acknowledged that he/she is the

CHAIRMAN & CEO, of Briazz, a Washington corporation, who executed the within

and foregoing instrument, and acknowledged the instrument to be the free and
voluntary act and (deed of said corporation for the uses and purposes therein
mentioned, and on oath stated that affiant is authorized to execute said
instrument on behalf of said corporation.

IN WITNESS WHEREOF I have hereunto set my hand and affixed my official seal the
day and year first above written.

/s/ Shelly E. Smith

Notary Public in and for the
State of Washington

[STAMP]

residing at Seattle, WA

Comission expires 4-15-01

Print Name Shelly E. Smith

EXHIBIT A
FLOOR PLAN OF PREMISES

The Premises of approximately 517 Square Feet as outlined below. Lessee and
Lessor acknowledge the approximate nature of this Square Foot Calculation.

[FLOOR PLAN APPEARS HERE]

FIRST FLOOR PLAN

N -----

Scale: 1/32"=1'-0"

JANUARY 8, 1997

EXHIBIT B
RULES AND REGULATIONS

1. Any directory provided by Lessor for the building will be for the display of the name and location of Lessees, and Lessor reserves the right to exclude any other names.
2. Lessee shall not place any new or re-key any existing locks on any doors of the Premises, or change any plumbing or wiring without the prior written consent of Lessor. All keys shall be obtained from Lessor and Lessee shall not, from any other source, duplicate keys. Lessee, upon termination of the tenancy, shall deliver to Lessor all keys which have been furnished, or shall pay Lessor the cost of changing the lock(s) opened by any lost key(s) if Lessor deems it necessary to make such change. Lessor, its employees and agents may retain a passkey to the Premises.
3. The common area sidewalks, halls, passages, exits, entrances, elevators and stairways shall not be obstructed by Lessee or used for any purpose, including storage or placement of trash, other than for ingress to and egress from the Premises. The halls, passages, exits, entrances, elevators, stairways, balconies and roof are not for the use of the general public and Lessor shall in all cases retain the right to control and prevent access thereto by all persons whose presence, in the judgment of Lessor, shall be prejudicial to the safety, character, reputation and interests of the Building and its Lessees, provided that nothing herein contained shall be construed to prevent such access to persons with whom Lessee normally deals in the ordinary course of Lessee's business, unless such persons are engaged in illegal activities, intoxicated or violate any of these Rules and Regulations. Lessee, Lessee's employees or invitees shall not go upon the roof(s) of the Building.
4. Lessee shall not make or permit any use of the Premises which may emit noise, odor or vibrations from the Premises which are objectionable to Lessor or other occupants of the Building. Lessee shall not use or permit any part of its Premises to be used for lodging or sleeping.
5. The toilet rooms, urinals, washbowls and other apparatus shall not be used for any purpose other than that for which they were constructed and no foreign substance of any kind whatsoever shall be thrown therein and the expense of any breakage, stoppage or damage resulting from the violation of this rule shall be borne by the Lessee who, or whose employees or invitees, shall have caused it.
6. Lessee shall not use or keep in the Premises or the building, any kerosene, gasoline or flammable or combustible fluid or materials, or use any method of heating or air conditioning other than supplied by Lessor.

7. Lessee shall not do or permit to be done within the Premises anything which would unreasonably annoy or disturb or interfere with the rights of other Lessees of the Building. Lessee shall not solicit or canvass any occupant of the building.
8. Lessee shall not commit or permit to be committed any waste, damage or injury to the Premises or other Premises within the Building, or common areas within and adjoining the Building. Such waste, damage or injury shall be repaired at Lessee's sole cost and expense.
9. Lessee shall not waste electricity or water and agrees to cooperate fully with Lessor to assure the most effective and economical use of utility services provided to the Building by Lessor.
10. Lessee shall keep Lessor advised of the current telephone numbers of Lessee's employees who may be contacted in emergency, i.e., fire, break-in, vandalism, etc. If Lessor shall deem it necessary to respond to such emergency in Lessee's behalf, Lessee shall pay all costs incurred for services ordered by Lessor to secure or otherwise protect the Premises and the contents thereof, including a premium charge for any time spent by Lessor's employees in responding to such emergency.
11. Lessee shall see that the doors of the Premises are closed and securely locked before leaving the Building and must observe strict care and caution that all water faucets or water apparatus are entirely shut off before Lessee's employees leave the Premises, and that all electricity shall be shut off, so as to prevent waste or damage, and for any default or carelessness Lessee shall make good all injuries sustained by Lessor, other Lessees, or occupants of the Building.
12. Lessee shall not place upon or install on, or beside, the windows, walls or exterior doors of the Premises or any part of the Premises visible from the exterior of the Premises any object including without limitation signs, symbols, canopies, awnings, window coverings or other advertising or decorative material, without obtaining the prior written consent of Lessor.
13. Lessee shall not overload the floor of the Premises or mark, drive nails, screw, or drill into the partitions, woodwork or plaster, or in any way deface the Premises or any part thereof. Lessee shall not bore holes, cut or string wires, or lay floor tile, carpet or other floor covering in or around the Premises in any manner, except as approved in writing by Lessor. The expense of repairing any damage resulting from a violation of this rule or removal of any floor covering shall be borne by the Lessee by whom, or by whose contractors, employees, or invitees, the damage shall have been caused.
14. No vending machine or machines of any description shall be installed, maintained or operated upon the Premises without the written consent of Lessor.
15. Lessee agrees that is shall comply with all fire, life safety, security and

other regulatory policies and procedures that may be issued from time to time by Lessor.

- 16. Without the written consent of Lessor, Lessee shall not use the name of the building in connection with or in promoting or advertising the business of Lessee, except as Lessee's address.
- 17. No furniture, freight, or equipment of any kind shall be brought into the Building without the consent of Lessor and all moving of the same into or out of the Building shall be done at such time and in such manner as Lessor shall designate. Lessor shall have the right to prescribe the right, size and position of all safes and other heavy equipment brought into the Building. Flooring under safes or other heavy objects must be reinforced or a means of proper weight distribution provided, at Lessee's sole expense, if, in the opinion of the Lessor, such precautions are necessary. Any damage done to the Building by moving or maintaining any such safe or other property shall be repaired at the sole expense of Lessee. There shall not be used in any space, or in the public halls of the Building, either by Lessee or others, any pallet jacks or hand trucks, except those equipped with rubber tires and side guards.
- 18. Lessee shall not employ or permit access to any person(s) for the purpose of cleaning the Premises unless otherwise agreed to by Lessor. Lessee shall not cause any unnecessary labor by reason of Lessee's carelessness or indifference in the preservation of good order and cleanliness. Lessor shall in no way be responsible to Lessee for any loss of property on the Premises, however occurring, or for any damage done to the effects of Lessee by the janitor or any other employee or any other person.
- 19. Lessor reserves the right, by written notice to Lessee, to rescind, substitute, alter or waive any rule or regulation at any time prescribed for the building when, in Lessor's judgment, it is necessary, desirable or proper for the best interest of the Building and its Lessees. The changes to the rules cannot materially change the rights or duties of the parties hereunder.

EXHIBIT C

EMISSIONS; STORAGE, USE AND DISPOSAL OF WASTE

- a. Emissions. Lessee shall not (i) discharge, emit or permit to be discharged -----
or emitted, any liquid, solid or gaseous matter, or any combination thereof, into the atmosphere, the ground or any body of water, which does or may pollute or contaminate the same, or does or may adversely affect the health or safety of persons, or the use or enjoyment of the Premises; nor

(ii) transmit, receive or permit to be transmitted or received, any electromagnetic, microwave or other radiation in, on or about the Premises.

b. Storage. If, with or without violation of this Lease, Lessee possesses at -----
the Premises any matter described in Section A above or any Hazardous Substances (as defined below), Lessee shall store the same in appropriate leak proof containers and/or areas which comply with all laws and all prudent practices.

C. Disposal of Waste. Lessee shall not keep any trash, garbage, waste or other -----
refuse on the Premises except in sanitary containers and shall regularly and frequently remove same from the Premises. Lessee shall keep all such containers in a clean and sanitary condition. Lessee shall properly dispose of all sanitary sewage and shall not use the sewage system for the disposal of anything except sanitary sewage, nor in excess of capacity. Lessee shall not cause any obstruction in the sewage disposal system.

d. Compliance of Law. Notwithstanding any other provision in the Lease to the -----
contrary, Lessee shall comply with all Laws in complying with its obligations under this Lease, and in particular, Laws relating to the storage, use and disposal of Hazardous Substances (as defined below).

e. Indemnification for Breach. Lessee shall defend, indemnify and hold Lessor, -----
the Project and the holder of a trust deed or mortgage on the Project harmless from any loss, claim, liability or expense, including, without limitation, attorneys fees and costs, at trial and/or on appeal and review, arising out of or in connection with its failure to observe or comply with the provisions of this Rider. This indemnity shall survive the expiration or earlier termination of the term of the Lease or the termination of Lessee's right of possession and be fully enforceable thereafter.

f. Indemnification regarding Hazardous Substances. In addition to the -----
indemnity obligations contained elsewhere herein, Lessee shall indemnify, defend and hold harmless Lessor, the Premises, the Project, and the holder of a trust deed or mortgage on the Project, from and against all claims, losses, damages, monitoring costs, response costs, liabilities, and other costs expenses caused by, arising out of, or in connection with, the generation, release, handling, storage, discharge, transportation, deposit or disposal in, on, under or about the Premises by Lessee or any of Lessee's agents of the following (collectively referred to as "Hazardous Substances"): hazardous materials, hazardous substances, toxic wastes, toxic substances, pollutants, petroleum products, underground tanks, oils, pollution, asbestos, PCB's, radioactive materials, or contaminants, as those terms are commonly used or as defined by federal, state, and/or local law or regulation related to protection of health or the environment as any of same may be amended from time to time, and/or by any rules and

regulations promulgated thereunder. Such damages, costs, liability and expenses shall include such as are claimed by any regulating and/or administering agency, any ground lessor or master lessor of the Project, the holder of any Mortgage or Deed of Trust on the Project, and/or any successor of the Lessor named herein. This indemnity shall include (i) claims of third parties, including governmental agencies, for damages, fines, penalties, response costs, monitoring costs, injunctive or other relief; (ii) the costs, expenses or losses resulting from any injunctive relief, including preliminary or temporary injunctive relief; (iii) the expenses, including fees of attorneys and experts, of report the existence of Hazardous Substances to an agency of the State of which the Premises is located or of the United States as required by applicable laws and regulations; and (iv) any and all expenses or obligations, including attorney's fees, incurred at, before and after any administrative proceeding, trial, appeal and review. This indemnity shall survive the expiration or earlier termination of the term of the Lease or the termination of Lessee's right of possession and shall remain fully enforceable thereafter.

g. Information. Lessee shall give prior written notice to Lessor of any use,

whether incidental or otherwise, of Hazardous Substances on the Premises, and shall immediately deliver to Lessor a copy of any notice of any violation of any Law with respect to such use. Lessee shall also provide to Lessor, upon request, with any and all information regarding Hazardous Substances in the Premises, including contemporaneous copies of all filings and reports to governmental entities, and any other information requested by Lessor. In the event of any accident, spill or other incident involving Hazardous Substances, Lessee shall immediately report the same to Lessor and supply Lessor with all information and reports with respect to the same. All information described herein shall be provided to Lessor regardless of any claim by Lessee that it is confidential or privileged.

EXHIBIT D

LEGAL DESCRIPTION

To Lease made on this 6th day of November, 1998, between Benaroya Capital Company, LLC, a Washington corporation (the "Lessor") and Briazz, a Washington corporation (the "Lessee").

Lots 6, 7, 8, 9, 10, and 11, Block 50, Second Addition to the Town of Seattle as laid off by heirs of Sarah A. Bell (deceased), (Commonly known as heirs of Sarah A. Bell's 2/nd/ Addition to the City of Seattle), according to Plat recorded in Volume 1 of Plats, page 121, in King County, Washington.

TOGETHER WITH that portion of vacated alley formerly running through Block

50, vacated by City of Seattle Ordinance No. 88702, as would attach by operation of law.

REGISTRATION RIGHTS AGREEMENT

This REGISTRATION RIGHTS AGREEMENT is entered into as of August 15, 1997, by and among BRIAZZ, INC., a Washington corporation with its principal offices at 1011 S.W. Klickitat Avenue, Building B - Suite 202, Seattle, Washington 98134 (the "Company"), and the parties listed on Schedule A hereto (the "Investors").

RECITALS

Certain Investors own shares of the Company's Series A Convertible Preferred Stock (the "Series A Stock"), the Company's Series B Convertible Preferred Stock (the "Series B Stock") and/or the Company's Series C Convertible Preferred Stock (the "Series C Stock").

AGREEMENT

NOW, THEREFORE, for good and valuable consideration, the receipt of which is hereby acknowledged, the parties hereto agree as follows:

1. Definitions.

For purposes of this Agreement:

(a) The term "register," "registered," and "registration" refer to a registration effected by preparing and filing a registration statement or similar document in compliance with the Securities Act of 1933, as amended (the "Act"), and the declaration or ordering of effectiveness of such registration statement or document;

(b) The term "Registrable Securities" means (i) the common stock of the Company ("Common Stock") issuable or issued upon conversion of the Series A Stock, the Series B Stock and the Series C Stock and (ii) any Common Stock of the Company issued as (or issuable upon the conversion or exercise of any warrant, right or other security which is issued as) a dividend or other distribution with respect to, or in exchange for or in replacement of, such Series A Stock, Series B Stock, Series C Stock or Common Stock, excluding in all cases, however, any Registrable Securities sold by a person in a transaction in which its rights under this Agreement are not assigned or assignable;

(c) The number of shares of "Registrable Securities then outstanding" shall

be determined by the number of shares of Common Stock outstanding which are, and the number of shares of Common Stock issuable pursuant to then exercisable or convertible securities which are, Registrable Securities;

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(d) The term "Holder" means any person owning or having the right to acquire Registrable Securities who is a party to this Agreement as of the date hereof or who may be added as a party hereto pursuant to the terms of this Agreement, and any assignee thereof in accordance with Section 12;

(e) The term "affiliate" shall mean with respect to any person, any other person which directly or indirectly, by itself or through one or more intermediaries, controls, or is controlled by, or is under direct or indirect common control with, such person;

(f) The term "control" means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a person, whether through the ownership of voting securities, by contract or otherwise; and

(g) The term "Form S-3" means such form under the Act as in effect on the date hereof or any registration form under the Act subsequently adopted by the Securities and Exchange Commission (the "SEC") which similarly permits inclusion or incorporation of substantial information by reference to other documents filed by the Company with the SEC.

2. Request for Registration.

(a) If the Company shall receive, at any time after six (6) months following the effective date of the first registration statement for a public offering of securities of the Company to the general public (but not within six months after the effective date of a registration statement respecting securities of the Company), a written request from the Holders of at least one-third (1/3) in interest of the Series A Stock, Series B Stock or Series C Stock that the Company file a registration statement under the Act with respect to at least twenty-five percent (25%) of the Registrable Securities (or any lesser percentage if the aggregate offering price, net of underwriting discounts and commissions, is anticipated by the managing underwriter of such offering to exceed \$5,000,000), then the Company shall, within ten (10) days of the receipt of such request, give written notice of such request to all Holders and shall, subject to the limitations of Section 2(b), use its best efforts to effect as soon as practicable the registration under the Act of all Registrable Securities which the Holders request to be registered in a written request to be given within twenty (20) days of the mailing of such notice by the Company.

(b) The Holders initiating the registration request hereunder (the "Initiating Holders") must distribute the Registrable Securities covered by their request by means of a public offering underwritten by a recognized

national or regional underwriter or underwriters designated by the Initiating Holders in their registration request hereunder and approved by the

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Company, which approval shall not be unreasonably withheld. The right of any Holder to include its Registrable Securities in such registration shall be conditioned upon such Holder's participation in such underwriting and the inclusion of such Holder's Registrable Securities in the underwriting to the extent provided herein. All Holders proposing to distribute their Registrable Securities through such underwriting shall (together with the Company as provided in Section 4(e)) enter into an underwriting agreement in customary form with the underwriter or underwriters selected in accordance with this Section 2(b). Notwithstanding any other provision of this Section 2, if the managing underwriter advises the Initiating Holders in writing that factors relating to the pricing or marketing of the securities to be underwritten require a limitation of the number of securities to be underwritten, then the Initiating Holders shall so advise all Holders of Registrable Securities which would otherwise be underwritten pursuant hereto, and either (i) the number of shares of Registrable Securities that may be included in the underwriting shall be allocated among all Holders thereof, including the Initiating Holders, in proportion (as nearly as practicable) to the amount of Registrable Securities of the Company owned by each Holder (provided, however, that no Registrable

Securities shall be excluded from a registration requested pursuant to the terms hereof until all other securities of the Company whose holders have registration rights shall have first been excluded from such registration) or (ii) the Initiating Holders shall designate another underwriter or underwriters, which designation shall be subject to approval by the Company in accordance with this Section 2(b). Any Registrable Securities excluded or withdrawn from such underwriting shall be withdrawn from the registration.

(c) The Company is obligated to effect only two registrations pursuant to this Section 2. The Company may elect to use Form S-3 to satisfy either registration pursuant to this Section 2 if (i) such form is available and (ii) the managing underwriter of the offering being underwritten does not believe that the use of such form will impair the pricing or marketing of the securities to be underwritten. Notwithstanding the foregoing, (i) if the Company shall effect a registration at the request of Holders of Series A Stock in which all Registrable Securities which the Holders of Series B Stock request to be included in such registration are not included, the Company shall be obligated to effect one additional registration pursuant to this Section 2 if so requested by Holders of Series B Stock in accordance with Section 2(a) and (ii) if the Company shall effect a registration at the request of Holders of Series A Stock in which all Registrable Securities which the Holders of Series C Stock request to be included in such registration are not included, the Company shall be obligated to effect one additional registration pursuant to this Section 2 if so requested by Holders of Series C Stock in accordance with Section 2(a).

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(d) Notwithstanding the foregoing, if the Company shall furnish to the Holders requesting a registration statement pursuant to this Section 2 a certificate signed by the Chief Executive Officer of the Company, stating that in the good faith judgment of the Board of Directors of the Company it would be seriously detrimental to the Company and its shareholders for such registration statement to be filed and it is therefore essential to defer the filing of such registration statement, the Company shall have the right to defer such filing for a period of not more than six months after receipt of the request of the Initiating Holders; provided, however, that the Company may not exercise this right more than once in any 12-month period.

3. Company Registration.

If (but without any obligation to do so) the Company proposes to register (including for this purpose a registration effected by the Company for shareholders other than the Holders) any of its Common Stock or other securities under the Act in connection with the public offering of such securities solely for cash (other than a registration relating solely to the sale of securities to participants in a Company stock-based incentive plan), the Company shall, at each such time, promptly give each Holder written notice of such registration. Upon the written request of each Holder given within twenty (20) days after mailing of such notice by the Company, the Company shall, subject to the provisions of Section 8, cause to be registered under the Act all of the Registrable Securities that each such Holder has requested to be registered.

4. Obligations of the Company.

Whenever required under this Agreement to effect the registration of any Registrable Securities, the Company shall, as expeditiously as reasonably possible:

(a) file with the SEC a registration statement under the Act on Form S-3 or other form appropriate to register the resale of Registrable Securities by the selling Holders;

(b) use its best efforts, subject to receipt of necessary information from the selling Holders, to cause such Registration Statement to become effective as promptly after filing as practicable;

(c) prepare and file with the SEC such amendments and supplements to such Registration Statement and the prospectus used in connection therewith as may be necessary to keep such Registration Statement effective until the earlier to occur of (i) 90 days after the effective date of the Registration Statement or (ii) such time as all Registrable Securities have been sold pursuant thereto;

(d) furnish to the selling Holders with respect to the Registrable Securities registered on the Registration Statement (and to each underwriter, if any, of such Registrable Securities) such number of copies of the Registration Statement and supplements to the prospectus contained therein and such other documents as the selling Holders or underwriter may reasonably request in order to facilitate the public sale or other disposition of all or any of the Registrable Securities by the selling Holders;

(e) use its best efforts to register and qualify the Registrable Securities covered by such Registration Statement under such other securities or "Blue Sky" laws of such jurisdictions as shall be reasonably requested by the Holders, provided that the Company shall not be required in connection therewith or as a condition thereto to qualify to do business or to file a general consent to service of process in any such states or jurisdictions;

(f) promptly notify the selling Holders of the time when such Registration Statement has become effective or a supplement to any prospectus forming a part of such Registration Statement has been filed;

(g) promptly notify the selling Holders of any request by the SEC after the Registration Statement has become effective for the amending or supplementing of the Registration Statement or prospectus or for additional information;

(h) prepare and file with the SEC, promptly upon the request of any selling Holder, any amendments or supplements to such Registration Statement or prospectus which, in the opinion of counsel for such selling Holder are required under the Act or the rules and regulations thereunder in connection with the distribution of Registrable Securities by such selling Holder, unless counsel for the Company is of the opinion that such amendment or supplement is not so required;

(i) prepare and promptly file with the SEC and promptly notify the selling Holders of the filing of such amendment or supplement to the Registration Statement or prospectus as may be necessary to correct any statements or omissions if, at the time when a prospectus relating to such securities is required to be delivered under the Act, any event shall have occurred as the result of which any such prospectus or any other prospectus as then in effect would include an untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances in which they were made, not misleading;

(j) advise the selling Holders promptly after it shall receive notice or obtain knowledge thereof, of the issuance of any stop order by the SEC suspending the effectiveness of the

Registration Statement or the initiation or threatening of any proceeding for that purpose and promptly use its best efforts to prevent the issuance of any

stop order or to obtain its withdrawal if such stop order should be issued;

(k) if such registration includes an underwritten public offering or upon written request by any selling Holder or group of selling Holders whose Registrable Securities shall be included in such Registration Statement with an aggregate market value at the date of such request exceeding \$5,000,000, furnish on the effective date of the Registration Statement and, if such registration includes an underwritten public offering, at the closing provided for in the underwriting agreement: (i) opinions, dated such respective date, of the counsel representing the Company for the purposes of such registration, addressed to the underwriters, if any, and to the selling Holder or Holders making such request, covering such matters as such underwriters and selling Holder or Holders may reasonably request and (ii) letters, dated such respective dates, from the independent certified public accountants of the Company, addressed to the underwriters and selling Holder or Holders, covering such matters as such underwriters and selling Holder or Holders may reasonably request, in which letters such accountants shall state (without limiting the generality of the foregoing) that they are independent certified public accountants within the meaning of the Act and that in the opinion of such accountants the financial statements and other financial data of the Company included in the Registration Statement or any amendment or supplement thereto comply in all material respects with the applicable accounting requirements of the Act;

(l) otherwise comply with all applicable rules and regulations of the SEC;

(m) provide the selling Holders and any underwriters of Registrable Securities a reasonable opportunity to perform due diligence concerning the Company, including a reasonable opportunity to interview officers and employees of the Company and to review documents relating to the Company;

(n) make available its officers and employees and otherwise provide reasonable assistance (taking into account the needs of the Company's business) to any underwriters of Registrable Securities in their marketing of Registrable Securities; and

(o) enter into a customary underwriting agreement with any underwriters of Registrable Securities selected in accordance with Section 2(b) which shall be satisfactory in form and substance to the selling Holders selling Registrable Securities thereunder and shall include representations and warranties, covenants and indemnities of the Company typical in underwriting agreements pertaining to transactions of this type.

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5. Furnish Information.

It shall be a condition precedent to the obligations of the Company to take any action pursuant to this Agreement with respect to any selling Holder that such selling Holder shall furnish to the Company such information regarding

itself, the Registrable Securities held by it and the intended method of disposition of such securities as shall be reasonably required to effect the registration of its Registrable Securities and to execute such documents in connection with such registration as the Company may reasonably request.

6. Expenses of Demand Registration.

All expenses (other than underwriting discounts and commissions) and the fees and disbursements of one special counsel to the selling Holders incurred in connection with the underwriting, registrations, filings or qualifications pursuant to Section 2, including, without limitation, all registration, filing and qualification fees, printing and accounting fees, and the fees and disbursements of counsel for the Company shall be borne by the Company; provided, however, that the Company shall not be required to pay for any expenses of any registration proceeding begun pursuant to Section 2 if the registration request is subsequently withdrawn at the request of the Holders of a majority of the Registrable Securities to be registered (which Holders shall bear such expenses), unless the Holders of a majority of the Series A Stock, of the Series B Stock and of the Series C Stock, respectively, agree to forfeit their right to one demand registration pursuant to Section 2; provided further, however, that if at the time of such withdrawal, the Holders have learned of a material adverse change in the condition, business or prospects of the Company from the time of their request, then the Holders shall not be required to pay any of such expenses and shall retain their rights pursuant to Section 2.

7. Expenses of Company Registration.

All expenses (other than underwriting discounts and commissions) and the fees and disbursements of one special counsel to the selling Holders incurred in connection with registrations in which any Holders participate pursuant to Section 3, including, without limitation, all registration, filing and qualification fees, printing and accounting fees, and the fees and disbursements of counsel for the Company shall be borne by the Company.

8. Underwriting Requirements.

The Company shall not be required under Section 3 or Section 15, to include any of the Holders' securities in an underwritten offering of the Company's securities unless such Holders accept

the terms of the underwriting as agreed upon between the Company and the underwriters selected by the Company, assuming usual and customary underwriting terms. If the total amount of securities, including Registrable Securities and any other securities of the Company whose holders have registration rights, requested by shareholders (including the Holders) to be included in such

offering exceeds the amount of securities that the underwriters reasonably believe compatible with the success of the offering, from a pricing or marketing point of view, then the Company shall be required to include in the offering only that number of such securities, including Registrable Securities, which the underwriters believe will not impair the pricing or marketing of the securities to be underwritten (the securities so included to be apportioned pro rata among the selling shareholders according to the total amount of Registrable Securities, and other securities of the Company whose holders have registration rights, owned by each selling shareholder or in such other proportions as shall mutually be agreed to by such selling shareholders); provided, however, that in

no event shall the amount of securities of the selling Holders included in the offering be reduced below 20% of the total amount of securities included in such offering, unless such offering is the initial public offering of the Company's securities, in which case the selling Holders and the other such selling holders may be excluded if the underwriters make the determination described above and provided no other shareholder's securities are included.

9. Delay of Registration.

No Holder shall have any right to obtain or seek an injunction restraining or otherwise delaying any such registration as the result of any controversy that might arise with respect to the interpretation or implementation of this Agreement.

10. Indemnification.

In the event any Registrable Securities are included in a registration statement under this Agreement:

(a) To the extent permitted by law, the Company will indemnify and hold harmless each Holder, the partners, officers, agents, employees and directors of each Holder, any underwriter (as defined in the Act) for such Holder and each person, if any, who controls such Holder or underwriter within the meaning of the Act or the Securities Exchange Act of 1934, as amended (the "1934 Act"), against any losses, claims, damages or liabilities (joint or several) to which they may become subject under the Act, the 1934 Act or other federal or state law, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any of the following statements, omissions or violations (collectively, a "Violation"): (i) any untrue statement or alleged untrue statement of a material fact

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contained in such registration statement, including any preliminary prospectus or final prospectus contained therein or any amendments or supplements thereto, (ii) the omission or alleged omission to state therein a material fact required to be stated therein, or necessary to make the statements therein not

misleading, or (iii) any violation or alleged violation by the Company of the Act, the 1934 Act, any state securities law or any rule or regulation promulgated under the Act, the 1934 Act or any state securities law; and the Company will reimburse each such Holder, partner, officer, agent, employee or director, underwriter or controlling person for any legal or other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, damage, liability or action; provided, however, that the indemnity agreement contained in this Section 10(a) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of the Company, which consent shall not be unreasonably withheld, nor shall the Company be liable in any such case for any such loss, claim, damage, liability or action to the extent that it arises out of or is based upon a Violation which occurs in reliance upon and in conformity with written information furnished expressly for use in connection with such registration by, or on behalf of, any such Holder, underwriter or controlling person.

(b) To the extent permitted by law, each selling Holder severally and not jointly will indemnify and hold harmless the Company, each of its officers, directors, agents or employees, each person, if any, who controls the Company within the meaning of the Act, any underwriter and any other Holder selling securities in such registration statement or any of its partners, agents, employees, directors or officers or any person who controls such Holder, against any losses, claims, damages or liabilities (joint or several) to which the Company or any such director, partner, agent, employee, officer, controlling person, or underwriter, or other such Holder or director, officer, partner, agent, employee or controlling person may become subject, under the Act, the 1934 Act or other federal or state law, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any violation, in each case to the extent (and only to the extent) that such Violation occurs in reliance upon and in conformity with written information furnished by, or on behalf of, such Holder expressly for use in connection with such registration; and each such Holder will reimburse any legal or other expenses reasonably incurred by the Company or any such partner, agent, employee, director, officer, controlling person, underwriter or other Holder, in connection with investigating or defending any such loss, claim, damage, liability or action; provided, however, that the indemnity agreement contained in this Section 10(b) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of the Holder, which consent shall not be

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unreasonably withheld; and provided, further, that each selling Holder shall be liable, under this Section 10(b) for only that amount of losses, claims, damages and liabilities as does not exceed the proceeds to such selling Holder as a result of such registration.

(c) Promptly after receipt by an indemnified party under this Section 10 of notice of the commencement of any action (including any governmental action),

such indemnified party will, if a claim in respect thereof is to be made against any indemnifying party under this Section 10, deliver to the indemnifying party a written notice of the commencement thereof and the indemnifying party shall have the right to participate in, and, to the extent the indemnifying party so desires, jointly with any other indemnifying party similarly notified, to assume the defense thereof with counsel mutually satisfactory to the parties; provided, however, that an indemnified party shall have the right to retain its own counsel, with the fees and expenses to be paid by the indemnifying party, if, in the opinion of counsel for the indemnifying party, representation of such indemnified party by the counsel retained by the indemnifying party would be inappropriate due to actual or potential differing interests between such indemnified party and any other party represented by such counsel in such proceeding. The failure to deliver written notice to the indemnifying party within a reasonable period of time of the commencement of any such action shall relieve such indemnifying party of any liability to the indemnified party under this Section 10 to the extent materially prejudicial to its ability to defend such action, but the omission so to deliver written notice to the indemnifying party will not relieve it of any liability that it may have to any indemnified party otherwise than under this Section 10.

(d) If the indemnification provided for in this Section 10 is held by a court of competent jurisdiction to be unavailable to an indemnified party with respect to any loss, liability, claim, damage, or expense referred to therein, then the indemnifying party, in lieu of indemnifying such indemnified party hereunder, shall contribute to the amount paid or payable by such indemnified party as a result of such loss, liability, claim, damage, or expense in such proportion as is appropriate to reflect the relative fault of the indemnifying party on the one hand and of the indemnified party on the other in connection with the statements or omissions that resulted in such loss, liability, claim, damage, or expense as well as any other relevant equitable considerations. The relative fault of the indemnifying party and of the indemnified party shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission to state a material fact relates to information supplied by the indemnifying party or by the indemnified party and the parties' relative intent, knowledge, access to information, and opportunity to correct or prevent such statement or omissions.

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(e) Notwithstanding the foregoing, to the extent that the provisions on indemnification and contribution contained in the underwriting agreement entered into in connection with the underwritten public offering are in conflict with the foregoing provisions, the provisions in the underwriting agreement shall control.

11. Reports Under the Act.

With a view to making available to the Holders the benefits of SEC Rule 144 promulgated under the Act and any other rule or regulation of the SEC that may

at any time permit a Holder to sell securities of the Company to the public without registration or pursuant to a registration on Form S-3, the Company agrees to:

(a) make and keep public information available, as those terms are understood and defined in SEC Rule 144, at all times after 90 days after the effective date of the first registration statement filed by the Company for the offering of its securities to the general public;

(b) take such action, including the voluntary registration of its Common Stock under Section 12 of the 1934 Act, as is necessary to enable the Holders to utilize Form S-3 for the sale of their Registrable Securities, such action to be taken as soon as practicable after the end of the fiscal year in which the first registration statement filed by the Company for the offering of its securities to the general public is declared effective;

(c) file with the SEC in a timely manner all reports and other documents required of the Company under the Act and the 1934 Act; and

(d) furnish to any Holder, so long as the Holder owns any Registrable Securities, forthwith upon request (i) a written statement by the Company as to its compliance with the reporting requirements of SEC Rule 144 (at any time after 90 days after the effective date of the first registration statement filed by the Company), the Act and the 1934 Act (at any time after it has become subject to such reporting requirements), or as to its qualification as a registrant whose securities may be resold pursuant to Form S-3 (at any time after it so qualifies), (ii) a copy of the most recent annual or quarterly report of the Company and such other reports and documents so filed by the Company, and (iii) such other information as may be reasonably requested in availing any Holder of any rule or regulation of the SEC which permits the selling of any such securities without registration or pursuant to such form.

12. Assignment of Registration Rights.

The rights to cause the Company to register Registrable Securities pursuant to this Agreement may be assigned by a Holder to a transferee or assignee of such securities (other than a competitor of the Company) that (a) shall acquire at least one percent (1%) in interest of the Registrable Securities or (b) is a partner or an affiliate of such Holder. Upon such transfer or assignment, such transferee or assignee shall be deemed a "Holder" under this Agreement, provided the Company is, within a reasonable period of time after such transfer, furnished with written notice of the name and address of such transferee or assignee and the securities with respect to which such registration rights are being assigned; provided, further, that such assignment shall be effective only if immediately following such transfer the further disposition of such securities by the transferee or assignee is restricted under the Act.

13. Limitations on Subsequent Registration Rights.

Subject to Section 12 hereof, from and after the date of this Agreement, the Company shall not, without the prior written consent of a two-thirds majority in interest of the Holders of the Series A Stock, of the Series B Stock and of the Series B Stock, respectively, enter into any agreement with any holder or prospective holder of any securities of the Company which would allow any registration rights to such holder or prospective holder.

14. "Market Stand-Off" Agreement.

The Holders severally hereby agree that they each shall not, to the extent requested by the Company and the managing underwriter of a public offering meeting the per share price and gross offering proceeds criteria set forth in (a) and (b) below, sell or otherwise transfer or dispose of any Registrable Securities or other securities of the Company then beneficially owned for a period reasonably requested by such managing underwriter but not to exceed six months following the effective date of a firm commitment, underwritten public offering by the Company of shares of Common Stock, registered under the Act, (a) at a per share price at which such shares of Common Stock are offered to the public of at least two (2) times the Series B Conversion Price (as defined in the Amended and Restated Articles of Incorporation of the Company, as at any time amended) in effect immediately prior to the closing of such public offering and (b) resulting in gross offering proceeds of at least \$15,000,000 (before deduction of underwriters' discounts and commissions and expenses of the offering); provided, however, that all officers and directors of the Company and all other persons with registration rights (whether or not pursuant to this Agreement) enter into similar agreements.

In order to enforce the foregoing covenant, the Company may impose stop transfer instructions with respect to the Registrable

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Securities of the Holders (and the shares or securities of every other person subject to the foregoing restriction) until the end of such period.

15. Form S-3 Registration.

In case the Company shall receive from the Holders of at least twenty percent (20%) in interest of the Series A Stock, of the Series B Stock or of the Series C Stock, respectively, a written request or requests that the Company effect a registration on Form S-3 and any related qualification or compliance with respect to Registrable Securities, the Company will:

(a) promptly give written notice of the proposed registration, and any related qualification or compliance, to all other Holders;

(b) as soon as practicable, effect such registration and all such reasonable qualifications and compliances as may be so requested and as would permit or facilitate the sale and distribution of all or such portion of such Holder's or Holders' Registrable Securities as are specified in such request, together with all or such portion of the Registrable Securities of any other Holder or Holders joining in such request as are specified in a written request given within fifteen (15) days after receipt of written notice from the Company; provided, however, that the Company shall not be obligated to effect any such registration, qualification or compliance pursuant to this Section 15: (i) if Form S-3 is not available for such offering by the Holders; (ii) if the Holders, together with the Holders of any other securities of the Company entitled to inclusion in such registration, propose to sell Registrable Securities and such other securities (if any) at an aggregate price to the public (net of any underwriters' discounts or commissions) of less than \$2,000,000; (iii) if the Company shall furnish to the Holders a certificate signed by the President of the Company stating that, in the good faith judgment of the Board of Directors of the Company, it would be seriously detrimental to the Company and its shareholders for such Form S-3 registration to be effected at such time, in which event the Company shall have the right to defer the filing of the Form S-3 registration statement for a period of not more than ninety (90) days after receipt of the request of the Holder or Holders under this Section 15; provided, however, that the Company shall not utilize this right more than once in any 12-month period; (iv) if the Company has, within the 12-month period preceding the date of such request, already effected one such registration on Form S-3 for the Holders pursuant to this Section 15; (v) if the Company, within the 180-day period preceding the date of such request, has effected a registration of securities in which the Holders of Registrable Securities requesting registration pursuant to this Section 15 were entitled to participate to the fullest extent they desired

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pursuant to Section 2 or 3; or (vi) in any particular jurisdiction in which the Company would be required to qualify to do business or to execute a general consent to service of process in effecting such registration, qualification or compliance; and

(c) subject to the foregoing, file a registration statement covering the Registrable Securities so requested to be registered as soon as practicable after receipt of the request or requests of the Holders. All expenses (other than underwriting discounts and commissions) incurred in connection with a registration requested pursuant to this Section 15, including, without limitation, all registration, filing, qualification, printing and accounting fees and the reasonable fees and disbursements of counsel for the Company and one special counsel for the Holders, shall be borne by the Company.

16. Notices.

All notices and other communications called for or required by this Agreement shall be in writing to the parties at their respective addresses stated on the first page hereof or on Schedule A hereto, or to such other

address as a party may subsequently specify and shall be deemed to have been received (i) upon delivery in person, (ii) upon the passage of seventy-two (72) hours following post by first class registered or certified mail, return receipt requested, with postage prepaid, (iii) upon the passage of twenty-four (24) hours following post by overnight receipted courier service, or (iv) upon transmittal by confirmed telex or facsimile provided that if sent by facsimile a copy of such notice shall be concurrently sent by certified mail, return receipt requested and postage prepaid, with an indication that the original was sent by facsimile and the date of its transmittal.

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17. Amendments and Waivers.

Any term of this Agreement may be amended and the observance of any term may be waived (either generally or in a particular instance and either retroactively or prospectively) with the written consent of the Company and the Holders of a two-thirds (2/3) majority in interest of the outstanding Series A Stock, of the outstanding Series B Stock and of the outstanding Series C Stock, respectively. Additional Holders (other than those permitted by Section 12 hereof) may be added to this Agreement with the consent of the Holders of a two-thirds (2/3) majority in interest of the outstanding Series A Stock, of the outstanding Series B Stock and of the outstanding Series C Stock, respectively, by amending Schedule A hereto and adding a signature page executed by such

additional Holder. Notwithstanding the foregoing, a purchaser who shall have purchased, at the same price per share at which the Series B Stock is first sold, shares of Series B Stock pursuant to the Series B Convertible Preferred Stock Purchase Agreement dated as of August 15, 1997 may be added to this Agreement as a "Holder" by amending Schedule A hereto and adding a signature

page executed by such purchaser.

18. Termination of Registration Rights.

The registration rights described in sections 2, 3 and 15 shall terminate on the fifth anniversary of the closing of the first firm commitment, underwritten public offering by the Company of shares of Common Stock, registered under the Act, (a) at a per share price at which such shares of Common Stock are offered to the public of at least two (2) times the Series B Conversion Price (as defined in the Amended and Restated Articles of Incorporation of the Company, as at any time amended) in effect immediately prior to the closing of such public offering and (b) resulting in gross offering proceeds of at least \$15,000,000 (before deduction of underwriters' discounts

and commissions and expenses of the offering). Such registration rights shall sooner terminate with respect to any Investor (or permitted transferee or assignee) who holds less than one percent (1%) of the issued and outstanding Common Stock of the Company (assuming full conversion of all Registrable Securities into Common Stock) and such shares are eligible for resale pursuant to Rule 144 under the Act.

19. Severability.

If one or more provisions of this Agreement are held to be unenforceable under applicable law, such provision(s) shall be excluded from this Agreement, and the balance of this Agreement shall be interpreted as if such provision were so excluded and shall be enforceable in accordance with its terms.

20. Governing Law.

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This Agreement, including all matters of construction, validity and performance, shall be governed by and construed and enforced in accordance with the laws of the State of Washington, as applied to contracts made, executed and to be fully performed in such state by citizens of such state, without regard to its choice of law and conflict of laws rules. The parties hereto agree that the exclusive jurisdiction and venue for any action brought between the parties under this Agreement shall be the state and federal courts sitting in King County, Washington, and each of the parties hereby agrees and submits itself to the exclusive jurisdiction and venue of such courts for such purpose.

21. Counterparts.

This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

22. Entire Agreement.

This Agreement constitutes the full and entire understanding and agreement between the parties with respect to the subject matter hereof and supersedes all prior agreements with respect to the subject matter hereof, including that certain Registration Rights Agreement, dated as of October 18, 1996, among the Company and certain Holders.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the day first hereinabove written.

BRIAZZ, INC.

By: _____
Victor D. Alhadeff,
Chief Executive Officer

INVESTORS:

By: _____
Title:

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Schedule A

Common Stock

Victor D. Alhadeff
David Alhadeff
Joy Maimon
Jeffrey Alhadeff

Series A Convertible Preferred Stock

Benaroya Capital Company, L.L.C.
Chartwell Capital Investors, L.P.
Talon Opportunity Fund, L.P.
Michael Alhadeff
Ken Alhadeff
B.F.P., L.L.C.
Sarkowsky Family Limited Partnership
Craig J. Foley
Kenny Gorelick
Howard Schultz
Whitall Company, Ltd.
Ron Weinstein
Alegra Alhadeff
Alper Living Trust
Norman N. Behar

Joel and Maureen Benoliel
Jeffrey H. Brotman
Keith Grinstein
Leo B. and Florence Helzel Living Trust
Stuart Sloan
Cynthia Stroum
Weinstein Family Partnership
John Meisenbach
James G. Dinan
Richard Loeb
Fredric Alper
Howard P. and Lynn C. Behar
Richard Fersch
Ned Laird
Scott Oki
Gary Schoenfeld
Jeffrey Schoenfeld
Walter Schoenfeld
Gerard and Jody Schwarz
Orin and Janet Smith
The Stanley B. McDonald and Barbara J. McDonald Family Living Trust
Kirby B. McDonald
N. Jack Alhadeff

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Randal J. Ottinger
Irwin Treiger
Solomon Amon
Dale Behar
Jim Brown
Jeff Cary
Richard Galanti
Mary Moore
William Schwartz
Jon Staenberg
The Jamey D. Kern Trust
The Scott A. McDonald Trust
The Tobey J. Bryant Trust
Jack and Ruth Genauer
Frank Kitchell
Jens Molbak
Greg G. Dollarhyde
Laurence Finegold

Series B Convertible Preferred Stock

Whitney Equity Partners, L.P.
Jack A. Benaroya

Chartwell Capital Investors, L.P.
Talon Opportunity Fund, L.P.

Series C Convertible Preferred Stock

Alhadeff, Kenneth

Alhadeff, Michael D.
Alhadeff Limited Partnership II
Amon, Solomon
Behar, Dale
Behar, Howard P.
Brotman, Jeffrey H.
Weinstein Family Ltd. Partnership
Whittall Company Ltd.
Sarkowsky Family Limited Partnership
Smith, Orin
Madison Investors
Sloan, Stuart
Whitney Equity Partners, L.P.
Friedenberg, David
Jonsson, Laurie McDonald
John B. Piacentini Trust
The Springs Company
KZ Limited
Laird, Edwin E.

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Schoenfeld, Jeffrey
Schultz, Howard
Foley, Craig J.
McDonald, Kirby B.
Kern, Jamey
Alhadeff, Victor D.
YIS Capital, Inc.
Molbak, Jens & Catherine Blair Carleton
Reifler Trading Corp. Retirement Trust
Leo B. & Florence Helzel Living Trust
Benoliel, Joel and Maureen
Coyote Capital Corp., Bear Stearns Securities Corp. Custodian, Master Defined
Contribution P/S
Plan, Charles J. Palumbo TTEE
Schwarz, Gerard
Gigot, Gary
Brown, James F.
Alhadeff, Kenneth
Alhadeff, Michael D.
Alhadeff Limited Partnership II

Baty Family Partnership, L.L.C.
Benaroya, Jack A.
Benaroya, Jack A.
Benoliel, Joel
Brotman, Jeffrey H.
Brown, James F.
The Tobey J. Bryant Trust
Chartwell Capital Investors, L.P.
Fersch, Richard
Foley, Craig J.
Friedenberg, David
Gigot, Gary
Gorelick, Kenneth
Leo B. & Florence Helzel Living Trust
Jonsson, Laurie McDonald
Kirlan Venture Partners II, LP
Madison Investors
Laird, Edwin E.
Kirby McDonald TTEE for Jamie Kern Trust
McDonald, Kirby B.
Scott McDonald Trust
Stanley B and Barbara McDonald Trust
Michiana Securities LP
1997 Stand By Fund
Sarkowsky Family Limited Partnership
Schoenfeld, Gary
Schoenfeld, Jeffrey
Schoenfeld, Walter
Schultz, Howard
National Securities Corp. Custodian for William A. Schwartz IRA Rollover

Schwarz, Gerard and Jody
Sloan, Stuart
The Springs Company
Stroum, Cynthia
Talon Opportunity Fund, L.P.
Treiger, Irwin L.
Weinstein Family Ltd. Partnership
Weinstein, Ron
Whitney Equity Partners, L.P.
Whittall Company Ltd.
Kern, Jamey
Strategic Restaurant Engineering, Inc.
Schoenfeld, Jeffrey
Fersch, Richard
Amon, Solomon
Alhadeff Limited Partnership II
Behar, Dale & Helen
Alhadeff, Kenneth

Alhadeff, Michael D.
Schultz, Howard
Friedenberg, David
Benaroya, Jack A.
McDonald, Kirby B.
Jonsson, Laurie McDonald
Benoliel, Joel and Maureen
Behar, Howard P.
Foley, Craig J.
Smith, Orin
1984 Brotman Family Trust
Laird, Edwin E.
Tower Venture Fund I, L.L.C.
Whitney Equity Partners, L.P.
Alhadeff, Victor D.
Leo B. & Florence Helzel Living Trust
Reifler Trading Corp. Retirement Trust

AGREEMENT

This Agreement (the "Agreement") is entered into as of the _____ day of January, 1998, between Briazz, Inc., a Washington corporation ("Briazz") and Stusser Realty Group Limited Partnership, a Washington limited partnership ("SRG").

BACKGROUND

SRG owns certain real property located in King County, Washington, legally described in Exhibit A attached hereto (the "SRG Property"). SRG entered into an Agreement with Andover Investment Company ("Andover") dated April 25, 1996 (the "SRG-Andover Agreement"), whereby, SRG agreed to allow Andover to occupy the south 1/2 of vacated South Bradford Street, which is a portion of the SRG Property, so long as Andover held a leasehold interest in the adjacent property to the north, which property is legally described in Exhibit B (the "Spear Property"), and so long as Andover complied with the other terms and conditions of the SRG-Andover Agreement.

Briazz is currently the tenant occupying the Spear Property and the south 1/2 of vacated South Bradford Street pursuant to a sublease with Stusser Electric Company (the "Sublease"). Briazz and SRG want to assure that Briazz's occupancy and rights under the Sublease are not disturbed upon any possible termination of Andover's leasehold interest in the Spear Property.

THE PARTIES THEREFORE AGREE AS FOLLOWS:

1. SRG consents to the terms of the Sublease and agrees that Briazz may occupy the south 1/2 of vacated Bradford Street, in accordance with the terms of the Sublease, without disturbance by or compensation to SRG, so long as Briazz, its successors, assigns, or subtenants holds a leasehold interest in the Spear Property.

2. SRG Acknowledges that a portion of the improvements erected by Andover on the south 1/2 of vacated South Bradford Street may lie slightly to the south of the south line of vacated South Bradford Street. SRG hereby agrees that such encroachment may remain, and waives any claim against Briazz, its successors, assigns and subtenants relating to such fact.

3. This Agreement is to be governed by and construed in accordance with the laws of the State of Washington.

4. This Agreement may be executed in counterparts, each of which shall be fully effective as an original and which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as

within and foregoing instrument, and acknowledged said instrument to be the free and voluntary act and deed of said corporation, for the uses and purposes therein mentioned, and on oath stated that he was authorized to execute said instrument and that the seal affixed is the corporate seal of said corporation.

IN WITNESS WHEREOF I have hereunto set my hand and affixed my official seal the day and year first above written.

/s/ SHELLEY SMITH

(Signature)

Shelley Smith

(Name legibly printed or stamped)

Notary Public in and for the State of Washington, residing at Seattle .

My appointment expires 4-15-2001

(Seal or stamp)

EXHIBIT A

LEGAL DESCRIPTION OF SRG PROPERTY

Lots 1 through 12, inclusive, Block 8, South Seattle, according to the plat thereof recorded in Volume 1 of plats, Page 35, records of King County, Washington;

Together with alley vacated by Ordinance No. 89700 as would attach to said property by operation of law

Together with the south 1/2 of vacated South Bradford Street

Situate in the County of King, State of Washington

EXHIBIT B

LEGAL DESCRIPTION OF SPEAR PROPERTY

Lots 1, 2, 3, 10, 11 and 12, Block 7, South Seattle, according to the plat thereof recorded in Volume 1 of Plats, Page 35, records of King County, Washington;

Except that portion of said Lot 10 lying within the plat of Seattle Tide Lands;

Together with that portion of alley vacated by Ordinance No 7258 adjoining said lots; and

Together with that portion of South Bradford Street vacated under City of

Seattle Ordinance No. 109425 as would attach by operation of law;

Also Lot 10, Block 262, Seattle Tide Lands, in King County, Washington

Situate in County of King, State of Washington

SUBLEASE

THIS SUBLEASE (this "Sublease") is entered into as of the 6th day of February 1998, between Stusser Electric Company a Washington corporation ("Sublessor"), and Briazz, Inc. a Washington corporation ("Sublessee") (collectively, the "Parties").

AGREEMENT

1. EXHIBITS AND DEFINITIONS

1.1 Definitions. The following terms used in this Sublease shall have the definitions as set forth below other; other terms are defined throughout the Sublease.

"BUILDING": The building and all other improvements located on the Property, as they currently exist or as they may be renovated by Sublessee pursuant to this Sublease. The Building is approximately 35,655 square feet in size, consisting of a first floor office area of 3,574 square feet, a low bay warehouse of 6,361 square feet, a high bay warehouse of 15,196 square feet and a second floor office of 10,524 square feet.

"INSURANCE COSTS": The cost of providing the insurance referred to in Section 19.1(B).

"COMMENCEMENT DATE": The Commencement Date is February 6, 1998.

"MASTER LANDLORD": Andover Investment Company, a Washington general partnership.

"MASTER LEASE": That certain lease between Sublessor as lessee and Master Landlord as lessor, dated November 1, 1993, as amended by First Amendment to Lease dated April 25, 1996.

"PROPERTY": The real property commonly known as 3901 Seventh Avenue South, Seattle, WA, and legally described on Exhibit A-1 hereto, together with all easements, licenses, and other rights appurtenant thereto. The land included within the Property is of an area of approximately 51,200 square feet. Unless otherwise specifically stated, references to the Property shall include the Building. The Property is depicted on the site plan attached as Exhibit B.

"REAL PROPERTY TAXES": The Real Property Taxes shall mean real property taxes and general assessments assessed against both the land and buildings located on the Property and on Sublessor's Property.

"RENT COMMENCEMENT DATE": The Rent Commencement Date means the earlier of (i) ninety (90) days from the date Sublessee is issued its improvement building permit, or (ii) ten (10) days following the date Sublessee occupies the Property and is open for business, or (iii) one hundred eighty (180) days from the date of mutual execution of the Sublease.

"SUBLEASE YEAR": The first Sublease Year means the period beginning on the Commencement Date and terminating on the last day of the twelfth (12th) full calendar month after the Commencement Date. Each subsequent Sublease Year means each twelve (12) month period during the Term following the first Sublease Year. If the first Sublease Year has more than 365 days as a result of the application of this Section, any prorations for the first Sublease Year shall be based on the actual number of days in that first Sublease Year.

"SUBLESSOR'S PROPERTY": The property commonly know as 660 Andover

Street and all improvements thereon, as legally described on Exhibit A-2.

"TERMINATION DATE": The Termination Date is October 30, 2006.

1.2 Exhibits. The following exhibits are attached hereto and are made a part of this Sublease:

- Exhibit A-1 Legal Description of Property
- Exhibit A-2 Legal Description of Sublessor's Property
- Exhibit B Site Plan of the Property
- Exhibit C Sublessee's Plans
- Exhibit D Hazardous Materials List
- Exhibit E Sublessor's Work
- Exhibit E- I Floor Plan (Second Floor)

2. DEMISE AND TERM

2.1 Property and Demise. Sublessor hereby subleases the Property to Sublessee, and Sublessee hereby subleases the Property from Sublessor, subject to the terms and conditions of this Sublease.

2.2 Term. This Sublease shall be for approximately eight years and nine months, commencing on the Commencement Date and terminating at 11:59 p.m. on the Termination Date, unless sooner terminated pursuant to any provision herein (the "Term").

2.3 Surrender of Property. Upon termination of this Sublease, Sublessee shall surrender possession of the Property to Sublessor in broom clean condition, ordinary wear and tear excepted. Sublessee may leave in place those initial alterations described on Exhibit C and any subsequent alterations that Sublessor gives Sublessee written permission to leave on the Property prior to the time such alterations are made. Sublessee must remove all other alterations made by it under Section 15.3. Sublessee must also remove all of Sublessee's personal property,

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equipment used in Sublessee's business and installed by Sublessee, and all of Sublessee's other trade fixtures.

2.4 Surrender of Sublease. The voluntary or other surrender of this Sublease by Sublessee, or a mutual cancellation thereof, shall not work a merger, and shall, at the option of Sublessor, terminate all or any existing subleases or subtenancies, or may, at the option of Sublessor, operate as an assignment to it of any such subtenancies.

3. MASTERLEASE.

3.1 Master Lease. Sublessor is the lessee of the Property under the Master Lease. This Sublease is contingent upon Sublessor obtaining all necessary approvals of this Sublease and all of Sublessee's rights hereunder, and of Sublessee's initial improvements and signage.

3.2 Performance of Master Lease. Sublessor will timely perform all of the terms, conditions and obligations of Sublessor as tenant under the Master Lease.

3.3 Sublessor To Prevent Merge. If Sublessor acquires any further interest in the Property or Building in any manner at any time during the Term, including without limitation by acquiring fee title to the Property or Building, Sublessor agrees that it will continue to hold all such further interests in the fee separately from its interest as the tenant under the Master Lease and to preserve this Sublease and the relationship of Sublessor and Sublessee hereunder, and shall take all such actions as is necessary to at all times prevent the merger of its interests in the fee and the Master Lease.

3.4 Sublessor's Performance of Obligations. Sublessor shall hold Sublessee free and harmless of and from all liability, judgments, costs, damages, claims or demands, including reasonable attorneys' fees, arising out of

Sublessor's failure to comply with or perform Sublessor's obligations under the Master Lease.

3.5 Sublessor to Maintain Master Lease. Sublessor shall maintain the

Master Lease in full force during the Term. Sublessor shall not do, or fail to do, anything that would result in a breach of the Master Lease. Sublessor will indemnify, defend, and hold Sublessee free and harmless of and from all liability, judgments, costs, damages, claims or demands arising out of Sublessor's failure to comply with or perform Sublessor's obligations under the Master Lease. Sublessor shall take all steps necessary to preserve its rights under the Master Lease and to cause the Master Landlord to perform its obligations thereunder.

3.6 Master Lease Warranties. Sublessor represents to Sublessee that

the Master Lease is in full force and effect and that no default exists on the part of any party to the Master Lease. Sublessor warrants that nothing in the Master Lease conflicts with Sublessee's rights under this Sublease.

4. RENT AND SECURITY DEPOSIT

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4.1 Base Rent. Sublessee agrees to pay Sublessor Base Rent to

Sublessor at Sublessor's address for notice set forth below, attention: Marilyn Novak. Such rent shall be paid monthly in advance, on or before the first day of each month of the Term, commencing with the Rent Commencement Date, as follows:

Rent Commencement Date through May 31, 1999	\$13,465/month
June 1, 1999 through November 30, 2000	\$15,096/month
December 1, 2000 through November 30, 2003	\$17,300/month
December 1, 2003 through October 30, 2006	\$20,500/month

4.2 Advance Payment. Notwithstanding the fact that Sublessee shall

not be liable for Base Rent prior to the Rent Commencement Date, the parties acknowledge and agree that the first month's payment of Base Rent is hereby delivered in advance to Sublessor. Said installment shall be credited against any amounts owed by Sublessee to Sublessor under Section 4.3, and the balance, if any, shall be refunded to Sublessee or applied to the first month's rent due upon the Rent Commencement Date, as appropriate.

4.3 Early Access. Sublessee shall have the right to access the

Property on the Commencement Date and use the warehouse as storage space with no payment of Base Rent until the Rent Commencement Date. Sublessee shall however, pay Utility charges and Operating Expenses commencing on the Commencement Date. If Sublessee cancels this Sublease under Section 15.1, then Sublessee shall pay Sublessor Base Rent for the period from the day it takes early possession of the Property until the date it vacates the Property. Sublessee may not make any alterations to the Property prior to the date it waives its permitting contingency under Section 15.1.

4.4 Proration. All Base Rent, Utilities charges and Operating

Expenses shall be prorated for any partial calendar month at the beginning or end of the Term. Sublessee shall be obligated to pay only such items as shall accrue during the Term, except as otherwise expressly provided herein.

4.5 Security Deposit. Sublessee hereby delivers to Sublessor a

Security Deposit in the amount of Thirteen Thousand Four Hundred Sixty Five and No/ 100 Dollars (\$13,465.00) in cash or at Sublessee's option, in the form of a letter of Credit. If Sublessor draws on the letter of credit pursuant to the terms thereof because it has not been renewed, such funds shall be dealt with by Sublessor in the manner required under this Section 4.

5. TITLE, AUTHORITY, AND QUIET ENJOYMENT

5.1 Title and Authority. Sublessor warrants to Sublessee that

Sublessor has the right to sublease the Property to Sublessee on the terms set forth herein and to perform its obligations hereunder. Sublessee warrants to Sublessor that Sublessee has all requisite right, power, and authority to enter into this Sublease and to perform its obligations hereunder. Each party shall provide the other party with reasonably satisfactory evidence of its authority to enter into this Sublease upon request.

5.2. Quiet Enjoyment. Sublessor covenants to Sublessee that, so long

 as Sublessee is not in default under this Sublease beyond any applicable cure period, Sublessee shall have quiet enjoyment of the Property and all of the rights granted hereunder without interference by Sublessor, anyone acting by, through or under Sublessor, or anyone having title or any lien or interest paramount to Sublessor. Sublessor may not enter the Property or the Building, and the same shall be a breach of this covenant of quiet enjoyment except in order to fulfill its maintenance duties required under Section 7, 14, and 20, in which case Sublessor shall provide Sublessee prior notice, or in the event of an emergency (in which case no notice shall be required). When so authorized to enter, Sublessor must do so in such a way as to minimize any conflict with, or adverse impact on, Sublessee's use of the Property.

5.3 Rights in Others. Sublessor reserves the right to grant public

 utility easements on, over, and under the Property without any abatement in rent, provided that such easements do not interfere with Sublessee's business on the Property. Sublessee agrees to sign any documents reasonably requested by Sublessor in regard to the grant of any such easement rights, dedication, map, or restrictions.

6. ACCEPTANCE OF PROPERTY

6.1 Sublessee accepts the Property "AS-IS," subject to Sublessor's warranties herein, provided that Sublessor shall have completed the following maintenance and repair obligations by the times set forth below, which Sublessor hereby agrees to do at its sole cost (which costs shall not be billed to Sublessee as Operating Expenses):

- (a). All warehouse heaters shall be in good working order and repair by the Commencement Date.
- (b). The roof and roof membrane shall be in good condition as of the Commencement Date.
- (c) The sump pump for the catch basin shall be cleaned out and operable by the Commencement Date.

6.2 Sublessor shall, at its expense, also complete the work shown on Exhibit E, within 30 days after Sublessee waives its rights to terminate this Lease under Sections 15.1 and 30.1.

7. HAZARDOUS SUBSTANCES

a. Hazardous Substances. The term "Hazardous Substances," as used in

 this Lease, shall include, without limitation, flammables, explosives, radioactive materials, asbestos polychlorinated biphenyls (PCB's), chemicals known to cause cancer or reproductive toxicity,

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pollutants, contaminants, hazardous wastes, toxic substances or related materials, petroleum and petroleum products, and substances declared to be hazardous or toxic under any law or regulation now or hereafter enacted or promulgated by any government authority.

(b) Sublessee's Restrictions. Sublessee shall not cause or permit its

 employees, agents, or invitees to cause:

(1) Any violation of any federal, state, or local law, ordinance, or regulation now or hereafter enacted, related to environmental condition on, under, or about the Property, or arising from Sublessee's use or occupancy of the Property, including, but not limited to soil and ground water conditions; or

(2) The use, generation, release, manufacture, refining, production, processing, storage, or disposal of any Hazardous Substances on, under, or about the Property, or the transportation to or from the Property of any Hazardous Substances, except for the incidental use of the substances described on Exhibit D in the ordinary course of conduct of Sublessee's business.

c. Environmental Clean-Up.

(1) Sublessee shall, at Sublessee's own expense, remedy any violation of laws regulating the use, generation, storage, transportation, or disposal of Hazardous Substances ("Laws"), but only if such violations are committed by Sublessee, its agents, representatives, or invitees.

(2) Sublessee shall promptly notify Sublessor if Sublessee knows that any release of a Hazardous Material has come or will come to be located on or beneath the Property. If the release of a Hazardous Material is required to be reported to a state or local agency pursuant to law and the release was caused by Sublessee, and Sublessee knowingly and willfully fails to provide such notice to the Sublessor, then at Sublessor's option such failure to provide notice shall constitute a material default under this Sublease which can be cured only if Sublessee promptly commences and removes or otherwise takes remedial action with respect to the Hazardous Material release. In any event, Sublessee shall be liable to Sublessor for all actual damages incurred by Sublessor resulting from the failure of Sublessee to give the notice required by this Section.

(3) Sublessee shall, at Sublessee's own expense, make all submissions to, and comply with all requirements of, all governmental authorities (the "Authorities") under the Laws, but only to the extent the same relate to Hazardous Substances present on the Property because of a violation by Sublessee of this Section 7. In addition, Sublessee will provide all information relating to Sublessee's use and storage of Hazardous Material required by the Authorities under the Laws.

(4) Should an Authority or any third party demand that a clean-up plan be

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prepared and that a clean-up be undertaken because of any deposit, spill, discharge or other release of Hazardous Substances that occurs during the term of this Sublease, at or from the Property and which arises from Sublessee's use or occupancy of the Property, then Sublessee shall, at Sublessee's own expense, prepare and submit the required plans and all related bonds and other financial assurances and Sublessee shall carry out all such clean-up plans.

(5) Sublessee shall promptly provide all information regarding the use, generation, storage, transportation, or disposal of Hazardous Substances that is requested by Sublessor. If Sublessee fails to fulfill any duty imposed under this Paragraph c within a reasonable time, Sublessor may do so; and in such a case, Sublessee shall cooperate with Sublessor in order to prepare all documents Sublessor deems necessary or appropriate to determine the applicability of the Laws to the Property and Sublessee's use thereof, and for compliance therewith, and Sublessee shall execute all documents promptly upon Sublessor's request. No such action by Sublessor and no attempt made by Sublessor to mitigate damages under any Law shall constitute a waiver of any of Sublessee's obligations under this Paragraph c.

(6) Sublessor shall have the right to inspect the Property at reasonable times to assure compliance by Sublessee with the terms of this Section 7.

(7) Sublessee's obligations and liabilities under this Paragraph c shall survive the expiration of this Sublease.

d. Sublessee's Indemnity.

(1) Sublessee shall indemnify, defend, and hold harmless Sublessor and its officers, directors, shareholders, partners, affiliates, agents, and employees from any and all liability, expense, fines, or other claims of any character whatsoever, as well as any and all costs associated therewith (including without limitation reasonable attorneys' and consultants' fees and expenses) arising out of or in any way connected with any deposit, spill, discharge, or other release of Hazardous Substances, or the claimed violation of any Laws, which arises at any time from Sublessee's use or occupancy of the Property, or from Sublessee's failure to provide all information, make all submissions, and take all steps required by all Authorities under the Laws and all other environmental laws in relation to Sublessee's occupancy of the Property.

(2) Sublessee's obligations and liabilities under this Paragraph d shall survive the expiration of this Sublease.

e. Sublessor's Indemnity. Sublessor shall indemnify, defend, and hold

harmless Sublessee and its officers, directors, shareholders, partners, affiliates, agents, and employees from any and all liability, expense, fines, or other claims of any character whatsoever, as well as any and all costs associated therewith (including without limitation reasonable attorneys' and consultants' fees and expenses) arising out of or in any way connected with any

deposit, spill, discharge, or other release of Hazardous Substances, or the claimed violation of any Laws, which arises from facts existing prior to the Commencement Date, or which arise at any time from the acts or omissions of Sublessor or any third party (other than, Sublessee, its agents,

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representatives, or invitees), and Sublessee shall have no liability with respect thereto regardless of any contrary implication of other language contained in this Section 7.

f. Sublessee's Additional Remedy. If the Property or the Sublessor's

Property is now or hereafter becomes contaminated with Hazardous Substances not caused by Sublessee, and if such contamination or the investigation or remediation thereof materially interferes with Sublessee's use of the Property or rights under this lease, then Sublessee may, in addition to its other remedies, terminate this lease upon written notice to Sublessor.

8. ACCESS AND PARKING

8.1 Access. Throughout the Term, Sublessor shall provide Sublessee

reasonable nonexclusive vehicular access to the Property from South Andover Street across Sublessor's property.

8.2 Parking. Throughout the Term, Sublessor shall make available for

Sublessee's exclusive use the parking spaces shown on Exhibit B.

9. TRADE FIXTURES AND PERSONAL PROPERTY

Any trade fixtures, equipment and other personal property installed in or attached to the Property by and at the expense of Sublessee shall remain the property of Sublessee, except in any case where Sublessee is the lessee of any trade fixtures, equipment or other property, in which case the Sublessor of such property shall retain title. Sublessee must remove any and all of its trade fixtures, equipment and other personal property which it may have stored, attached to, or installed in the Property. Sublessee will repair all damage to the Property occasioned by such removal.

10. USE/COMPLIANCE WITH LAWS

10.1 Use and Purpose. Tenant shall use the Property for general

office use, warehousing, food storage and preparation and distribution of food products, and any other use which complies with all applicable laws and does not pose an environmental risk or hazard, and for no other purpose. Sublessor warrants that there are no title or other restrictions on Sublessee's intended use of the Property, including contracts, leases, agreements or any private restrictions by which the Sublessor or the Property is bound, including any exclusive rights under any lease, ground lease or other agreement which would interfere with or restrict Sublessee's intended use of the Property, nor will Sublessor enter into such agreement or consent to the Property being so bound. Sublessor shall not create or impose any rules or regulations governing the Property that are inconsistent with Sublessee's intended use of the Property or the terms of this Sublease.

10.2 Compliance.

10.2.1 Sublessor warrants that, as of the Commencement Date, the Property does not violate any currently existing applicable statutes, rules, regulations, orders, restrictions of record, building code regulation or ordinance (excluding Environmental Laws,

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which are dealt with in Section 7 above). In the event that this warranty has been violated, then it shall be Sublessor's obligation, after written notice from Sublessee, to promptly, at Sublessor's sole cost and expense, rectify any such violation.

10.2.2 If any new statutes, rules, regulations, orders, building code regulations, or ordinances relating to the Property are passed, or if any current ones are amended, Sublessee shall bear the cost of bringing the Property into compliance with such laws, when they apply to Sublessee's specific use of the Premises or the specific nature of Sublessee's business.

If any such new statutes, rules, regulations, orders, building code regulations, or ordinances relating to the Property are passed, or if any current ones are amended, and they do not apply to Sublessee's specific use of the Premises or the specific nature of Sublessee's business, Sublessee shall only be obligated to spend an aggregate sum over the entire term of the lease equal to the number of months remaining in the unexpired Term, divided by 105, then multiplied by Fifty Thousand Dollars (\$50,000), less the amount of money previously expended by Sublessee for compliance work).

The foregoing is expressed as a formula as follows, where "N" is the number of months left in the unexpired Term at the time Sublessee is required to do further compliance work:

$$\begin{array}{l} \text{Sublessee's Cost} \\ \text{of Compliance} \end{array} = \frac{N}{105} \times (\text{Total Cap on Compliance Costs} - \text{Compliance Amount Spent Prior to Present Compliance Issue})$$

(Present occurrence)

For example, if a situation of non-compliance arises 22 months into the Term, and Sublessee's maximum liability for all compliance issues is \$100, and Sublessee has already spent \$10 on compliance issues prior to the current compliance issue, then the cap on Sublessee's compliance costs for the current issue would be figured as follows:

$$\begin{array}{l} \$71 \\ \\ \\ \end{array} = \frac{84}{105} \times (100 - 10)$$

10.2.3 Sublessee shall comply with all applicable statutes, ordinances, rules, regulations, orders, restrictions of record and requirements in effect during the Term regulating the use by Sublessee of the Property (as opposed to the physical condition of the Property, which is dealt with in Section 10.2.1 and 10.2.2 above).

11. PERSONAL PROPERTY TAXES

Sublessee shall pay prior to delinquency all personal property taxes assessed during the term of this Sublease upon Sublessee's fixtures, furnishings, equipment and stock in trade or upon any other personal property of Sublessee situated in or upon the Property. Sublessee shall indemnify and hold Sublessor harmless from any lien against Sublessor's interest in the Property arising from such taxes and shall immediately cause the same to be satisfied and removed of record.

12. UTILITIES

Sublessee shall transfer billing to its name and shall pay for all separately metered charges for garbage, electricity, gas, water, sewer and janitorial services serving the Property.

13. OPERATING EXPENSES.

13.1 Proportionate Share of Charges

13.1.1 Sublessor shall provide the following utilities and services. Sublessee and Sublessor shall pay their respective proportionate shares of the following charges therefore:

	Sublessor's Percentage	Sublessee's Percentage
Common Area	50%	50%
Electricity		
Fire Sprinkler	50%	50%
Water & Service		
Real Property Taxes	49.4%	50.6%
Insurance Costs	48.5%	51.5%

13.1.2 Sublessor shall pay all Real Property Taxes for the Property and Sublessor's Property prior to the date the same become delinquent. Sublessee shall not be obligated to pay any costs connected with Real Property Taxes to the extent arising because of Sublessor's failure to pay Real Property

Taxes timely.

13.1.3 Sublessee's share of charges due under this paragraph 13 shall be referred to as "Operating Expenses". Sublessee shall pay its share of Operating Expenses to Sublessor fifteen (15) days after Sublessor provides Sublessee notice of the amounts due, accompanied by the statements and invoices indicating such amounts.

14. MAINTENANCE AND REPAIR

14.1 Sublessor agrees to perform all of the obligations under Section 6.1 of the Master Lease, but will paint the building as required under Section 6(f). In addition, Sublessor shall maintain all utility lines to the point they enter above the floor or inside the exterior walls of the Building.

14.2 Sublessee agrees to perform all of the obligations under Section 6.2(a) of the Master Lease. This does not change Sublessor's obligations under Sections 6, 7, 10, 20, 21, or 22 of the Sublease.

14.3 The above-referenced sections of the Master Lease are attached hereto and incorporated herein.

15. SUBLESSEE IMPROVEMENTS AND ALTERATIONS.

15.1 Building Permits. Sublessee shall, within thirty (30) days from

the date of mutual execution of the Sublease, submit an application for all required business licenses, signage permits, improvement building permits, and any other permits or approvals needed by Sublessee for Sublessee's intended use (collectively, the "Permits"). In the event Sublessee is unable to obtain the Permits within ninety (90) days from the date of mutual execution of the Sublease, Sublessee may terminate the Sublease by providing written notice to Sublessor.

15.2

A. Sublessee's Improvements. By the date of execution hereof,

Sublessor will have been provided with all plans and specifications relating to Sublessee's proposed initial improvements to the Property, as set forth on Exhibit C ("Sublessee's Initial Improvements"). The parties anticipate that, upon signing this Sublease, Sublessor shall have conferred with the Master Landlord and shall have obtained any necessary approvals required to allow Sublessee to make Sublessee's Initial Improvements. In light of the foregoing, Sublessor hereby consents to Sublessee's Initial Improvements.

B. Sublessor-Reimbursed Improvements. Sublessee shall also

complete the following work, and Sublessor shall pay the indicated amounts toward the costs thereof, directly to Sublessee's contractors, within 10 days after Sublessor receives invoices. If required, sublessor will advance any necessary deposits to Sublessee to allow Sublessee to order the following work, upon receipt of copies of the contracts for such work:

AMOUNT	ITEM
\$ 750	Replace concrete pad at rear door of conference room on first floor
\$3,000	Replace, repair, or refinish the existing cabinets, countertops, and sinks in the first and second floor kitchen areas.

\$28,777	Remove existing floor coverings and base from the first and second floors of the Premises, and replace and install new floor coverings and base.
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15.3 Right to Make Subsequent Alterations. Commencing in the second

Sublease Year, Sublessee shall have the right to make up to Fifty Thousand and No/ 100 Dollars (\$50,000.00) worth of non-structural improvements and alterations to the Property per Sublease Year at its cost without Sublessor's consent, provided such improvements or alterations do not affect the Building systems or structural systems of the Property. Sublessee may make structural alterations or alterations exceeding Fifty Thousand and No/ 100 Dollars

(\$50,000.00) per Sublease Year only with the prior written consent of Sublessor, which consent shall not be unreasonably withheld, conditioned or delayed.

15.4 Compliance with Laws; Workmanlike Manner. Sublessee shall

comply with any and all applicable laws, ordinances, rules, or regulations of any governmental entity having jurisdiction over the Property relating to the design and accomplishment of any and all alterations and improvements. Sublessee shall perform all alterations and improvements in a good and workmanlike manner.

15.5 Liens. Sublessee shall not permit any liens to be filed against

the Property for material delivered to the Property or for labor or other services performed on or with respect to the Property at the request of Sublessee, or in any way arising from or related thereto. Even if not previously required, and without waiving any violation of this Section, Sublessor may require that Sublessee post a bond against any lien filed against the Property in favor of Sublessor, the amount, form, and issuer of which shall be acceptable to Sublessor in its sole discretion, exercised in good faith.

16. ACCESSIBILITY LAWS

16.1 Accessibility Law. "Accessibility Law" means any local, State,

or federal law, regulation, ordinance, resolution, order, or directive relating to access, use, or enjoyment of the Property by, or employment thereupon, of handicapped persons, or to the removal of any tangible or intangible barrier or impediment to access, use, or enjoyment of the Property by handicapped persons, including, but not limited to The Americans with Disabilities Act.

16.2 Allocation of Responsibility. Sublessee shall make no

alteration of the Building that violates any provision of any Accessibility Law, unless Sublessee does such other work as is needed to cure such violation.

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17. SUBLESSEE'S SIGNS

Sublessee shall have the right to place signs on the Property, including the exclusive right to use the monument sign on the Property. Sublessee shall be allowed fifty percent (50%) of all other signage available to the Property and Sublessor's Property combined, to the extent such rights do not reduce Sublessor's right to maintain its current signage. All signs shall be subject to local codes and regulations. At the termination of the Sublease, Sublessee shall remove any signs it installs, and if any damage should occur, Sublessee shall make all necessary repairs, including repainting of the Building over any signs installed by Sublessee prior to the termination of the Sublease.

18. RIGHT OF FIRST REFUSAL TO LEASE

Sublessee shall have a right of first refusal to "lease" Sublessor's Property. If Sublessor desires to sublease, assign, or otherwise allow an unaffiliated third party to occupy any portion of Sublessor's Property in exchange for consideration (collectively, "lease"), then Sublessor shall notify Sublessee in writing of such fact, and shall include with such notice a copy of the written agreement governing such occupancy (the "Offer"). Sublessee may then elect to lease such space upon the terms and conditions of the Offer, by written notice given to Sublessor within thirty (30) days after receipt of the Offer.

If Sublessee elects to accept the Offer, the square footage of the space subject to the Offer shall be added to the square footage of the Property, and Sublessee's share of Operating Expenses will be increased by a fraction equal to the proportionate increase in the total square footage occupied by Sublessee resulting from the addition of the new space.

The term of the sublease of such additional space shall run concurrent with the term of this Sublease. If Sublessee does not exercise its rights with regard to Sublessor's specific offer, such election shall not constitute a waiver of Sublessee's right with respect to any subsequent offers, and Sublessor must give Sublessee a similar right of refusal regarding any offer containing terms different from any previous offer presented to Sublessee.

19. INSURANCE

From and after the Commencement Date, Sublessor shall maintain the following insurance on the Property and Sublessor's Property, including the Common Areas:

19.1 Insurance to be Carried by Sublessor. Sublessor shall carry:

A. Commercial general liability and property damage insurance in the amount of not less than \$1,000,000.00 for property damage or bodily injury or death of any one person and \$ 1,000,000.00 for any one occurrence. The cost of this insurance shall be paid by Sublessor.

B. Fire and extended coverage insurance in an amount equal to the full

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replacement cost of any improvements located on the Property and Sublessor's Property (excluding the improvements to the Property made by Sublessee). The cost of this insurance shall be included in Insurance Costs, and Sublessee shall pay its share thereof, as set forth in Section 13. Sublessor shall provide a certificate of insurance evidencing coverages to Sublessee.

19.2 Sublessee's Insurance. Sublessee shall procure and maintain

throughout the Term and any extension thereof, a policy of Combined Single Limit Bodily Injury and Property Damage Insurance in the amount of \$ 1,000,000 insuring Sublessee against any liability generally insured against under such policies. The policies shall name Sublessor and Master Landlord as additional insureds. Insurance required hereunder shall be in companies holding a "General Policyholders Rating" of at least A-VIII, or such other rating as may be required by a lender having a lien on the Property, as set forth in the most current issue of "Best's Insurance Guide." Sublessee shall provide a certificate of insurance evidencing coverages to Sublessor. Sublessee may provide such insurance under a blanket policy of insurance.

20. SPRINKLER SYSTEM

Sublessor shall provide and maintain the current fire sprinkler service to all buildings on the Property and on the adjacent property currently leased by Sublessor, all in accordance with applicable laws and codes. Sublessor or Sublessor's agent shall have access to the "modifications room" located in the Building for maintenance purposes, under the same terms and conditions as apply generally to Sublessor's access hereunder. The costs of providing and maintaining sprinkler service are an Operating Expense, and payment thereof is governed by Section 13.

21. DAMAGE BY CASUALTY

The rights and remedies of the parties upon damage or destruction to the Property shall be the same as set forth in Section 8 of the Master Lease.

22. CONDEMNATION

The rights and remedies of the parties upon condemnation of the Property shall be the same as set forth in Section 13 of the Master Lease.

23. ASSIGNMENT AND SUBLETTING

23.1 General. Notwithstanding anything to the contrary in the Master

Lease, Sublessee shall not sub-lease any portion of the Property or assign any or all of its interests therein without the prior written consent of Sublessor, which Sublessor shall not unreasonably withhold. Sublessor shall not be deemed to be acting unreasonably if it withholds consent based on its determination that the proposed use of the Property by the proposed transferee would present a risk of environmental contamination of the Property.

23.2 Consent Not Required. Regardless of Section 23.1, Sublessor

specifically

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acknowledges and agrees that Sublessee may elect to reorganize or refinance its business in the near future, and that it is the intention of the parties to allow Sublessee to do so freely. Therefore, the Sublease and any interest in it and/or in the Property may be transferred without Sublessor's consent in any manner necessary or desirable in connection with any reorganization, financing or refinancing, or sale of Sublessee's business entity (including any private or

public offering or sale of Sublessee's stock or of Sublessee's assets), and the same shall not be considered a sublease or assignment hereunder, so long as the same is not done for the principal purpose of transferring the Sublease in a manner not otherwise prohibited, and so long as the use of the Property resulting from the proposed transfer would not change as a result of such transfer.

23.3 Sublessee Remains Liable. Any assignment or sub-sublease shall

not release Sublessee of any obligations hereunder or alter the primary liability of Sublessee for the payment of Base Rent and additional sums due Sublessor hereunder or for the performance of any other obligations to be performed by Sublessee under this Sublease.

23.4 Excess Rent. If any rent or other payment collected by

Sublessee under an assignment or sub-sublease shall exceed the Base Rent or other payment due to Sublessor by Sublessee under the Sublease, any such excess amount shall be paid to Sublessor.

24. NO MERGER

Unless specifically stated otherwise in writing by Sublessor, the voluntary or other surrender of this Sublease by Sublessee, the mutual termination or cancellation hereof, or termination hereof by Sublessor for breach by Sublessee, shall automatically terminate any Sublease or lesser estate in the Property; provided, however, that Sublessor shall, in the event of any such surrender, termination, or cancellation, have the option to continue any one or all of such existing lesser interests. Sublessor's failure within ten (10) days following any such event to give written notice to the contrary to the holder of any such lesser interests shall constitute Sublessor's election to terminate such interest.

25. DEFAULT AND REMEDIES

25.1 The rights and remedies of the parties upon default hereunder shall be the same as set forth in Section 12 of the Master Lease. The parties agree that Sublessee shall not be deemed to have abandoned the Property, so long as it continues to pay rent.

25.2 If this Sublease is terminated due to a default by Sublessee, then Sublessee will reimburse Sublessor for the unamortized value of initial improvements to the property referred to in Sections 6.1 and 6.2 paid for by Sublessor, according to the following calculation, where "N" is the number of months left in the unexpired Term at the time of termination of the lease due to Sublessee's default:

Sublessee's			
Reimbursement	=	N	x \$139,334

Obligation		105	

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26. INTENTIONALLY DELETED

27. SURVIVAL

Any obligations or liability of Sublessee or Sublessor accruing prior to the expiration or sooner termination of this Sublease shall survive such termination or expiration.

28. MEMORANDUM OF SUBLEASE

This Sublease shall not be recorded, but at the request of either party a Memorandum of Sublease setting forth the Term hereof and such other provisions as may be reasonably acceptable to both parties shall be executed and acknowledged by the parties and recorded in the county where the Property is located. The party requesting such memorandum shall pay all costs of recording such memorandum and the other party's reasonable attorney's fees required to review such memorandum.

29. HOLDOVER

If Sublessee shall hold over with Sublessor's written consent following the expiration of the Term, such holding over shall be a month-to-month tenancy

under the terms of this Sublease.

30. MASTER LANDLORD CONSENT; SUBORDINATION AND NONDISTURBANCE

30.1 Sublessor to Provide Agreements. Sublessor shall use reasonable

efforts to obtain and provide Sublessee with Nondisturbance Agreements from all parties holding an interest senior to the Sublease, including lenders against the Property, whereby such lenders agree not to disturb or diminish Sublessee's right to quiet enjoyment or possession of the Property so long as Sublessee is not in default hereunder past any applicable cure date. The notice and opportunity to cure periods allowed to any holder of senior interest shall be no greater than (and shall run concurrently with) those allowed Sublessor. Senior interest holders include Bradley Spear, et. al. (Ground Lessor), Andover Investment Company (Building Owner/Master Lessor); and Seattle-First National Bank (Building Lender). If, despite such efforts, Sublessor is unable to obtain such agreements and record them by the date Sublessee's contingencies contained in Section 15.1 expire, Sublessee may cancel this Sublease upon written notice to Sublessor given prior to the end of such 90-day period.

30.2 Estoppel Certificate. Whenever requested in writing by the

other party, Sublessor or Sublessee shall execute and deliver within fourteen (14) days after receipt thereof,

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an estoppel certificate or other form of acknowledgment as to the Commencement Date, the status and the validity of this Sublease, the state of the rental and security account hereunder, any default by the other party alleged by the party providing the certificate, and such other information as may reasonably be required.

31. NOTICES

All written notices required under this Sublease shall be sent by personal delivery, telephone facsimile transmission, or by certified or registered mail with return receipt requested, or express courier or delivery service, addressed as follows:

If to Sublessor to:

Consolidated Electrical Distributors, Inc.
31356 Via Colinas
Westlake Village, CA 91362
Attn: Chief Financial Officer

Facsimile No.: 818-991-6858

If to Sublessee to:

Prior to the Rent Commencement Date:

Briazz, Inc.
10 11 SW Klickitat Way
Building B, Suite #202
Seattle WA 98134-1162
Attn: President

Facsimile No. 206.467.1970

After the Rent Commencement Date:

Briazz, Inc.
3901 Seventh Avenue South
Seattle, Washington 98134
Attn: President

Facsimile No.: 206-467-1970

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32. RIGHTS OF SUCCESSORS

Subject to any express restrictions contained in any other provision of this Sublease, all rights and obligations under this Sublease shall bind and inure to the benefit of the parties hereto and their successors and assigns.

33. ATTORNEYS' FEES

If either party to this Sublease is required to retain legal counsel as a result of a default by the other party in any way connected with this Sublease, the prevailing party in such dispute shall be entitled to reasonable attorneys' fees, litigation expenses, and statutory costs from the nonprevailing party, including attorneys' fees and costs on any appeal.

34. VENUE AND JURISDICTION

The parties agree that any suit, action or other legal proceeding arising out of or relating to this Sublease may, at the option of Sublessor, be brought in a federal or State court located in the county in which the Property is located. The parties consent to the jurisdiction of each such court in any such suit, action or proceeding, and waive any objection either may have as to the venue of any such suit, action or proceeding in any such court.

35. [INTENTIONALLY DELETED]

36. MISCELLANEOUS PROVISIONS

36.1 Severability. If any term or provision of this Sublease or the

application thereof to any person or circumstances shall to any extent be invalid and unenforceable, the remainder of this Sublease or the application of such term or provision to persons or circumstances other than those as to which it is invalid or unenforceable shall not be affected thereby, and each remaining term and provision of this Sublease shall be valid and be enforced to the extent permitted by law.

36.2 Time of Essence. Time is of the essence of this Sublease. The

failure of a party to insist upon a strict performance of any of the terms, conditions and covenants herein or to exercise any remedy available to it shall not be deemed a waiver of any rights or remedies that said party may have and shall not be deemed a waiver of any subsequent breach or default in the terms, conditions and covenants herein contained.

36.3 Consents. No consent or approval of either Sublessor or

Sublessee required or contemplated under this Sublease shall be unreasonably withheld or delayed, unless such consent or approval is expressly left to the sole discretion of the relevant party.

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36.4 Amendments. No change in the provisions of this Sublease shall

be effective unless made in writing and signed by the parties to this Sublease and approved by the holder of any mortgage or deed of trust against the Property if such consent is required by any agreement of Sublessor and such Lender.

36.5 Entire Agreement. There are no verbal or other agreements,

representations, or warranties of the parties (unless attached hereto or specifically referred to herein) that modify, supplement, or affect this Sublease. This Sublease supersedes any and all prior agreements executed by or on behalf of the parties hereto regarding Sublessee's occupancy of the Property, except that this Sublease is not intended to address, and does not affect or discharge, any prior or contemporaneous agreement of the parties related to the presence or remediation of Hazardous Substances on the Property as of the Commencement Date, except as expressly set forth herein.

36.6 Brokerage Commission. Sublessor and Sublessee warrant to each

other that they have dealt with no other Real Estate Brokers in connection with this transaction other than Stanley Real Estate, Inc., representing the Sublessor, and Behar Company, representing the Sublessee, and no other Real Estate Broker is entitled to commission in connection herewith. Sublessor agrees to pay a Real Estate commission of five percent (5%) of the Base Rent paid over the first five (5) Sublease Years and two and one half percent (2 1/2%) for the period beyond the first five (5) Sublease Years, payable one half on mutual execution of the Sublease and one half upon Sublessee's commencement of payment of regular installments of rent (as opposed to the advance installment of rent required under Section 4.2.) No other fee is due to the Brokers and the fee shall be divided equally between Behar Company, and Stanley Real Estate, Inc. If this Sublease is canceled by Sublessee pursuant to Section 15.1 or 30.1, then all such commissions shall be refunded to Sublessor.

36.7 Prevailing Law. This Sublease shall be governed by the laws of

the state in which the Property is located, as they exist from time to time, and
by any applicable federal law.

36.8 No Third Party Beneficiaries. Unless otherwise expressly

specified herein, this Sublease shall not be construed to be for the benefit of
any third party.

36.9 Construction. Sublessor and Sublessee have participated equally

in the negotiation of this Sublease. This Sublease shall be construed without
regard to which party drafted any particular clause under consideration.

36.10 Headings. The paragraph headings are not part of this Sublease

and shall not be considered in construing the provisions hereof.

[END OF TEXT]

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EXECUTED as of the date first above written.

SUBLESSOR:

SUBLESSEE:

STUSSER ELECTRIC COMPANY

BRIAZZ, INC.,
a Washington corporation

By:/s/ Thomas A. Lullo Vice President

By:/s/ James A. McDeri

By:/s/ John D. Parish Treasurer

Its: President

Date:2-6-98

Date:1/30/98

The undersigned hereby consents to the terms of the foregoing Sublease
between Sublessor and Sublessee.

ANDOVER INVESTMENT COMPANY,
a Washington general partnership

By:/s/ Leslie Ethan

Its: General Partner

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STATE OF WASHINGTON)
)ss.
COUNTY OF KING)

On this 30 day of January, 1998, before me personally appeared James A.
McDermet, to me known to be the President of the corporation that executed the
within and foregoing instrument, and acknowledged said instrument to be the free
and voluntary act and deed of said corporation, for the uses and purposes
therein mentioned, and on oath stated that he was authorized to execute said
instrument and that the seal affixed is the corporate seal of said corporation.

IN WITNESS WHEREOF I have hereunto set my hand and affixed my official seal
the day and year first above written.

/s/ Carol R. Slayton

(Signature)

[SEAL]

CAROL R. SLAYTON

(Name legibly printed or stamped)
Notary Public in and for the State of
Washington, residing at Seattle, WA.
My appointment expires 4-9-00

<TABLE>

State of California

County of Los Angeles

On 2-6-98 before me, MARILYN HOUSFELD NOVAK NOTARY PUBLIC

DATE NAME, TITLE OF OFFICER. E.G. "JANE DOE, NOTARY PUBLIC"

personally appeared THOMAS A. LULLO and JOHN D. PARISH

NAME(S) OF SIGNER(S)

[X] personally known to me - OR - [] proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

[SEAL] MARILYN HOUSFELD NOVAK
COMM. # 1026737
NOTARY PUBLIC - CALIFORNIA
LOS ANGELES COUNTY
My Commission Exp. July 25, 1998

WITNESS my hand and official seal.

/s/ Marilyn Housfeld Novak

SIGNATURE OF NOTARY

-----OPTIONAL SECTION-----

CAPACITY CLAIMED BY SIGNER
Though statute does not require the Notary to fill in the data below, doing so may prove invaluable to persons relying on the document.

[] INDIVIDUAL

[X] CORPORATE OFFICER(S)
VP and Treas

TITLE(S)

[] PARTNER(S) [] LIMITED
[] GENERAL

[] ATTORNEY-IN-FACT

[] TRUSTEE(S)

[] GUARDIAN/CONSERVATOR

[] OTHER: _____

SIGNER IS REPRESENTING:
NAME OF PERSON(S) OR ENTITY(IES)

Stusser Electric

Company

-----OPTIONAL SECTION-----

THIS CERTIFICATE MUST BE ATTACHED TO TITLE OR TYPE OF DOCUMENT Sublease - Briazz - Seattle

THE DOCUMENT DESCRIBED AT RIGHT:

NUMBER OF PAGES _____ DATE OF DOCUMENT 2-6-98

Though the data requested here is not required by law, it could prevent fraudulent reattachment of this form.

SIGNER(S) OTHER THAN NAMED ABOVE _____

</TABLE>

SUBLEASE AMENDMENT

THIS SUBLEASE AMENDMENT entered into as of this 28th day of August, 2000, by and between Stusser Electric Company, hereinafter referred to as "Sublessor" and Briazz, Inc., hereinafter referred to as "Sublessee" with respect to that certain Sublease dated February 6, 1998, covering Premises commonly known as 3901 Seventh Avenue South, Seattle, Washington, ("Sublease") to which Sublease Sublessor and Sublessee are parties. The premises are situated on that certain parcel located in the city of Seattle, King County Washington and legally described in Exhibit A of the lease agreement:

WITNESSETH:

WHEREAS, the parties wish to amend the Sublease;

NOW, THEREFORE, the parties agree to the following:

- (1) Notwithstanding anything to the contrary in Paragraph 8 of the Sublease, Briazz, Inc. agrees to the installation of the security fence around the Stusser Electric parking lot at 660 S. Andover Street, Seattle, and the resulting limitation of Briazz, Inc.'s access through said parking lot to the hours of 7:00 A.M. to 5:00 P.M., Monday through Friday, excluding holidays. There will be no holiday access.
- (2) Following construction of said fence, Sublessor will grant Sublessee the exclusive use of eight parking spaces and a small picnic area on the north side of the new fence, as shown on Exhibit A, attached hereto and made a part hereof.

EXCEPT as hereinabove amended, the parties hereto reaffirm the terms and conditions of the above mentioned Sublease.

WITNESS the due execution hereof the hereinbelow signed dates.

SUBLESSEE:

SUBLESSOR:

Briazz, Inc.

Stusser Electric Company

By:/s/ Victor Alhadeff

By:/s/ John D. Parish, Treasurer

By:/s/ Bill Vivian

By:/s/ [illegible], Asst. Secretary

Dated: 8/31/00

Dated: 9/8/00

"MAP OF STUSSER ELECTRIC FENCE PROPOSAL"

BASIC LEASE INFORMATION

LEASE DATE: June 28, 1996

TENANT: Briazz, Inc., a Washington corporation

TENANT'S ADDRESS: 255 Mendell Street
San Francisco, California 94124

LANDLORD: Kifer/Mendell/Industrial Way 11 Associates Limited
Partnership, a California Limited Partnership

LANDLORD'S ADDRESS: c/o Trammell Crow Company
1241 E. Hillsdale Blvd., Suite 200
Foster City, California 94404

Project: 201-395 Mendell Street, San Francisco, California 94124

Project Description: That approximately 64,710 square foot single story
industrial building known as India Basin Commerce
Center in India Basin Industrial Park, Mendell Street,
San Francisco, California

Building Description: That approximately 64,710 square foot single story
industrial building known as India Basin Commerce
Center in India Basin Industrial Park, Mendell Street,
San Francisco, California

Premises: Approximately 7,440 square feet of rentable area known
as 255 Mendell Street, San Francisco, California. The
premises are outlined on Exhibit "A".

Permitted Use: Commissary and distribution and other related legal
uses.

Parking Density: Two (2) automobile parking spaces per 1,000 square feet
leased, and one (1) truck per roll-up door.

Estimated Term
Commencement Date: November 1, 1996 (See Paragraph 2.B)

Length of Term: Sixty (60) months. See Paragraph 3.

Rent:

Base Rent	\$	See Paragraph 39 per month

Estimated First Year Basic Operating Cost	\$	840.00 per month

Security Deposit: \$27,996.00 (See Paragraph 19)

Tenant's Proportionate Share:

Of Building:	11.50
Of Project:	11.50

Broker:

Tenant: Behar Company
1000 Second Avenue, Suite 3330, Seattle, Washington
98104

Landlord: Trammell Crow NW, Inc.

The foregoing Basic Lease Information is incorporated into and made a part of this Lease. Each reference in this Lease to any of the Basic Lease Information shall mean the respective information above and shall be construed to incorporate all of the terms provided under the particular Lease paragraph pertaining to such information. In the event of any conflict between the Basic Lease Information and the Lease, the latter shall control.

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Exhibits:

Exhibit A.....	Site Plan, Legal Description
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LEASE

THIS LEASE is made as of this 28th day of June 1996, by and between Kifer/Mendell/Industrial Way II Associates Limited Partnership (hereinafter called "Landlord") and Briazz, Inc., a Washington corporation (hereinafter called "Tenant").

PREMISES

1. Landlord leases to Tenant and Tenant leases from Landlord, upon the terms and conditions hereinafter set forth, those premises (the "Premises") outlined in red on Exhibit A and described in the Basic Lease Information. The Premises may be all or part of the building (the "Building") or of the project (the "Project") which may consist of more than one building. The Building and Project are shown on Exhibit A.

POSSESSION AND LEASE COMMENCEMENT

2.
 - B. Construction of Improvements. In the event this Lease pertains to a

Building to be constructed or improvements to be constructed within a Building, the provisions of this Paragraph 2.B. shall apply in lieu of the provisions of Paragraph 2.A. above and the term commencement date ("Term Commencement Date") shall be the earlier of the date on which: (1) one hundred twenty (120) days following full lease execution (excepting the provisions of Paragraph 41), or (2) thirty (30) days following substantial completion of the improvements constructed or to be constructed in the Premises shall have been substantially completed in accordance with the plans and specifications described on Exhibit B. In the event of any dispute as to substantial completion of work performed or required to be performed by Landlord, the certificate of Landlord's architect or general contractor shall be conclusive. Substantial completion shall have occurred notwithstanding Tenant's submission of a punchlist to Landlord, which Tenant shall submit, if at all, within thirty (30) days after the Term Commencement Date. Tenant shall, upon demand, execute and deliver to Landlord a letter of acceptance of delivery of the Premises.

TERM

3. The Term of this Lease shall commence on the Term Commencement Date and continue in full force and effect for the number of months specified as the Length of Term in the Basic Lease Information or until this Lease is terminated as otherwise provided herein. If the Term Commencement Date is a date other than the first day of the calendar month, the Term shall be the number of months of the Length of Term in addition to the remainder of the calendar month following the Term Commencement Date.

USE

4. A. General. Tenant shall use the Premises for the Permitted Use and for no other use or purpose. Tenant shall control Tenant's employees, agents, customers, visitors, invitees, licensees, contractors, assignees and subtenants; (collectively, "Tenant's Parties") in such a manner that Tenant and Tenant's Parties cumulatively do not exceed the Parking Density at any time. Tenant and Tenant's Parties shall have the nonexclusive right to use, in common with other parties occupying the Building or Project, the parking areas and driveways of the Project, subject to such rules and regulations as Landlord may from time to time prescribe. Tenant shall park its trucks and vans in the rear of the Project, except during loading and unloading periods. Landlord and Tenant acknowledge that the following provision of this Paragraph 4.A may or may not be enforceable under applicable law, and to the extent unenforceable, the remaining terms of the Lease shall prevail. Landlord and Tenant agree that Tenant shall have the right to use 35 parking stalls through the term of its Lease and any extension thereof. It is hereby stipulated however, that if Tenant is in violation of any municipal codes or applicable law that any governing agency desires to enforce, then Tenant shall bring itself into compliance. Landlord shall not disclose Tenant's parking requirements to any governing agency unless such non-disclosure violates any law or ordinance.
- B. Limitations. Tenant shall not permit any odors, smoke, dust, gas,

substances, noise or vibrations to emanate from the Premises other than those associated with a commissary use, nor take any action which would constitute a nuisance or would disturb, obstruct or endanger any other tenants of the Building or Project in which the Premises are situated or interfere with their use of their respective premises. Storage outside the Premises of materials, vehicles or any other items is prohibited. Tenant shall not use or allow the Premises to be used for any improper, immoral, unlawful or objectionable purpose, nor shall Tenant cause or maintain or permit any nuisance in, on or about the Premises. Tenant shall not commit or suffer the commission of any waste in, on or about the Premises. Tenant shall not allow any sale by auction upon the Premises, or place any loads upon the floors, walls or ceilings which endanger the structure, or place any harmful liquids in the drainage system of the Building or Project. No waste, materials or refuse shall be dumped upon or permitted to remain outside the Premises except in trash containers placed inside exterior enclosures designated for that purpose by Landlord. Landlord shall not be responsible to Tenant for the non-compliance by any other tenant or occupant of the Building or Project with any of the above-referenced rules or any other terms or provisions of such tenant's or occupant's lease or other contract.

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C. Compliance with Regulations. By entering the Premises, Tenant accepts the Premises in the condition existing as of the date of such entry, subject to all existing or future applicable municipal, state and federal and other governmental statutes, regulations, laws and ordinances, including zoning ordinances and regulations governing and relating to the use, occupancy and possession of the Premises and the use, storage, generation and disposal of Hazardous Materials (hereinafter defined) in, on and under the Premises (collectively "Regulations"). Except for pre-existing violations, Tenant shall, at Tenant's sole expense, strictly comply with all Regulations now in force or which may hereafter be in force relating to the Premises and the use of the Premises and/or the use, storage, generation of Hazardous Materials in, on and under the Premises. Tenant shall at its sole cost and expense obtain any and all licenses or permits necessary for Tenant's use of the Premises. Tenant shall promptly comply with the requirements of any board of fire underwriters or other similar body now or hereafter constituted. Tenant shall not do or permit anything to be done in, on, or about the Premises or bring or keep anything which will in any way increase the rate of any insurance upon the Premises, Building or Project, or upon any contents therein or cause a cancellation of said insurance or otherwise affect said insurance in any manner. Tenant shall indemnify, defend, protect and hold Landlord harmless from and against any loss, cost, expense, damage, attorneys' fees or liability arising out of the failure of Tenant to comply with any applicable law or

comply with the requirements as set forth herein.

(See Addendum 1)

D. Hazardous Wastes. Tenant shall not cause, or allow any of Tenant's Parties to cause, any Hazardous Materials to be used, generated, stored or disposed of on or about the Premises, the Building or the Project. As used in this Lease, "Hazardous Materials" shall include, but not be limited to, hazardous, toxic and radioactive materials and those substances defined as "hazardous substances," "hazardous materials," "hazardous wastes," "toxic substances," or other similar designations in any federal, state, or local law, regulation, or ordinance. Landlord shall have the right at all reasonable times to inspect the Premises and to conduct tests and investigations to determine whether Tenant is in compliance with the foregoing provisions, the costs of all such inspections, tests and investigations to be borne by Tenant only if Tenant is found to be in non-compliance with any such Regulations. Tenant shall indemnify, defend, protect and hold Landlord harmless from and against all liabilities, losses, costs and expenses, demands, causes of action, claims or judgments directly or indirectly arising out of the use, generation, storage or disposal of Hazardous Materials by Tenant or any of Tenant's Parties, which indemnity shall include, without limitation, the cost of any required or necessary repair, cleanup or detoxification, and the preparation of any closure or other required plans, whether such action is required or necessary prior to or following the termination of this Lease. Neither the written consent by Landlord to the use, generation, storage or disposal of Hazardous Materials nor the strict compliance by Tenant with all laws pertaining to Hazardous Materials shall excuse Tenant from Tenant's obligation of indemnification pursuant to this Paragraph 4 D. Tenant's obligations pursuant to the foregoing indemnity shall survive the termination of this Lease. Landlord warrants that to the best of its actual knowledge, with no requirement for additional investigation, Landlord is aware of no hazardous materials on or under the Project. In addition, if Landlord discovers any environmental contamination on or under the Project after Tenant's occupancy which is conclusively determined to be caused by an entity other than Tenant or Tenant's parties, Tenant shall be indemnified against any costs associated with such contamination.

RULES AND REGULATIONS

5. Tenant shall faithfully observe and comply with any reasonable rules and regulations Landlord may from time to time prescribe in writing for the purpose of maintaining the proper care, cleanliness, safety, traffic flow and general order of the Premises or Project. Tenant shall cause Tenant's Parties to comply with such rules and regulations. Landlord shall not be responsible to Tenant for the non-compliance by any other tenant or occupant of the Building or Project with any of the rules and regulations.

RENT

6. A. Base Rent. Tenant shall pay to Landlord, without demand throughout the

Term, Base Rent as specified in the Basic Lease Information, payable in monthly installments in advance on or before the first day of each calendar month, in lawful money of the United States, without deduction or offset whatsoever, at the address specified in the Basic Lease Information or to such other place as Landlord may from time to time designate in writing. Base Rent for the first full month of the Term shall be paid by Tenant upon Tenant's execution of this Lease. If the obligation for payment of Base Rent commences on other than the first day of a month, then Base Rent shall be prorated and the prorated installment shall be paid on the first day of the calendar month next succeeding the Term Commencement Date.

B. Additional Rent. All monies other than Base Rent required to be paid by Tenant hereunder, including, but not limited to, the interest and late charge described in Paragraph 26.D., any monies spent by Landlord pursuant to Paragraph 30, and Tenant's Proportionate Share of Basic Operating Cost, as specified in Paragraph 7 of this Lease, shall be considered additional rent ("Additional Rent"). "Rent" shall mean Base Rent and Additional Rent.

BASIC OPERATION COST

7. A. Basic Operating Cost. In addition to the Base Rent required to be paid hereunder, Tenant shall pay as Additional Rent, Tenant's Proportionate Share, as defined in the Basic Lease Information, of Basic Operating Cost in the manner set forth below. Landlord shall account for each item of Basic Operating Cost as either a cost attributable to the Building or to the Project, as determined by Landlord in Landlord's sole discretion, and unless provided to the contrary in this Lease, Tenant shall pay the applicable Tenant's Proportionate Share of each such Basic Operating Cost, as set forth in the Basic Lease Information. Basic Operating Cost shall mean all expenses and costs of every kind and nature which Landlord shall pay or become obligated to pay, because of or in connection with the management, maintenance, preservation and operation of the Project and its supporting facilities (determined in accordance with generally accepted accounting principles, consistently applied) including but not limited to the following:

(1) Taxes. All real property taxes, possessory interest taxes, business or license taxes or fees, service payments in lieu of such taxes or fees, annual or periodic license or use fees, excises, transit charges, housing fund assessments, open space charges, assessments, levies, fees or charges general and special, ordinary and extraordinary, unforeseen as well as foreseen, of any kind (including fees "in-lieu" of any such tax or assessment) which are assessed, levied, charged, confirmed, or imposed by any public authority upon the Project, its operations or the Rent (or any portion or component thereof) (all of the foregoing being hereinafter collectively referred to as "real property taxes"), or any tax imposed in substitution, partially or totally, of any tax previously included within the definition of real property taxes, or any additional tax the

nature of which was previously included within the definition of real property taxes, except (a) inheritance or estate taxes imposed upon or assessed against the Project, or any part thereof or interest therein, and (b) taxes computed upon the basis of net income of Landlord or the owner of any interest therein, except as otherwise provided in the following sentence. Basic Operating Cost shall also include any taxes, assessments, or any other fees imposed by any public authority upon or measured by the monthly rental or other charges payable hereunder, including, without limitation, any gross income tax or excise tax levied by the local governmental authority in which the Project is located, the federal government, or any other governmental body with respect to receipt of such rental, or upon, with respect to or by reason of the development, possession, leasing, operation, management, maintenance, alteration, repair, use or occupancy by Tenant of the Premises or any portion thereof, or upon this transaction or any document to which Tenant is a party creating or transferring an interest or an estate in the Premises. In the event that it shall not be lawful for Tenant to reimburse Landlord for all or any part of such taxes, the monthly rental payable to Landlord under this Lease shall be revised to net to Landlord the same net rental after imposition of any such taxes by Landlord as would have been payable to Landlord prior to the payment of any such taxes.

(2) Insurance. All insurance premiums and costs, including but not limited to, any deductible amounts, premiums and cost of insurance incurred by Landlord, as more fully set forth in Paragraph 8.A herein.

(3) Repairs and Improvements. Repairs, replacements and general maintenance for the Premises, Building and Project (except for those repairs expressly made the financial responsibility of Landlord pursuant to the terms of this Lease, repairs to the extent paid for by proceeds of insurance or by Tenant or other third parties, and alterations attributable solely to tenants of the Project other than Tenant). Such repairs, replacements, and general maintenance shall include the cost of any capital improvements made to or capital assets acquired for the Project, Building, or Premises after the Term Commencement Date that reduce any other Basic Operating Cost, are reasonably necessary for the health and safety of the occupants of the Project, or are made to the Building by Landlord after the date of this Lease and are required under any governmental law or regulation, such costs or allocable portions thereof to be amortized over such reasonable period as Landlord shall determine, but which shall be in accordance with industry standard, together with interest on the unamortized balance at the "prime rate" charged at the time such improvements or capital assets are constructed or acquired by Wells Fargo Bank, N.A. (San Francisco), plus two (2) percentage points, but in no event more than the maximum rate permitted by law.

(4) Services. All expenses relating to maintenance, janitorial and

service agreements and services, and costs of supplies and equipment used in maintaining the Premises, Building and Project and the equipment therein and the adjacent sidewalks, driveways, parking and service areas, including, without limitation, Building exterior maintenance and landscaping.

(5) Utilities. Utilities which benefit all or a portion of the Premises, Building or Project.

(6) Management Fee. A management and accounting cost recovery fee equal to three percent (3%) of the sum of Base Rent and Basic Operating Cost.

(7) Legal and Accounting. Legal and accounting expenses relating to Tenant's Lease or occupancy of the Project, including the cost of audits by certified public accountants. In the event of legal action between Tenant and Landlord, legal expenses of the substantially prevailing party shall be paid by the losing party, unless stipulated otherwise.

In the event that the Building is not fully occupied during any fiscal year of the Term as determined by Landlord, an adjustment shall be made in computing the Basic Operating Cost for such year so that Tenant pays an equitable portion of all variable items of Basic Operating Cost, as reasonably determined by Landlord; provided, however, that in no event shall Landlord be entitled to collect in excess of one hundred percent (100%) of the total Basic Operating Cost from all of the tenants in the Building including Tenant.

Basic Operating Cost shall not include specific costs incurred for the account of, separately billed to and paid by specific tenants. Notwithstanding anything herein to the contrary, in any instance wherein Landlord, in Landlord's sole discretion, deems Tenant to be responsible for any amounts greater than Tenant's Proportionate Share, Landlord shall have the right to allocate costs in any manner Landlord deems appropriate. Landlord acknowledges that Tenant's use may increase Tenant's reasonable share of certain expenses, such as utilities, which shall be reasonably determined by Landlord according to the increase in average utilities after Tenant's occupancy of the Premises.

B. Payment of Estimated Basic Operating Cost. "Estimated Basic Operating Cost" for any particular year shall mean Landlord's estimate of the Basic Operating Cost for such fiscal year made prior to commencement of such fiscal year as hereinafter provided. Landlord shall have the right from time to time to revise its fiscal year and interim accounting periods so long as the periods as so revised are reconciled with prior periods in accordance with generally accepted accounting principles applied in a consistent manner. During the last month of each fiscal year during the Term, or as soon thereafter as practicable, Landlord shall give Tenant written notice of the Estimated Basic Operating Cost for the ensuing fiscal year. Tenant shall pay Tenant's Proportionate Share of the Estimated Basic Operating Cost with installments of Base Rent for the fiscal year to which the Estimated Basic Operating Cost applies in monthly installments on the

first day of each calendar month during such year, in advance. If at any time during the course of the fiscal year, Landlord determines that Basic Operating Cost is projected to vary from the then Estimated Basic Operating Cost by more than ten percent (10%), Landlord may, by written notice to Tenant, revise the Estimated Basic Operating Cost for the balance of such fiscal year, and Tenant's monthly installments for the remainder of such year shall be adjusted so that by the end of such fiscal year Tenant has paid to Landlord Tenant's Proportionate Share of the revised Estimated Basic Operating Cost for such year.

C. Computation of Basic Operating Cost Adjustment. "Basic Operating Cost Adjustment" shall mean the difference between Estimated Basic Operating Cost and Basic Operating Cost for any fiscal year determined as hereinafter provided. Within one hundred twenty (120) days after the end of each fiscal year, as determined by Landlord, or as soon thereafter as practicable, Landlord shall deliver to Tenant a statement of Basic Operating Cost for the fiscal year just ended, accompanied by a computation of Basic Operating

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[Initials]

Cost Adjustment. If such statement shows that Tenant's payment based upon Estimated Basic Operating Cost is less than Tenants Proportionate Share of Basic Operating Cost, then Tenant shall pay to Landlord the difference within twenty (20) days after receipt of such statement. If such statement shows that Tenant's payments of Estimated Basic Operating Cost exceed Tenant's Proportionate Share of Basic Operating Cost, then (provided that Tenant is not in default under this Lease) Landlord shall pay to Tenant the difference within twenty (20) days after delivery of such statement to Tenant. If this Lease has been terminated or the Term hereof has expired prior to the date of such statement, then the Basic Operating Cost Adjustment shall be paid by the appropriate party within twenty (20) days after the date of delivery of the statement. Should this Lease commence or terminate at any time other than the first day of the fiscal year, Tenant's Proportionate Share of the Basic Operating Cost adjustment shall be prorated by reference to the exact number of calendar days during such fiscal year that this Lease is in effect.

D. Net Lease. This shall be a net Lease and Base Rent shall be paid to Landlord absolutely net of all costs and expenses, except as specifically provided to the contrary in this Lease. The provisions for payment of Basic Operating Cost and the Basic Operating Cost Adjustment are intended to pass on to Tenant and reimburse Landlord for all costs and expenses of the nature described in Paragraph 7.A. incurred in connection with the ownership, maintenance and operation of the Building or Project and such additional facilities now and in subsequent years as may be determined by Landlord to be necessary to the Building or Project.

E. Tenant Audit. In the event that Tenant shall dispute the amount set

forth in any statement provided by Landlord under Paragraph 7.B or 7.C above, Tenant shall have the right, not later than twenty (20) days following the receipt of such statement and upon the condition that Tenant shall first deposit with Landlord the full amount in dispute, to cause Landlord's books and records with respect to Basic Operating Cost for such fiscal year to be audited by certified public accountants selected by Tenant and subject to Landlord's reasonable right of approval. The Basic Operating Cost Adjustment shall be appropriately adjusted on the basis of such audit. If such audit discloses a liability for a refund in excess of ten percent (10%) of Tenant's Proportionate Share of the Basic Operating Cost Adjustment previously reported, the cost of such audit shall be borne by Landlord; otherwise the cost of such audit shall be paid by Tenant. If Tenant shall not request an audit in accordance with the provisions of this Paragraph 7.E within twenty (20) days after receipt of Landlord's statement provided pursuant to Paragraph 7.B or 7.C., such statement shall be final and binding for all purposes hereof.

INSURANCE AND INDEMNIFICATION

8. A. Landlord's Insurance. Landlord agrees to maintain reasonable insurance which is similar to other industrial building insurance in the San Francisco Bay Area, insuring the Building against fire, lightning, vandalism and malicious mischief (including, if Landlord elects, "All Risk" coverage, earthquake, and/or flood insurance), in an amount not less than eighty percent (80%) of the replacement cost thereof, with deductibles and the form and endorsements of such coverage as selected by Landlord. Such insurance may also include, at Landlord's option, insurance against loss of Base Rent and Additional Rent, in an amount equal to the amount of Base Rent and Additional Rent payable by Tenant for a period of at least twelve (12) months commencing on the date of loss. Such insurance shall be for the sole benefit of Landlord and under Landlord's sole control. Landlord shall not be obligated to insure any furniture, equipment, machinery, goods or supplies which Tenant may keep or maintain in the Premises, or any leasehold improvements, additions or alterations within the Premises. Landlord may also carry such other insurance as Landlord may deem prudent or advisable, including, without limitation, liability insurance in such amounts and on such terms as Landlord shall determine.

B. Tenant's Insurance

(1) Property Insurance. Tenant shall procure at Tenant's sole cost and expense and keep in effect from the date of this Lease and at all times until the end of the Term, insurance on all personal property and fixtures of Tenant and all improvements made by or for Tenant to the Premises, insuring such property for the full replacement value of such property.

(2) Liability Insurance. Tenant shall procure at Tenant's sole cost and expense and keep in effect from the date of this Lease and at all times until the end of the Term either Comprehensive General Liability insurance or Commercial General Liability insurance applying to the use and occupancy of the Premises and the Building, and any part of either, and any areas

adjacent thereto, and the business operated by Tenant, or by any other occupant on the Premises. Such insurance shall include Broad Form Contractual Liability insurance coverage insuring all of Tenant's indemnity obligations under this Lease. Such coverage shall have a minimum combined single limit of liability of at least One Million Dollars (\$1,000,000.00) Two Million Dollars (\$2,000,000.00), and a general aggregate limit of Two Million Dollars (\$2,000,000.00) Three Million Dollars (\$3,000,000.00). All such policies shall be written to apply to all bodily injury, property damage or loss, personal injury and other covered loss, however occasioned, occurring during the policy term, shall be endorsed to add Landlord and any party holding an interest to which this Lease may be subordinated as an additional insured, and shall provide that such coverage shall be primary and that any insurance maintained by Landlord shall be excess insurance only. Such coverage shall also contain endorsements: (i) deleting any employee exclusion on personal injury coverage; (ii) including employees as additional insureds; (iii) deleting any liquor liability exclusion; and (iv) providing for coverage of employer's automobile non-ownership liability. All such insurance shall provide for severability of interests; shall provide that an act or omission of one of the named insureds shall not reduce or avoid coverage to the other named insureds; and shall afford coverage for all claims based on acts, omissions, injury and damage, which claims occurred or arose (or the onset of which occurred or arose) in whole or in part during the policy period. Said coverage shall be written on an "occurrence" basis, if available. If an "occurrence" basis form is not available, Tenant must purchase "tail" coverage for the most number of years available, and tenant must also purchase "tail" coverage if the retroactive date of an "occurrence" basis form is changed so as to leave a gap in coverage for occurrences that might have occurred in prior years. If a "claims made" policy is ever used, the policy must be endorsed so that Landlord is given the right to purchase "tail" coverage should Tenant for any reason not do so or if the policy is to be canceled for nonpayment of premium.

(3) General Insurance Requirements. All coverages described in this Paragraph 8.B shall be endorsed to provide Landlord with thirty (30) days' notice of cancellation or change in terms.

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All insurance policies required to be carried under this Lease shall be written by companies rated A+XII or better in "Best's Insurance Guide" and authorized to do business in California. Any deductible amounts under any insurance policies required hereunder shall be subject to Landlord's prior written approval. In any event deductible amounts shall not exceed One Thousand Dollars (\$1,000.00). Tenant shall deliver to Landlord on or before the Term Commencement Date, and thereafter at least thirty (30) days before the expiration dates of the expiring policies, certified copies of Tenant's insurance policies, or a certificate evidencing the same issued by the

insurer thereunder, showing that all premiums have been paid for the full policy period; and, in the event Tenant shall fail to procure such insurance, or to deliver such policies or certificates, Landlord may, at Landlord's option and in addition to Landlord's other remedies in the event of a default by Tenant hereunder, procure the same for the account of Tenant, and the cost thereof shall be paid to Landlord as Additional Rent.

C. Indemnification. Landlord shall not be liable to Tenant for any loss or damage to person or property caused by theft, fire, acts of God, acts of a public enemy, riot, strike, insurrection, war, court order, requisition or order of governmental body or authority or for any damage or inconvenience except resulting from Landlord's gross negligence or willful misconduct, which may arise through repair or alteration of any part of the Building or Project or failure to make any such repair, except as expressly otherwise provided in Paragraph 10. Tenant shall indemnify, defend by counsel acceptable to Landlord, protect and hold Landlord harmless from and against any and all liabilities, losses, costs, damages, injuries or expenses, including reasonable attorneys' fees and court costs, arising out of or related to: (1) claims of injury to or death of persons or damage to property occurring or resulting directly or indirectly from the use or occupancy of the Premises, or from activities of Tenant, Tenant's Parties or anyone unrelated to Landlord in or about the Premises or Project; (2) claims for work or labor performed, or for materials or supplies furnished to or at the request of Tenant in connection with performance of any work done for the account of Tenant within the Premises or Project; and (3) claims arising from any breach or default on the part of Tenant in the performance of any covenant contained in this Lease. The foregoing indemnity shall not be applicable to claims arising from the active negligence or willful misconduct of Landlord. The provisions of this Paragraph shall survive the expiration or termination of this Lease with respect to any claims or liability occurring prior to such expiration or termination.

WAIVER OF SUBROGATION

9. To the extent permitted by law and without affecting the coverage provided by insurance to be maintained hereunder, Landlord and Tenant each waive any right to recover against the other for: (a) damages for injury to or death of persons; (b) damages to property; (c) damages to the Premises or any part thereof, and (d) claims arising by reason of the foregoing due to hazards covered by insurance to the extent of proceeds recovered therefrom. This provision is intended to waive fully, and for the benefit of each party, any rights and/or claims which might give rise to a right of subrogation in favor of any insurance carrier. The coverage obtained by each party pursuant to this Lease shall include, without limitation, a waiver of subrogation by the carrier which conforms to the provisions of this paragraph.

LANDLORD'S REPAIRS AND SERVICES

10. Landlord shall at Landlord's expense maintain the structural soundness of

the structural beams of the roof, foundations and exterior walls of the Building in good repair, reasonable wear and tear excepted. The term "exterior walls" as used herein shall not include windows, glass or plate glass, doors, special store fronts or office entries. Landlord shall perform on behalf of Tenant and other tenants of the Project, as an item of Basic Operating Cost, the maintenance of the Building, Project, and public and common areas of the Project, including but not limited to the roof, pest extermination, the landscaped areas, parking areas, driveways, the truck staging areas, rail spur areas, fire sprinkler systems, sanitary and storm sewer lines, utility services, electric and telephone equipment servicing the Building(s), exterior lighting, and anything which affects the operation and exterior appearance of the Project, which determination shall be at Landlord's sole discretion. Except for the expenses directly involving the items specifically described in the first sentence of this Paragraph 10, Tenant shall reimburse Landlord for all such costs in accordance with Paragraph 7. Any damage caused by or repairs necessitated by any act of Tenant may be repaired by Landlord at Landlord's option and at Tenant's expense. Tenant shall immediately give Landlord written notice of any defect or need of repairs after which Landlord shall have a reasonable opportunity to repair same. Landlord's liability with respect to any defects, repairs, or maintenance for which Landlord is responsible under any of the provisions of this Lease shall be limited to the cost of such repairs or maintenance, except for Landlord's gross negligence or willful misconduct, in which such liability shall not be limited.

TENANT'S REPAIRS

11. Tenant shall at Tenant's expense maintain all parts of the Premises in a good clean and secure condition and promptly make all necessary repairs and replacements, including but not limited to all windows, glass, doors, walls and wall finishes, floor covering, heating, ventilating and air conditioning systems, truck doors, dock bumpers, dock plates and levelers, plumbing work and fixtures, downspouts, electrical and lighting systems, and fire sprinklers. Tenant shall at Tenant's expense also perform regular removal of trash and debris. Tenant shall, at Tenant's own expense, enter into a regularly scheduled preventive maintenance/service contract with a maintenance contractor for servicing all hot water, heating and air conditioning systems and equipment within or serving the Premises. The maintenance contractor and the contract must be approved by Landlord. The service contract must include all services suggested by the equipment manufacturer within the operation/maintenance manual and must become effective and a copy thereof delivered to Landlord within thirty (30) days after the Term Commencement Date. Tenant shall not damage any demising wall or disturb the integrity and support provided by any demising wall and shall, at its sole expense, immediately repair any damage to any demising wall caused by Tenant or Tenant's Parties.

ALTERATIONS

12. Tenant shall not make, or allow to be made, any alterations or physical additions in, about or to the Premises without obtaining the prior written

consent of Landlord, which consent shall not be unreasonably withheld with respect to proposed alterations and additions which: (a) comply with all applicable laws, ordinances, rules and regulations; (b) are in Landlord's opinion compatible with the Project and its mechanical, plumbing, electrical, heating/ventilation/air conditioning systems; and (c) will not interfere with the use and occupancy of any other portion of the Building or Project by any other tenant or its invitees. Specifically, but without limiting the generality of the foregoing, Landlord shall have the right of written consent for all plans and specifications for the proposed alterations or additions, construction means and methods, all appropriate permits and licenses, any contractor or subcontractor to be employed on the work

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of alteration or additions, and the time for performance of such work. Tenant shall also supply to Landlord any documents and information reasonably requested by Landlord in connection with Landlord's consideration of a request for approval hereunder. Tenant shall reimburse Landlord for all costs which Landlord may incur in connection with granting approval to Tenant for any such alterations and additions, including any costs or expenses which Landlord may incur in electing to have outside architects and engineers review said plans and specifications. All such alterations, physical additions or improvements shall remain the property of Tenant until termination of this Lease, at which time they shall be and become the property of Landlord if Landlord so elects (except for Tenant's trade fixtures); provided, however, that Landlord may, at Landlord's option, require that Tenant, at Tenant's expense, remove any or all alterations, additions, improvements and partitions made by Tenant and restore the Premises by the termination of this Lease, whether by lapse of time, or otherwise, to their condition existing prior to the construction of any such alterations, additions, partitions or leasehold improvements excepting normal wear and tear. All such removals and restoration shall be accomplished in a good and workmanlike manner so as not to cause any damage to the Premises or Project whatsoever. If Tenant fails to so remove such alterations, additions, improvements and partitions or Tenant's trade fixtures or furniture, Landlord may keep and use them or remove any of them and cause them to be stored or sold in accordance with applicable law, at Tenant's sole expense. In addition to and wholly apart from Tenant's obligation to pay Tenant's Proportionate Share of Basic Operating Cost, Tenant shall be responsible for and shall pay prior to delinquency any taxes or governmental service fees, possessory interest taxes, fees or charges in lieu of any such taxes, capital levies, or other charges imposed upon, levied with respect to or assessed against its personal property, on the value of the alterations, additions or improvements within the Premises, and on Tenant's interest pursuant to this Lease. To the extent that any such taxes are not separately assessed or billed to Tenant, Tenant shall pay the amount thereof as invoiced to Tenant by Landlord.

SIGNS

13. All signs, notices and graphics of every kind or character, visible in or from public view or corridors, the common areas or the exterior of the Premises, shall be subject to Landlord's prior written approval. Tenant shall not place or maintain any banners whatsoever or any window decor in or on any exterior window or window fronting upon any common areas or service area or upon any truck doors or man doors without Landlord's prior written approval. Any installation of signs or graphics on or about the Premises and Project shall be subject to any applicable governmental laws, ordinances, regulations and to any other requirements imposed by Landlord. Tenant shall remove all such signs and graphics prior to the termination of this Lease. Such installations and removals shall be made in such manner as to avoid injury or defacement of the Premises, Building or Project and any other improvements contained therein, and Tenant shall repair any injury or defacement, including without limitation, discoloration caused by such installation or removal.

INSPECTION/POSTING NOTICES

14. After reasonable notice, except in emergencies where no such notice shall be required, Landlord, and Landlord's agents and representatives, shall have the right to enter the Premises to inspect the same, to clean, to perform such work as may be permitted or required hereunder, to make repairs or reasonable alterations to the Premises or Project or to other tenant spaces therein which do not substantially impair Tenant's ability to conduct business in the Premises, to deal with emergencies, to post such notices as may be permitted or required by law to prevent the perfection of liens against Landlord's interest in the Project or to exhibit the Premises to prospective tenants, purchasers, encumbrancers or others, or for any other purpose as Landlord may deem necessary or desirable; provided, however, that Landlord shall use reasonable efforts not to unreasonably interfere with Tenant's business operations. Tenant shall not be entitled to any abatement of Rent by reason of the exercise of any such right of entry. At any time within six (6) months prior to the end of the Term, Landlord shall have the right to erect on the Premises and/or Project a suitable sign indicating that the Premises are available for lease. Tenant shall give written notice to Landlord at least thirty (30) days prior to vacating the Premises and shall meet with Landlord for a joint inspection of the Premises at the time of vacating. In the event of Tenant's failure to give such notice or participate in such joint inspection, Landlord's inspection at or after Tenant's vacating the Premises shall conclusively be deemed correct for purposes of determining Tenant's responsibility for repairs and restoration.

UTILITIES

15. Tenant shall pay directly for all water, gas, heat, air conditioning, light, power, telephone, sewer, sprinkler charges and other utilities and services used on or from the Premises, together with any taxes, penalties,

surcharges or the like pertaining thereto, and maintenance charges for utilities and shall furnish all electric light bulbs, ballasts and tubes. If any such services are not separately metered to Tenant, Tenant shall pay a reasonable proportion, as determined by Landlord, of all charges jointly serving other premises. Landlord acknowledges that Tenant's use may increase Tenant's reasonable share of certain expenses, such as utilities, which shall be reasonably determined by Landlord according to the increase in average utilities after Tenant's occupancy of the Premises provided other tenancies in the Project remain reasonably constant. Landlord shall not be liable for any damages directly or indirectly resulting from nor shall the Rent or any monies owed Landlord under this Lease herein reserved be abated by reason of: (a) the installation, use or interruption of use of any equipment used in connection with the furnishing of any such utilities or services, provided however, that Landlord shall be liable for damages directly incurred as a result of interruption of service directly caused by Landlord's gross negligence or willful misconduct; (b) the failure to furnish or delay in furnishing any such utilities or services when such failure or delay is caused by acts of God or the elements, labor disturbances of any character, or any other accidents or other conditions beyond the reasonable control of Landlord; or (c) the limitation, curtailment, rationing or restriction on use of water, electricity, gas or any other form of energy or any other service or utility whatsoever serving the Premises or Project. Landlord shall be entitled to cooperate voluntarily and in a reasonable manner with the efforts of national, state or local governmental agencies or utility suppliers in reducing energy or other resource consumption. The obligation to make services available hereunder shall be subject to the limitations of any such voluntary, reasonable program.

SUBORDINATION

16. Without the necessity of any additional document being executed by Tenant for the purpose of effecting a subordination, the Lease shall be subject and subordinate at all times to: (a) all ground leases or underlying leases which may now exist or hereafter be executed affecting the Premises and/or the land upon which the Premises and Project are situated, or both; and (b) any mortgage or deed of trust which may now exist or be placed upon said Project, land, ground leases or underlying leases, or Landlord's interest or estate in any of said items which is specified as security. Notwithstanding the foregoing, Landlord shall have the right to subordinate or cause to be subordinated any such ground leases or underlying leases or any such liens to this Lease. In the event that any ground lease or underlying lease terminates for any reason or

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any mortgage or deed of trust is foreclosed or a conveyance in lieu of foreclosure is made for any reason, Tenant shall, notwithstanding any

subordination, attorn to and become the Tenant of the successor in interest to Landlord at the option of such successor in interest. Within ten (10) days after request by Landlord, Tenant shall execute and deliver any additional documents evidencing Tenant's attornment or the subordination of this Lease with respect to any such ground leases or underlying leases or any such mortgage or deed of trust, in the form requested by Landlord or by any ground landlord, mortgagee, or beneficiary under a deed of trust provided, however, that in connection with such subordination Landlord shall obtain for the benefit of Tenant a non-disturbance agreement in the form acceptable to the party to whose interest Tenant's Lease is subordinated. Notwithstanding anything to the contrary in this Paragraph 16, Landlord's subordination of this Lease shall be conditioned upon there being no material change to the obligation or rights of Landlord and Tenant under the Lease.

FINANCIAL STATEMENTS

17. At the request of Landlord, Tenant shall provide to Landlord Tenant's current financial statement or other information discussing financial worth of Tenant, which Landlord shall use solely for purposes of this Lease and in connection with the ownership, management and disposition of the Project. Landlord shall keep such financial information strictly confidential, showing such information only to those individuals referenced herein.

ESTOPPEL CERTIFICATE

18. Tenant agrees from time to time, within ten (10) days after request of Landlord, to deliver to Landlord, or Landlord's designee, an estoppel certificate stating that this Lease is in full force and effect, the date to which Rent has been paid, the unexpired portion of this Lease, and such other matters pertaining to this Lease as may be reasonably requested by Landlord which to the best of Tenant's knowledge are true as of the date Tenant executes the estoppel certificate. Failure by Tenant to execute and deliver such certificate shall constitute an acceptance of the Premises and acknowledgment by Tenant that the statements included are true and correct without exception. Landlord and Tenant intend that any statement delivered pursuant to this Paragraph may be relied upon by any mortgagee, beneficiary, purchaser or prospective purchaser of the Project or any interest therein. The parties agree that Tenant's obligation to furnish such estoppel certificates in a timely fashion is a material inducement for Landlord's execution of the Lease, and shall be an event of default if Tenant fails to fully comply.

SECURITY DEPOSIT

19. Tenant agrees to deposit with Landlord upon execution of this Lease, a Security Deposit as stated in the Basic Lease Information, which sum shall be held by Landlord, without obligation for interest, as security for the performance of Tenant's covenants and obligations under this Lease. The Security Deposit is not an advance rental deposit or a measure of damages

incurred by Landlord in case of Tenant's default. Upon the occurrence of any event of default by Tenant, Landlord may, from time to time, without prejudice to any other remedy provided herein or provided by law, use such fund to the extent necessary to make good any arrears of Rent or other payments due to Landlord hereunder, and any other damage, injury, expense or liability caused by such event of default, and Tenant shall pay to Landlord, on demand, the amount so applied in order to restore the Security Deposit to its original amount. Although the Security Deposit shall be deemed the property of Landlord, any remaining balance of such deposit shall be returned by Landlord to Tenant within thirty (30) days of at such time after termination of this Lease that all of Tenant's obligations under this Lease have been fulfilled. Landlord may use and commingle the Security Deposit with other funds of Landlord.

(See Addendum 2)

TENANT'S REMEDIES

20. The liability of Landlord to Tenant for any default by Landlord under the terms of this Lease are not personal obligations of the individual or other partners, directors, officers and shareholders of Landlord, and Tenant agrees to look solely to Landlord's interest in the Project for the recovery of any amount from Landlord, and shall not look to other assets of Landlord nor seek recourse against the assets of the individual or other partners, directors, officers and shareholders of Landlord. Any lien obtained to enforce any such judgment and any levy of execution thereon shall be subject and subordinate to any lien, mortgage or deed of trust on the Project.

ASSIGNMENT AND SUBLETTING

21. A. General. Tenant shall not assign or sublet the Premises or any part thereof without Landlord's prior written approval except as provided herein. If Tenant desires to assign this Lease or sublet any or all of the Premises, Tenant shall give Landlord written notice thirty (30) ninety (90) days prior to the anticipated effective date of the assignment or sublease. Landlord shall then have a period of ten (10) thirty (30) days following receipt of such notice to notify Tenant in writing that Landlord elects either: (1) to terminate this Lease as to the space so affected as of the date so requested by Tenant; or (2) to permit Tenant to assign this Lease or sublet such space, subject, however, to Landlord's prior written approval of the proposed assignee or subtenant and of any related documents or agreements associated with the assignment or sublease. If Landlord should fail to notify Tenant in writing of such election within said period, Landlord shall be deemed to have waived option (1) above, but written approval by Landlord of the proposed assignee or subtenant shall be required. If Landlord does not exercise the option provided in subitem (1) above, Landlord's consent to a proposed assignment or sublet shall not be unreasonably withheld. Without limiting the other instances in which it may be reasonable for Landlord to withhold Landlord's consent to an assignment or subletting, Landlord and Tenant acknowledge that it shall be

reasonable for Landlord to withhold Landlord's consent in the following instances: The use of the Premises by such proposed assignee or subtenant would not be a permitted use or would increase the Parking Density of the Project; the proposed assignee or subtenant is not of sound financial condition; the proposed assignee or subtenant is a governmental agency; the proposed assignee or subtenant does not have a good reputation as a tenant of property; the proposed assignee or subtenant is a person with whom Landlord is negotiating to lease space in the Project; the assignment or subletting would entail any alterations which would lessen the value of the leasehold improvements in the Premises; or if Tenant is in default of any obligation of Tenant under this Lease, or Tenant has defaulted under this Lease on three (3) or more occasions during any twelve (12) months preceding the date that Tenant shall request consent. Failure by Landlord to approve a proposed assignee or subtenant shall not cause a termination of this Lease. Upon a termination under this Paragraph 21.A., Landlord may lease the Premises to any party, including parties with whom Tenant has negotiated an assignment or sublease, without incurring any liability to Tenant.

B. Bonus Rent. Any Rent or other consideration realized by Tenant under any such sublease or assignment in excess of the Rent payable hereunder, after amortization of a reasonable brokerage commission, shall be divided and paid, fifty percent (50%) ten percent (10%) to Tenant, fifty percent (50%) ninety percent (90%) to Landlord. In any subletting or assignment undertaken by Tenant, Tenant shall

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diligently seek to obtain the maximum rental amount available in the marketplace for such subletting or assignment.

C. Corporation. If Tenant is a corporation, a transfer of corporate shares by sale, assignment, bequest, inheritance, operation of law or other disposition (including such a transfer to or by a receiver or trustee in federal or state bankruptcy, insolvency or other proceedings), so as to result in a change in the present control of such corporation or any of its parent corporations by the person or persons owning a majority of said corporate shares, shall constitute an assignment for purposes of this Lease. Notwithstanding anything in the Lease to the contrary, if Tenant is a corporation, upon at least sixty (60) days prior notice to Owner, this lease in its entirety may be assigned without Owner's consent to a corporation into which Tenant merges or consolidates, or which controls, is controlled by or under common control with Tenant, so long as the demised premises continue to be used for the use described in the Basic Lease Information; the transfer is not principally for the purpose of transferring the leasehold estate created hereby; the net worth of the assignee is at least equal to or in excess of the net worth of Tenant at the time of execution of this lease or immediately prior to such assignment

whichever is less or the assignee can otherwise secure and guaranty the payment to Owner of all rent and any other amounts due from Tenant pursuant to this lease in a manner reasonably satisfactory to Owner; the assignee assumes by documents satisfactory to Owner all of Tenant's obligations to be performed under this lease, and; provided such assignment shall be subject to all of the other terms and conditions of this lease. If Tenant is a corporation, Tenant may sublet all or a portion of the demised premises to an affiliated company which is owned by the same parent company or to its parent company without Owner's consent but with sixty (60) days prior notice.

D. Partnership. If Tenant is a partnership, joint venture or other incorporated business form, a transfer of the interest of persons, firms or entities responsible for managerial control of Tenant by sale, assignment, bequest, inheritance, operation of law or other disposition, so as to result in a change in the present control of said entity and/or a change in the identity of the persons responsible for the general credit obligations of said entity shall constitute an assignment for all purposes of this Lease.

E. Liability. No assignment or subletting by Tenant shall relieve Tenant of any obligation under this Lease. Any assignment or subletting which conflicts with the provisions hereof shall be void.

AUTHORITY OF PARTIES

22. Landlord represents and warrants that it has full right and authority to enter into this Lease and to perform all of Landlord's obligations hereunder. Tenant represents and warrants that it has full right and authority to enter into this Lease and to perform all of Tenant's obligations hereunder.

CONDEMNATION

23. A. Condemnation Resulting in Termination. If the whole or any substantial part of the Project of which the Premises are a part should be taken or condemned for any public use under governmental law, ordinance or regulation, or by right of eminent domain, or by private purchase in lieu thereof, and the taking would prevent or materially interfere with the Permitted Use of the Premises, this Lease shall terminate and the Rent shall be abated during the unexpired portion of this Lease, effective when the physical taking of said Premises shall have occurred.

B. Condemnation Not Resulting in Termination. If a portion of the Project of which the Premises are a part should be taken or condemned for any public use under any governmental law, ordinance, or regulation, or by right of eminent domain, or by private purchase in lieu thereof, and this Lease is not terminated as provided in Paragraph 23.A above, this Lease shall not terminate, but the Rent payable hereunder during the unexpired portion of the Lease shall be reduced, beginning on the date when the physical taking shall have occurred, to such amount as may be fair and

reasonable under all of the circumstances.

C. Award. Landlord shall be entitled to any and all payment, income, rent, award, or any interest therein whatsoever which may be paid or made in connection with such taking or conveyance and Tenant shall have no claim against Landlord or otherwise for the value of any unexpired portion of this Lease. Notwithstanding the foregoing, any compensation specifically awarded Tenant for loss of business, Tenants personal property, moving costs or loss of goodwill, shall be and remain the property of Tenant.

CASUALTY DAMAGE

24. A. General. If the Premises or Building should be damaged or destroyed by fire, tornado or other casualty, Tenant shall give immediate written notice thereof to Landlord. Within thirty (30) days after Landlord's receipt of such notice, Landlord shall notify Tenant whether in Landlord's opinion such repairs can reasonably be made either: (1) within ninety (90) days; (2) in more than ninety (90) days but in less than one hundred eighty (180) days; or (3) in more than one hundred eighty (180) days from the date of such notice. Landlord's determination shall be binding on Tenant.

B. Less Than 90 Days. If the Premises or Building should be damaged by fire, tornado or other casualty but only to such extent that rebuilding or repairs can in Landlord's estimation be reasonably completed within ninety (90) days after the date of such damage, this Lease shall not terminate, and provided that insurance proceeds are available to fully repair the damage, Landlord shall proceed to rebuild and repair the Premises in the manner determined by Landlord, except that Landlord shall not be required to rebuild, repair or replace any part of the partitions, fixtures, additions and other leasehold improvements which may have been placed in, on or about the Premises. If the Premises are untenable in whole or in part following such damage, the Rent payable hereunder during the period in which they are untenable shall be abated proportionately, but only to the extent of rental abatement insurance proceeds received by Landlord during the time and to the extent the Premises are unfit for occupancy.

C. Greater Than 90 Days. If the Premises or Building should be damaged by fire, tornado or other casualty but only to such extent that rebuilding or repairs can in Landlord's estimation be reasonably completed in more than ninety (90) days but in less than one hundred eighty (180) days, then Landlord shall have the option of either: (1) terminating the Lease effective upon the date of the occurrence of such damage, in which event the Rent shall be abated during the unexpired portion of the Lease: or (2) electing to rebuild or repair the Premises to substantially the condition in which they existed prior to such damage, provided that insurance proceeds are available, to fully repair the damage, except that Landlord shall not be required to rebuild, repair or replace any part of the partitions, fixtures, additions and other improvements which may have been placed in, on or about the Premises. If the Premises are untenable in whole or in part following

such damage, the Rent payable hereunder during the period in which they are untenable shall be abated proportionately, but only to the extent of rental abatement insurance proceeds received by Landlord during the time and to the extent the Premises are unfit for occupancy. In the event that Landlord should fail to complete such repairs and rebuilding within one hundred eighty days (180) days after the date upon which Landlord is notified by Tenant of such damage, such period of time to be extended for delays caused by the fault or neglect of Tenant or because of acts of God, acts of public agencies, labor disputes, strikes, fires, freight embargoes, rainy or stormy weather, inability to obtain materials, supplies or fuels, or delays of the contractors or subcontractors or any other causes or contingencies beyond the reasonable control of Landlord, Tenant may at Tenant's option within ten (10) days after the expiration of such one hundred eighty (180) day period (as such may be extended), terminate this Lease by delivering written notice of termination to Landlord as Tenant's exclusive remedy, whereupon all rights hereunder shall cease and terminate thirty (30) days after Landlord's receipt of such termination notice.

D. Greater Than 180 Days. If the Premises or Building should be so damaged by fire, tornado or other casualty that rebuilding or repairs cannot in Landlord's estimation be completed within one hundred eighty (180) days after such damage, this Lease shall terminate and the Rent shall be abated during the unexpired portion of this Lease, effective upon the date of the occurrence of such damage.

E. Tenant's Fault. If the Premises or any other portion of the Building are damaged by fire or other casualty resulting from the fault, negligence, or breach of this Lease by Tenant or any of Tenant's Parties, Base Rent and Additional Rent shall not be diminished during the repair of such damage and Tenant shall be liable to Landlord for the cost and expense of the repair and restoration of the Building caused thereby to the extent such cost and expense is not covered by insurance proceeds.

F. Uninsured Casualty. Notwithstanding anything herein to the contrary, in the event that the Premises or Building are damaged or destroyed and are not fully covered by the insurance proceeds received by Landlord or in the event that the holder of any indebtedness secured by a mortgage or deed of trust covering the Premises requires that the insurance proceeds be applied to such indebtedness, then in either case Landlord shall have the right to terminate this Lease by delivering written notice of termination to Tenant within thirty (30) days after the date of notice to Landlord that said damage or destruction is not fully covered by insurance or such requirement is made by any such holder, as the case may be, whereupon all rights and obligations hereunder shall cease and terminate.

G. Waiver. Except as otherwise provided in this Paragraph 24, Tenant

hereby waives the provisions of Sections 1932(a), 1933(4), 1941 and 1942 of the Civil Code of California.

HOLDING OVER

25. If Tenant shall retain possession of the Premises or any portion thereof without Landlord's consent following the expiration of the Lease or sooner termination for any reason, then Tenant shall pay to Landlord for each day of such retention double triple the amount of the daily rental as of the last month prior to the date of expiration or termination. Tenant shall also indemnify, defend, protect and hold Landlord harmless from any loss, liability or cost, including reasonable attorneys' fees, resulting from delay by Tenant in surrendering the Premises, including, without limitation, any claims made by any succeeding tenant founded on such delay. Acceptance of Rent by Landlord following expiration or termination shall not constitute a renewal of this Lease, and nothing contained in this Paragraph 25 shall waive Landlord's right of reentry or any other right. Unless Landlord consents in writing to Tenant's holding over, Tenant shall be only a Tenant at sufferance, whether or not Landlord accepts any Rent from Tenant while Tenant is holding over without Landlord's written consent. Additionally, in the event that upon termination of the Lease, Tenant has not fulfilled its obligation with respect to repairs and cleanup of the Premises or any other Tenant obligations as set forth in this Lease, then Landlord shall have the right to perform any such obligations as it deems necessary at Tenant's sole cost and expense, and any time required by Landlord to complete such obligations shall be considered a period of holding over and the terms of this Paragraph 25 shall apply.

DEFAULT

26. A. Events of Default. The occurrence of any of the following shall constitute an event of default on the part of Tenant:
- (1) Abandonment. Abandonment of the Premises for a continuous period in excess of thirty (30) five (5) days other than in connection with Tenant's active marketing of the Premises for sublease or in connection with Tenant's vacating the Premises during the final four (4) months of the Lease. Tenant waives any right to notice Tenant may have under Section 1951.3 of the Civil Code of the State of California, the terms of this Paragraph 26.A being deemed such notice to Tenant as required by said Section 1951.3.
 - (2) Nonpayment of Rent. Failure to pay any installment of Rent or any other amount due and payable hereunder upon the date when said payment is due.
 - (3) Other Obligations. Failure to perform any obligation, agreement or covenant under this Lease other than those matters specified in subparagraphs (1) and (2) of this Paragraph 26.A., such failure continuing for fifteen (15) days after written notice of such failure.

(4) General Assignment. A general assignment by Tenant for the benefit of creditors.

(5) Bankruptcy. The filing of any voluntary petition in bankruptcy by Tenant, or the filing of an involuntary petition by Tenant's creditors, which involuntary petition remains undischarged for a period of thirty (30) days. In the event that under applicable law the trustee in bankruptcy or Tenant has the right to affirm this Lease and continue to perform the obligations of Tenant hereunder, such trustee or Tenant shall, in such time period as may be permitted by the bankruptcy court having jurisdiction, cure all defaults of Tenant hereunder outstanding as of the date of the affirmance of this Lease and provide to Landlord such adequate assurances as may be necessary to ensure Landlord of the continued performance of Tenant's obligations under this Lease .

(6) Receivership. The employment of a receiver to take possession of substantially all of Tenant's assets or the Premises, if such appointment remains undismissed or undischarged for a period of ten (10) days after the order therefor.

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(7) Attachment. The attachment, execution or other judicial seizure of all or substantially all of Tenant's assets or the Premises, if such attachment or other seizure remains undismissed or undischarged for a period of ten (10) days after the levy thereof.

B. Remedies Upon Default.

(1) Termination. In the event of the occurrence of any event of default, Landlord shall have the right to give a written termination notice to Tenant, and on the date specified in such notice, Tenant's right to possession shall terminate, and this Lease shall terminate unless on or before such date all arrears of rental and all other sums payable by Tenant under this Lease and all costs and expenses incurred by or on behalf of Landlord hereunder shall have been paid by Tenant and all other events of default of this Lease by Tenant at the time existing shall have been fully remedied to the satisfaction of Landlord. At any time after such termination, Landlord may recover possession of the Premises or any part thereof and expel and remove therefrom Tenant and any other person occupying the same, by any lawful means, and again repossess and enjoy the Premises without prejudice to any of the remedies that Landlord may have under this Lease, or at law or equity by reason of Tenant's default or of such termination.

(2) Continuation After Default. Even though an event of default may have occurred, this Lease shall continue in effect for so long as Landlord does not terminate Tenant's right to possession under Paragraph 26.B(1) hereof,

and Landlord may enforce all of Landlord's rights and remedies under this Lease, including without limitation, the right to recover Rent as it becomes due, and Landlord, without terminating this Lease, may exercise all of the rights and remedies of a landlord under Section 1951.4 of the Civil Code of the State of California or any successor code section. Acts of maintenance, preservation or efforts to lease the Premises or the appointment of a receiver upon application of Landlord to protect Landlord's interest under this Lease shall not constitute an election to terminate Tenant's right to possession.

C. Damages After Default. Should Landlord terminate this Lease pursuant to the provisions of Paragraph 26.B(1) hereof, Landlord shall have the rights and remedies of a Landlord provided by Section 1951.2 of the Civil Code of the State of California, or successor code sections. Upon such termination, in addition to any other rights and remedies to which Landlord may be entitled under applicable law, Landlord shall be entitled to recover from Tenant: (1) the worth at the time of award of the unpaid Rent and other amounts which had been earned at the time of termination, (2) the worth at the time of award of the amount by which the unpaid Rent which would have been earned after termination until the time of award exceeds the amount of such Rent loss that Tenant proves could have been reasonably avoided; (3) the worth at the time of award of the amount by which the unpaid Rent for the balance of the Term after the time of award exceeds the amount of such Rent loss that the Tenant proves could be reasonably avoided; and (4) any other amount necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform Tenant's obligations under this Lease or which, in the ordinary course of things, would be likely to result therefrom. The "worth at the time of award" of the amounts referred to in (1) and (2), above shall be computed at the lesser of the "prime rate," as announced from time to time by Wells Fargo Bank, N.A. (San Francisco), plus five (5) percentage points, or the maximum interest rate allowed by law ("Applicable Interest Rate'). The worth at the time of award" of the amount referred to in (3) above shall be computed by discounting such amount at the Federal Discount Rate of the Federal Reserve Bank of San Francisco at the time of the award.

D. Late Charge. If any installment of Rent is not paid promptly when due, such amount shall bear interest at the Applicable Interest Rate from the date on which said payment shall be due until the date on which Landlord shall receive said payment. In addition, Tenant shall pay Landlord a late charge equal to five percent (5%) of the delinquency, to compensate Landlord for the loss of the use of the amount not paid and the administrative costs caused by the delinquency, the parties agreeing that Landlord's damage by virtue of such delinquencies would be difficult to compute and the amount stated herein represents a reasonable estimate thereof. This provision shall not relieve Tenant of Tenant's obligation to pay Rent at the time and in the manner herein specified.

E. Remedies Cumulative. All rights, privileges and elections or remedies of the parties are cumulative and not alternative, to the extent permitted by law and except as otherwise provided herein.

LIENS

27. Tenant shall keep the Premises free from liens arising out of or related to work performed, materials or supplies furnished or obligations incurred by Tenant or in connection with work made, suffered or done by or on behalf of Tenant in or on the Premises or Project. In the event that Tenant shall not, within ten (10) days following the imposition of any such lien, cause the same to be released of record by payment or posting of a proper bond, Landlord shall have, in addition to all other remedies provided herein and by law, the right, but not the obligation, to cause the same to be released by such means as Landlord shall deem proper, including payment of the claim giving rise to such lien. All sums paid by Landlord on behalf of Tenant and all expenses incurred by Landlord in connection therefor shall be payable to Landlord by Tenant on demand with interest at the Applicable Interest Rate. Landlord shall have the right at all times to post and keep posted on the Premises any notices permitted or required by law, or which Landlord shall deem proper, for the protection of Landlord, the Premises, the Project and any other party having an interest therein, from mechanics' and materialmen's liens, and Tenant shall give Landlord not less than ten (10) business days prior written notice of the commencement of any work in the Premises or Project which could lawfully give rise to a claim for mechanics' or materialmen's liens.

SUBSTITUTION

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TRANSFERS BY LANDLORD

29. In the event of a sale or conveyance by Landlord of the Building or a foreclosure by any creditor of Landlord, the same shall operate to release Landlord from any liability upon any of the covenants or conditions, express or implied, herein contained in favor of Tenant, to the extent required to be performed after the passing of title to Landlord's successor-in-interest. In such event, Tenant agrees to look solely to the responsibility of the successor-in-interest of Landlord under this Lease with respect to the performance of the covenants and duties of "Landlord" to be performed after the passing of title to Landlord's successor-in-interest. This Lease shall not be affected by any such sale and Tenant agrees to attorn to the purchaser or assignee. Landlord's successor(s)-in-interest shall not have liability to Tenant with respect to the failure to perform all of the obligations of "Landlord", to the extent required to be performed prior to the date such successor(s)-in-interest became the owner of the Building.

RIGHT OF LANDLORD TO PERFORM TENANT'S COVENANTS

30. All covenants and agreements to be performed by Tenant under any of the terms of this Lease shall be performed by Tenant at Tenant's sole cost and expense and without any abatement of Rent. If Tenant shall fail to pay any sum of money, other than Base Rent and Basic Operating Cost, required to be paid by Tenant hereunder or shall fail to perform any other act on Tenant's part to be performed hereunder, and such failure shall continue for five (5) days after notice thereof by Landlord, Landlord may, but shall not be obligated to do so, and without waiving or releasing Tenant from any obligations of Tenant, make any such payment or perform any such act on Tenant's part to be made or performed. All sums, so paid by Landlord and all necessary incidental costs together with interest thereon at the Applicable Interest Rate from the date of such payment by Landlord shall be payable to Landlord on demand, and Tenant covenants to pay such sums, and Landlord shall have, in addition to any other right or remedy of Landlord, the same right and remedies in the event of the non-payment thereof by Tenant as in the case of default by Tenant in the payment of Base Rent and Basic Operating Cost.

WAIVER

31. If either Landlord or Tenant waives the performance of any term, covenant or condition contained in this Lease, such waiver shall not be deemed to be a waiver of any subsequent breach of the same or any other term, covenant or condition contained herein. The acceptance of Rent by Landlord shall not constitute a waiver of any preceding breach by Tenant of any term, covenant or condition of this Lease, regardless of Landlord's knowledge of such preceding breach at the time Landlord accepted such Rent. Failure by Landlord to enforce any of the terms, covenants or conditions of this Lease for any length of time shall not be deemed to waive or to decrease the right of Landlord to insist thereafter upon strict performance by Tenant. Waiver by Landlord of any term, covenant or condition contained in this Lease may only be made by a written document signed by Landlord.

NOTICES

32. Each provision of this Lease or of any applicable governmental laws, ordinances, regulations and other requirements with reference to sending, mailing or delivery of any notice or the making of any payment by Landlord or Tenant to the other shall be deemed to be complied with when and if the following steps are taken:
- A. Rent. All Rent and other payments required to be made by Tenant to Landlord hereunder shall be payable to Landlord at the address set forth in the Basic Lease Information, or at such other address as Landlord may specify from time to time by written notice delivered in accordance herewith. Tenants obligation to pay Rent and any other amounts to Landlord under the terms of this Lease shall not be deemed satisfied until such Rent and other amounts have been actually received by Landlord.

B. Other. All notices, demands, consents and approvals which may or are required to be given by either party to the other hereunder shall be in writing and either personally delivered, sent by commercial overnight courier, or mailed, certified or registered, postage prepaid, and addressed to the party to be notified at the address for such party as specified in the Basic Lease Information or to such other place as the party to be notified may from time to time designate by at least fifteen (15) days notice to the notifying party. Notices shall be deemed served upon receipt or refusal to accept delivery. Tenant appoints as its agent to receive the service of all default notices and notice of commencement of unlawful detainer proceedings the person in charge of or apparently in charge of occupying the Premises at the time, and, if there is no such person, then such service may be made by attaching the same on the main entrance of the Premises.

ATTORNEYS' FEES

33. In the event that Landlord places the enforcement of this Lease, or any part thereof, or the collection of any Rent due, or to become due hereunder, or recovery of possession of the Premises in the hands of an attorney, Tenant shall pay to Landlord, upon demand, Landlord's reasonable attorneys' fees and court costs. In any action which Landlord or Tenant brings to enforce its respective rights hereunder, the unsuccessful party shall pay all costs incurred by the prevailing party including reasonable attorneys' fees, to be fixed by the court, and said costs and attorneys' fees shall be a part of the judgment in said action.

SUCCESSORS AND ASSIGNS

34. This Lease shall be binding upon and inure to the benefit of Landlord, its successors and assigns, and shall be binding upon and inure to the benefit of Tenant, its successors, and to the extent assignment is approved by Landlord hereunder, Tenant's assigns.

FORCE MAJEURE

35. Whenever a period of time is herein prescribed for action to be taken by Landlord, Landlord shall not be liable or responsible for, and there shall be excluded from the computation for any such period of time, any delays due to strikes, riots, acts of God, shortages of labor or materials, war, governmental laws, regulations or restrictions or any other causes of any kind whatsoever which are beyond the control of Landlord.

BROKERAGE COMMISSION

36. Landlord shall pay a brokerage commission to Broker in accordance with a separate agreement between Landlord and Broker. Tenant warrants to Landlord that Tenant's sole contact with Landlord or with the Premises in connection with this transaction has been directly with Landlord and Broker(s) as noted in the Basic Lease Information, and that no other broker or finder can properly claim a right to a commission or a finder's fee

based upon contacts between the claimant and Tenant with respect to Landlord or the Premises.

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Tenant shall indemnify, defend by counsel acceptable to Landlord, protect and hold Landlord harmless from and against any loss, cost or expense, including, but not limited to, attorneys' fees and costs, resulting from any claim for a fee or commission by any broker or finder in connection with the Premises and this Lease other than Broker.

MISCELLANEOUS

37. A. General. The term 'Tenant' or any pronoun used in place thereof shall indicate and include the masculine or feminine, the singular or plural number, individuals, firms or corporations, and their respective successors, executors, administrators and permitted assigns, according to the context hereof.
- B. Time. Time is of the essence regarding this Lease and all of its provisions.
- C. Choice of Law. This Lease shall in all respects be governed by the laws of the State of California.
- D. Entire Agreement. This Lease, together with its Exhibits, contains all the agreements of the parties hereto and supersedes any previous negotiations. There have been no representations made by the Landlord or understandings made between the parties other than those set forth in this Lease and its exhibits.
- E. Modification. This Lease may not be modified except by a written instrument by the parties hereto.
- F. Severability. If, for any reason whatsoever, any of the provisions hereof shall be unenforceable or ineffective, all of the other provisions shall be and remain in full force and effect.
- G. Recordation. Tenant shall not record this Lease or a short form memorandum hereof.
- H. Examination of Lease. Submission of this Lease to Tenant does not constitute an option or offer to lease and this Lease is not effective otherwise until execution and delivery by both Landlord and Tenant.
- I. Accord and Satisfaction. No payment by Tenant of a lesser amount than the Rent nor any endorsement on any check or letter accompanying any check or payment of Rent shall be deemed an accord and satisfaction of full

payment of Rent, and Landlord may accept such payment without prejudice to Landlord's right to recover the balance of such Rent or to pursue other remedies.

J. Easements. Landlord may grant easements on the Project and dedicate for public use portions of the Project without Tenant's consent; provided that no such grant or dedication shall substantially interfere with Tenant's use of the Premises. Upon Landlord's demand, Tenant shall execute, acknowledge and deliver to Landlord documents, instruments, maps and plats necessary to effectuate Tenant's covenants hereunder.

K. Drafting and Determination Presumption. The parties acknowledge that this Lease has been agreed to by both the parties, that both Landlord and Tenant have consulted with attorneys with respect to the terms of this Lease and that no presumption shall be created against Landlord because Landlord drafted this Lease.

L. Exhibits. Exhibits A and B attached hereto are hereby incorporated herein by this reference.

M. No Light, Air or View Easement. Any diminution or shutting off of light, air or view by any structure which may be erected on lands adjacent to or in the vicinity of the Building shall in no way affect this Lease or impose any liability on Landlord.

N. No Third Party Benefit. This Lease is a contract between Landlord and Tenant and nothing herein is intended to create any third party benefit.

ADDITIONAL PROVISIONS

38. Paragraphs 39 through 44 and Addendums 1 and 2 and Exhibits A and B are attached hereto and made a part thereof.

39. Base Rent: Rent for the Premises shall be as follows:

Months 1 - 30: \$4,836 per month
Months 31 - 60: \$5,059 per month

40. Tenant Improvements:

Tenant accepts the Premises, including the Building, the underlying land and the Common Areas, in their present conditions, AS-IS, including latent defects, without any representations or warranties, expressed or implied, except as expressly set forth in this Lease. Landlord shall have no obligation to perform any alterations, additions or improvements to the Premises to prepare the same for Tenant's occupancy or, except as expressly set forth below, to pay for any improvements to the Premises made by Tenant to prepare the Premises for Tenant's occupancy.

Tenant agrees, at Tenant's sole cost and expense, to install all improvements necessary and appropriate for the conduct of the business in the Premises contemplated by the Lease (the "Tenant Improvements"). The Tenant Improvements shall be performed in accordance with all Applicable Laws, including ADA and Title 24 requirements, and the requirements of all carriers of insurance on the Premises and the Board of Underwriters, Fire Rating Bureau, or similar organization. The Tenant Improvements shall be shown on final working drawings submitted to and approved by Landlord (which approval shall not be unreasonably withheld or delayed), and any changes from such working drawings shall be submitted to and approved by Landlord (which approval shall not be unreasonably withheld or delayed). The Tenant Improvements shall be performed in a good and workmanlike manner, and diligently prosecuted to completion to the end that the improvements on the Premises shall at all times be a complete unit except during the period of work. Upon completion of the Tenant Improvements, Tenant shall deliver to Landlord as-built plans thereof.

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Upon completion of the Tenant Improvements, as approved by Landlord and certified as complete by Tenant's architect, Landlord shall reimburse Tenant for Tenant Improvements in an amount not to exceed \$26,040.00 (which amount is \$3.50 per square foot of the agreed area of the Building) ("Landlord's Contribution"). As a condition to Landlord's disbursement of Landlord's Contribution, Tenant shall provide Landlord with invoices for the work done to the Premises, and statutory lien waivers and releases upon final payment, satisfactory to Landlord, for all work performed. In the event that the cost of the Tenant improvements is less than Landlord's Contribution as set forth above, Landlord's Contribution shall be reduced accordingly. Landlord's Contribution may be used solely for the Tenant Improvements, and may not be applied to Tenants moving expenses, costs of furniture, equipment or other personal property, toward Tenant's rent obligations under this Lease or toward the costs of any subsequent alterations made by Tenant to or upon the Premises. Tenant shall use commercially reasonable efforts to complete the Tenant Improvements in an expeditious manor, provided that Tenant acknowledges that the Lease commences pursuant to Paragraph 2.B.

Within thirty (30) days after execution of this Lease, Tenant shall prepare and deliver to Landlord plans and specifications for its initial improvements to the Premises (the "Plans"). Landlord shall not unreasonably withhold its approval, and shall within five (5) business days after receipt of the Plans, deliver its response to Tenant in writing, either approving the Plans or noting specifically those items it disapproves. If Landlord disapproves any aspect of the Plans, the parties shall negotiate in good faith to revise the Plans to meet with Landlord's reasonable approval.

41. Early Occupancy: To the extent Tenant Improvements are completed prior to -----
one hundred twenty (120) days following full lease execution, Tenant shall have up to thirty (30) days of early occupancy free of Base Rent and Basic Operating Costs. Tenant shall perform all duties and obligations imposed by this Lease, including, but not limited to, those provisions relating to insurance and indemnification, saving and excepting only the obligation to pay Base Rent and Basic Operating Costs which obligation shall commence at the time specified in Paragraph 2(B). Notwithstanding anything to the contrary in this Paragraph 41, the Lease shall commence and Tenant shall begin paying Rent no later than November 1, 1996.

42. Option to Renew: Tenant shall have an option to re-lease the Premises in -----
"as is" condition for a term of five (5) years at 95% of the then current market rent for comparable warehouse space in the proximate San Francisco market area on the terms and conditions of the Lease. The definition of comparable warehouse space shall incorporate the parking amenities of the Premises, and the Building's location, age, quality, amenities, identity, exterior appearance, interior improvements, and type of construction. If Tenant had been in default under this Lease prior to the exercise date of this option to re-lease the Premises, Tenant shall forfeit all of its rights under this Paragraph 42, provided however, that Tenant's late payment of rent by not more than twenty (20) days on no more than three (3) occasions shall not terminate this Option to Renew.

Tenant shall give Landlord written notice of its intent to exercise its option at least one hundred eighty (180) days but not more than two hundred seventy (270) days prior to the expiration of the current lease term. Within fifteen (15) days after Tenant exercises its option to re-lease, Landlord will provide Tenant with Landlord's current market rental, as determined by Landlord, as well as terms and conditions for the extended term. The parties are obligated to negotiate in good faith to agree on the market rental rate. If the parties have not mutually agreed on the market rental within forty-five (45) days from notification by Landlord to Tenant of Landlord's rental determination, each party hereto shall appoint one representative who shall be a licensed real estate broker experienced in the leasing of comparable warehouse space in the County of Alameda to act as an arbitrator. The two (2) arbitrators so appointed shall determine the current rental value for comparable warehouse space for the subsequent sixty (60) months pursuant to the terms and conditions of the Lease and of the option period. The determination of said current rental value shall be made by said two (2) arbitrators within ninety (90) days from notification by Landlord to Tenant of Landlord's rental determination and they shall submit said determination in writing and signed by said arbitrators in duplicate. One of the written notifications shall be delivered to Landlord and the other to Tenant.

In the event the two (2) arbitrators of the parties hereto cannot agree on the current rental value for the Premises herein, said two (2) arbitrators

shall appoint a third arbitrator who shall be a licensed real estate broker experienced in the leasing of comparable warehouse space in the County of Alameda to act as an arbitrator. The current rental value for comparable warehouse space for the subsequent sixty (60) month period shall be independently determined by the third of said arbitrators, which said determination shall be made within one hundred twenty (120) days from notification by Landlord to Tenant of Landlord's rental determination. The role of the third arbitrator shall then be to immediately select from the proposed resolutions of arbitrators #1 and #2 the one that most closely approximates the third arbitrator's determination of market rental value. The third arbitrator shall have no right to adopt a compromise or middle ground or any modification of either of the two final proposed resolutions. The resolution the third arbitrator chooses as mostly closely approximating his determination of the question in issue shall constitute the decision and award of the arbitrators and be final and binding upon the parties.

The parties hereto shall pay the charges of the arbitrator appointed by him and any expenses incurred by such arbitrator. The charges and expenses of the third arbitrator, as provided herein, shall be paid by the parties hereto in equal shares.

In the event either arbitrator #1 or arbitrator #2 fails to present a market rental figure within the forty-five (45) day period, the rental presented by the other arbitrator shall be considered final and binding on both parties.

In the event the third arbitrator fails to present a current market rent within the thirty (30) day period, then by mutual consent of Landlord and Tenant:

- (a) The time period shall be extended, or
- (b) If Landlord or Tenant do not wish to extend the period, a fourth arbitrator shall be selected by arbitrator #1 and arbitrator #2 and a new thirty (30) day period shall begin.

Notwithstanding anything to the contrary herein contained, Tenants right to extend the term by exercise of the foregoing option shall be conditioned upon the following: (i) at the time of the exercise of the option, and at the time of the commencement of the extended term, Tenant shall be in possession of and occupying the

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Premises for the conduct of its business therein and the same shall not be occupied by any assignee, subtenant or licensee, the option to extend being applicable hereunder only with respect to so much of the Premises as is actually occupied by Tenant; and (ii) the notice of exercise shall

constitute a representation by Tenant to Landlord effective as of the date of the exercise and as of the date of commencement of the extended term, that Tenant does not intend to seek to assign the Lease in whole or in part, or sublet all or any portion of the Premises, the election to extend the term being for purposes of utilizing the Premises for Tenant's purposes in the conduct of Tenant's business therein; however, such notice shall not be deemed a waiver of Tenant's rights hereunder to assign or sublet.

43. Right of First Offering: Tenant shall have a one-time Right of First

Offering to lease the adjacent 7,440 square foot space located at 225 Mendell Street and/or the adjacent 7,440 square foot space located at 275 Mendell Street. Upon Landlord learning that either 225 or 275 Mendell Street are becoming available, Landlord shall give Tenant notice of said availability. Tenant shall have five (5) business days from the date of such notice to exercise Tenant's Right of First Offering, which such notice shall include the Rent Tenant is willing to pay on an as-is basis for such space. If Tenant does not exercise this Right of First Offering, or if the Rent Tenant has offered is unacceptable to Landlord, Landlord shall be free to lease the premises to any third party. Tenant shall forfeit all of its rights under this Paragraph 43 upon the date that the premises of 225 Mendell Street and 275 Mendell Street are leased to any third party.

44. Quiet Enjoyment: Landlord covenants to Tenant that, so long as Tenant is

not in default under this Lease beyond any applicable cure period, Tenant shall have quiet enjoyment of the Premises and all of the rights granted hereunder without interference by Landlord or anyone acting by, through or under Landlord, subject, however, to the exceptions, reservations and conditions of this Lease.

Addendum 1

Paragraph 4.C. Compliance with Regulations: Notwithstanding anything to

the contrary in this Lease, should Tenant be unable to obtain the necessary use permit(s) for the Permitted Use by any governmental agency, Tenant shall have the right to terminate this Lease five (5) business days following the date Tenant provides Landlord: (i) written notification of its intent to terminate the Lease, and (ii) a cashier's check in the amount of (a) \$34,056 (six (6) months Rent) plus (b) all or any portion of the Landlord's Contribution which has been paid to Tenant plus (c) any out-of-pocket expenses incurred by Landlord in connection with this Lease including, but not limited to, any commissions or legal fees paid by Landlord.

Once obtained, Tenant shall provide Landlord with a copy of any applicable occupancy or business permit. Upon receipt by Landlord of such permit, the terms of this Addendum 1 shall become null and void and shall not affect any other terms of this Lease.

Paragraph 19. Security Deposit: Notwithstanding anything to the contrary

in this Paragraph 19, Tenant shall provide a Security Deposit of \$27,996 upon full lease execution. Provided Tenant is not then, and has not been, in default of the Lease during the first six (6) months, \$22,320 shall be returned to Tenant and \$5,676 shall remain in Landlord's possession as Security Deposit for the remainder of the Lease. If Tenant defaults during the first six (6) months and cures such default within thirty (30) days, or if a non-monetary default is not reasonably curable within thirty (30) days and Tenant commences action within thirty (30) days and diligently pursues such cure to its completion within an acceptable period of time as reasonably determined by Landlord, Landlord shall return the \$22,320 to Tenant upon such cure, less any out of pocket expenses (including attorney fees) Landlord incurs in connection with such default.

IN WITNESS WHEREOF, the parties hereto have executed this Lease the day and year first above written.

"Landlord"

Kifer/Mendell/Industrial Way II
Associates Limited Partnership,
a California Limited Partnership

By: /s/ Albert W. Sandell

Albert W. Sandell
Trammell Crow NW, Inc.

Its.: Executive Vice President as Agent

"Tenant

Briazz, Inc., a Washington corporation

By: /s/ Victor D. Alhadeff

Victor Alhadeff

Its.: President

[Initials]

Exhibit A

[Site Plan]

[Initials]

Exhibit B

[Initials]

AMENDMENT TO LEASE

This AMENDMENT TO LEASE made this 25th day of May, 2000, by and between MISSION-TAYLOR PROPERTIES, A CALIFORNIA LIMITED PARTNERSHIP, LESSOR, (FORMERLY KIFER/MENDELL INDUSTRIAL WAY II ASSOCIATES LIMITED PARTNERSHIP, a California Limited Partnership) and BRIAZZ, INC., A WASHINGTON CORPORATION, LESSEE, hereinafter respectively called "Lessor" and "Lessee."

WITNESSETH

1. On June 28, 1996, a Lease was executed by and between Kifer/Mendell Industrial Way II Associates Limited Partnership, A California Limited Partnership, (Currently Mission-Taylor Properties, A California Limited Partnership) Lessor, and Briazz, Inc., a Washington Corporation, Lessee, for those certain premises commonly known and designated as 255 Mendell Street, San Francisco, CA.
2. The parties do hereby agree to:
 - a) Increase the rentable square footage by 500 square feet as Lessee agrees to lease a portion of 275 Mendell Street, San Francisco, CA. The new total square footage commencing July 1, 000 is 7,940 square feet.
 - b) Paragraph 39 [initials] is amended with the new monthly rent payable to Lowenberg Corporation as follows:

The sum of FIVE THOUSAND FIVE HUNDRED FIFTY-NINE AND 00/100 (\$5,559.00) commencing on the first day of July, 2000 and continuing on the first day of each and every month thereafter to and including the first day of October 2001.
 - c) Paragraphs 6(b), 7, 8, 10 and 15 of Lease dated June 28, 1996 shall be amended to reflect this increase in square footage by increasing Lessee's percentage of occupancy and pro-rate share to 12.27% of all expenses outlined in the paragraphs above.
3. All other terms and conditions of the above Lease shall remain the same.

IN WITNESS WHEREOF, the undersigned "Lessor" and "Lessee" has executed these presents the day and year first above mentioned.

LESSOR:
MISSION-TAYLOR PROPERTIES,

LESSEE:
BRIAZZ, INC.,

A CALIFORNIA LIMITED PARTNERSHIP

A WASHINGTON CORPORATION

By: /s/ William J. Lowenberg

William J. Lowenberg

By: /s/ Victor D. Alhadeff

Victor Alhadeff

AMERICAN INDUSTRIAL REAL ESTATE ASSOCIATION

STANDARD INDUSTRIAL/COMMERCIAL SINGLE-TENANT LEASE - NET
(DO NOT USE THIS FORM FOR MULTI-TENANT BUILDINGS)

1. Basic Provisions ("Basic Provisions").

1.1 Parties. This Lease ("Lease"), dated for reference purposes only, December 15, 1997, is made by and between TIME REALTY INVESTMENTS, INC. - a ----- California corporation, Fred W. Plotke - Pres./CEO Business Address: 1511 - ----- 18/th/ Street, Santa Monica, California 90404 ("Lessor") and BRIAZZ, INC. - a ----- Washington corporation, James A. McDermet is President/CEO (on 12/15/97) Main ----- Address: 1011 SW Klickitat Way - Suite 202, Seattle, Washington 98134 Phone: ----- 206/467-0994 FAX: 206/467-1970 Fed. Tax ID #91-1672311 ("Lessee"), ----- (collectively the "Parties," or individually a "Party").

1.2. Premises. That certain property, including all improvements therein or to be provided by Lessor under the terms of this Lease, and commonly known as 200 Center Street, El Segundo, California 90245 (APN #4139-005-034 & APN #4139- ----- 005-035) located in the County of Los Angeles, State of California, and ----- generally described as (describe briefly the nature of the property and, if applicable, the "Project", if the property is located within a Project). A ----- single-story concrete tilt-up type office/industrial building of approximately ----- 14,500 sq. ft. located on 30,000+ sq. ft. industrially zoned lot in the City ----- of El Segundo, CA 90245. The dimensions of the parcel are approx. 215 ft. ----- (NS) X 149 (EW). The building has a fire sprinkler system and has approx. 3000 ----- sq. ft. of office space including three (3) bathrooms. Description is in its ----- present configuration. It is anticipated that the Lessee will make ----- modifications, as set forth on Exhibit II. ("Premises"). (See also Paragraph 2) -----

1.3 Term. Four Years (48 mos) years and --- months ("Original Term") ----- commencing 3/1/1998 ("Commencement Date") and ending 2/28/2002 ("Expiration ----- Date"). (See also Paragraph 3).

1.4 Early Possession. On or about 3/1/98 ("Early Possession Date") (See ----- also Paragraph 3.2)

Base Rent. \$9500.00 per month ("Base Rent"), payable on the First day of -----

each month commencing May 1, 1998 (5/1/98) (See also Paragraph 4)

[] If this box is checked, there are provisions in this Lease for the Base Rent to be adjusted. A special one-time rate of \$4,750 shall apply for any occupancy prior to May 1, 1998.

1.6 Base Rent Paid Upon Execution. \$4,750.00 for the period prior to 5/1/98 (See Para. #50 of ADDENDUM)

1.7 Security Deposit. \$15,000.00 ("Security Deposit"). (See also Paragraph 5)

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1.8 Agreed Use. Commissary facility for a group of sandwich shops and fast-food kiosks operated by BRIAZZ, INC. and its permitted transferees, and related business activities. (See also Paragraph 6)

1.9 Insuring Party. Lessor is the "Insuring Party" unless otherwise stated herein. (See also Paragraph 8). By mutual agreement, the parties may change the Insuring Party.

1.10 Real Estate Brokers. (See also Paragraph 15)

(a) Representation. The following real estate brokers (collectively, the "Brokers") and brokerage relationships exist in this transaction (check applicable boxes):

- [] represents Lessor exclusively ("Lessor's Broker");
[] represents Lessee exclusively ("Lessee's Broker"); or
[X] Richard Kato - ALCOM, Inc., 268 N. Lincoln Ave. 278, Corona, CA 91720

represents both Lessor and Lessee ("Dual Agency"). Lessor will pay all commissions owing to said party.

(b) Payment to Brokers. Upon execution and delivery of this Lease by both Parties, Lessor shall pay to the Broker the fee agreed to in their separate written agreement (or if there is no such agreement, the sum of ---% of the total Base Rent for the brokerage services rendered by said Broker). Separate Agreement with Lessor.

1.11 Guarantor. The obligations of the Lessee under this Lease are to be guaranteed by N.A. ("Guarantor"). (See also Paragraph 37)

1.12 Addenda and Exhibits. Attached hereto is an Addendum or Addenda consisting of Paragraphs #50 through #57 and Exhibits EXHIBIT I - Intentionally Deleted. EXHIBIT II - DIAGRAM OF PREMISES. EXHIBIT III - Intentionally Deleted, ALL OF WHICH CONSTITUTE A PART OF THIS LEASE.

2. Premises

2.1 Letting. Lessor hereby leases to Lessee, and Lessee hereby leases

from Lessor, the Premises, for the term, at the rental, and upon all of the terms, covenants and conditions set forth in this Lease. Unless otherwise provided herein, any statement of size set forth in this Lease, or that may have been used in calculating rental, is an approximation which the Parties agree is reasonable and the rental based thereon is not subject to revision whether or not the actual size is more or less.

2.2 Condition. Lessor shall deliver the Premises to Lessee broom clean and free of debris on the Commencement Date or the Early Possession Date, whichever first occurs ("Start Date"), and, so long as the required service contracts described in Paragraph 7.1(b) below are obtained by Lessee within ninety (90) days following the Start Date, warrants that the existing electrical, plumbing, fire sprinkler, lighting, heating, ventilating and air conditioning systems ("HVAC"), loading doors, if any, and all other such elements in the Premises, other than those constructed by Lessee, shall be in good operating condition on said date and that the structural elements on the roof, bearing walls and foundation of any buildings on the Premises (the

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"Building") shall be free of material defects. If a non-compliance with said warranty exists as of the Start Date, Lessor shall, as Lessor's sole obligation with respect to such matter, except as otherwise provided in this Lease, promptly after receipt of written notice from Lessee setting forth with specificity the nature and extent of such non-compliance, rectify same at Lessor's expense. If, after the Start Date, Lessee does not give Lessor written notice of any non-compliance with this warranty within: (i) one year as to the surface of the roof and the structural portions of the roof, foundations and bearing walls, (ii) six (6) months as to the HVAC systems, (iii) thirty (30) days as to the remaining systems and other elements of the Building, correction of such non-compliance shall be the obligation of Lessee at Lessee's sole cost and expense. See Addendum Paragraph 52 for modifications to the foregoing.

2.3 Compliance. Lessor warrants that the improvements on the Premises comply with all applicable laws, covenants or restrictions of record, building codes, regulations and ordinances ("Applicable Requirements") in effect on the Start Date. Said warranty does not apply to the use to which Lessee will put the Premises or to any Alterations or Utility Installations (as defined in Paragraph 7.3(a)) made or to be made by Lessee. NOTE: Lessee is responsible for determining whether or not the zoning is appropriate for Lessee's intended use, and acknowledges that past uses of the Premises may no longer be allowed. If the Premises do not comply with said warranty, Lessor shall, except as otherwise provided, promptly after receipt of written notice from Lessee setting forth with specificity the nature and extent of such non-compliance, rectify the same at Lessor's expense. If Lessee does not give Lessor written notice of a non-compliance with this warranty within nine (9) months following the Start Date, correction of that non-compliance shall be the obligation of Lessee at Lessee's sole cost and expense. If the Applicable Requirements are hereafter changed (as opposed to being in existence at the Start Date, which is addressed in (Paragraph 6.2(e) below) so as to require during the term of this Lease the construction of an addition to or an alteration of the Building, the remediation of any Hazardous Substance, or the reinforcement or other physical modification of the building ("Capital Expenditure"), Lessor and Lessee shall allocate the cost of such work as follows:

(a) Subject to Paragraph 2.3(c) below, if such Capital Expenditures are required as a result of the specific and unique use of the Premises by Lessee as compared with uses by tenants in general, Lessee shall be fully responsible for the cost thereof, provided, however that if such Capital Expenditure is required during the last two (2) years of this Lease and the cost thereof exceeds six (6) months' Base Rent, Lessee may instead terminate this

Lease unless Lessor notifies Lessee, in writing, within ten (10) days after receipt of Lessee's termination notice that Lessor has elected to pay the difference between the actual cost thereof and the amount equal to six (6) months' Base Rent. If Lessee elects termination, Lessee shall immediately cease the use of the Premises which requires such Capital Expenditure and deliver to Lessor written notice specifying a termination date at least ninety (90) days thereafter. Such termination date shall, however, in no event be earlier than the last day that Lessee could legally utilize the Premises without commencing such Capital Expenditure. In addition, Lessee's responsibility for any and all capital costs shall be capped at \$60,000 (for the purpose of this Section 2.3(a) only, in any four-year period. Lessor will be responsible for the cost of correcting any noncompliance that exceeds said amount.

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(b) If such Capital Expenditure is not the result of the specific and unique use of the Premises by Lessee (such as, governmentally mandated seismic modifications), the Lessor and lessee shall allocate the obligation to pay for such costs by using the proration formula set forth in Paragraph 7.1(c); provided, however, that if such Capital Expenditure is required during the last two years of this Lease or if Lessor reasonably determines that it is not economically feasible to pay its share thereof, Lessor shall have the option to terminate this Lease upon ninety (90) days prior written notice to Lessee unless Lessee notifies Lessor, in writing, within ten (10) days after receipt of Lessor's termination notice that Lessee will pay for such Capital Expenditure. If Lessor does not elect to terminate, and fails to tender its share of any such Capital Expenditure, Lessee may advance such funds and deduct same, with Interest, from Rent until Lessor's share of such costs have been fully paid. If Lessee is unable to finance Lessor's share, or if the balance of the Rent due and payable for the remainder of this Lease is not sufficient to fully reimburse Lessee on an offset basis, Lessee shall have the right to terminate this Lease upon thirty (30) days written notice to Lessor. In addition, Lessee's responsibility for any and all such capital costs shall be capped at \$50,000 in any four-year period. Lessor will be responsible for the cost of correcting any noncompliance that exceeds said amount, if Lessor elects pay such difference in order to maintain the tenancy hereunder.

(c) Notwithstanding the above, the provisions concerning Capital Expenditures are intended only to apply to non-voluntary, unexpected, and new Applicable Requirements. If Capital Expenditures are instead triggered by Lessee as a result of an actual or proposed change in use from the use described in Section 1.8, a change in intensity of use from the level initially contemplated hereunder, or modification to the Premises occurring after Lessee's initial improvements are completed, then Lessee shall be fully responsible for the cost thereof, and Lessee shall not have any right to terminate this Lease.

(d) INTENTIONALLY DELETED.

2.4 Acknowledgments. Lessee acknowledges that: (a) it has been advised by Lessor and/or Brokers to satisfy itself with respect to the condition of the Premises (including but not limited to the electrical, HVAC and fire sprinkler systems, security, environmental aspects, and compliance with Applicable Requirements), and their suitability for Lessee's intended use, (b) Lessee has made such investigation as it deems necessary with reference to such matters and (except as otherwise provided in Lease) assumes all responsibility therefor as the same relate to its occupancy of the Premises, and (c) neither Lessor, Lessor's agents, nor any Broker has made any oral or written representations or warranties with respect to said matters other than as set forth in this Lease. In addition, Lessor acknowledges that: (a) Broker has made no representations, promises or warranties concerning Lessee's ability to honor the Lease or suitability to occupy the Premises, and (b) it is Lessor's sole responsibility

to investigate the financial capability and/or suitability of all proposed tenants.

2.5 Lessee as Prior Owner/Occupant. The warranties made by Lessor in Paragraph 2 shall be of no force or effect if immediately prior to the Start Date Lessee was the owner or occupant of the Premises. In such event, Lessee shall be responsible for any necessary corrective work.

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3. Term. Also see Para. #50 of ADDENDUM

3.1 Term. The Commencement Date, Expiration Date and Original Term of this Lease are as specified in Paragraph 1.3.

3.2 Early Possession. If Lessee totally or partially occupies the Premises prior to the Commencement Date, the obligation to pay Base Rent, Real Property Taxes, and insurance premiums shall be abated for the period of such early possession. All other terms of this Lease (excluding the obligations to pay Real Property Taxes and insurance premiums and to maintain the Premises) shall, however, be in effect during such period. Any such early possession shall not affect the Expiration Date. Lessee's responsibility to pay real estate taxes and insurance shall commence on 4/15/98.

3.3 Delay in Possession: INTENTIONALLY DELETED

3.4 Lessee Compliance. Lessor shall not be required to tender possession of the Premises to Lessee until Lessee complies with its obligation to provide evidence of insurance (Paragraph 8.5). Pending delivery of such evidence, Lessee shall be required to perform all of its obligations under this Lease from and after the Start Date, including the payment of Rent, notwithstanding Lessor's election to withhold possession pending receipt of such evidence of insurance. Further, if Lessee is required to perform any other conditions prior to or concurrent with the Start Date, the Start Date shall occur but Lessor may elect to withhold possession until such conditions are satisfied.

4. Rent

4.1 Rent Defined. All monetary obligations of Lessee to Lessor under the terms of this Lease (except for the Security Deposit) are deemed to be rent ("Rent").

4.2 Payment. Lessee shall cause payment of Rent to be received by Lessor in lawful money of the United States, without offset or deduction, on or before the day on which it is due. Rent for any period during the term hereof which is for less than one (1) full calendar month shall be prorated based upon the actual number of days of said month. Payment of Rent shall be made to Lessor at its address stated herein or to such other persons or place as Lessor may from time to time designate in writing. Acceptance of a payment which is less than the amount then due shall not be a waiver of Lessor's rights to the balance of such Rent, regardless of Lessor's endorsement of any check so stating.

5. Security Deposit

Lessee shall deposit with Lessor upon execution hereof the Security Deposit as security for Lessee's faithful performance of its obligations under this Lease. If Lessee fails to pay Rent, or otherwise Defaults under this Lease, Lessor may use, apply or retain all or any portion of said Security Deposit for the payment of any amount due Lessor or to reimburse or compensate Lessor for any liability, expense, loss or damage which Lessor may suffer or incur by reason thereof. If Lessor uses or applies all or any portion of said Security

Deposit, Lessee shall within ten (10) days after written request therefor deposit monies with

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Lessor sufficient to restore said Security Deposit to the full amount required by this Lease. Should the Agreed Use be amended to accommodate a material change in the business of Lessee or to accommodate a sublessee or assignee, Lessor shall have the right to increase the Security Deposit to the extent necessary, in Lessor's reasonable judgment, to account for any increased wear and tear that the Premises may suffer as a result thereof. If a change in control of Lessee occurs during this Lease and following such change the financial condition of Lessee is, in Lessor's reasonable judgment, significantly reduced, Lessee shall deposit such additional monies with Lessor as shall be sufficient to cause the Security Deposit to be at a commercially reasonable level based on said change in financial condition. Lessor shall not be required to keep the Security Deposit separate from its general accounts. Within fourteen (14) days after the expiration or termination of this Lease, if Lessor elects to apply the Security Deposit only to unpaid Rent, and otherwise within thirty (30) days after the Premises have been vacated pursuant to Paragraph 7.4(c) below, Lessor shall return that portion of the Security Deposit not used or applied by Lessor. No part of the Security Deposit shall be considered to be held in trust, or to be prepayment for any monies to be paid by Lessee under this Lease. Lessor agrees to pay interest of 4% per annum on the Security Deposit payable on March 1st of each successive year commencing 3/1/99.

6. Use

6.1 Use. Lessee shall use and occupy the Premises only for the Agreed Use, or any other legal use which is reasonably comparable thereto, and for no other purpose. Lessee shall not use or permit the use of the Premises in a manner that is unlawful, creates damage, waste or a nuisance, or that disturbs owners and/or occupants of, or causes damage to neighboring properties. Lessor shall not unreasonably withhold or delay its consent to any written request for a modification of the Agreed Use, so long as the same will not impair the structural integrity of the improvements on the Premises or the mechanical or electrical systems therein, is not significantly more burdensome to the Premises. If Lessor elects to withhold consent, Lessor shall within five (5) business days after such request give written notification of same, which notice shall include an explanation of Lessor's objections to the change in use. Also see Para.#51 of ADDENDUM.

6.2 Hazardous Substances.

(a) Reportable Uses Require Consent. The term "Hazardous Substance" as used in this Lease shall mean any product, substance, or waste whose presence, use, manufacture, disposal, transportation, or release, either by itself or in combination with other materials expected to be on the Premises, is either: (i) potentially injurious to the public health, safety or welfare, the environment or the Premises, (ii) regulated or monitored by any governmental authority, or (iii) a basis for potential liability of Lessor to any governmental agency or third party under any applicable statute or common law theory. Hazardous Substances shall include, but not be limited to, hydrocarbons, petroleum, gasoline, and/or crude oil or any products, by-products or fractions thereof. Lessee shall not engage in any activity in or on the Premises which constitutes a Reportable Use of Hazardous Substances without the express prior written consent of Lessor and timely compliance (at Lessee's expense) with all Applicable Requirements.

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"Reportable Use" shall mean (i) the installation or use of any above or below ground storage tank, (ii) the generation, possession, storage, use, transportation, or disposal of a Hazardous Substance that requires a permit from, or with respect to which a report, notice, registration or business plan is required to be filed with any governmental authority, and/or (iii) the presence at the Premises of a Hazardous Substances with respect to which any Applicable Requirements requires that a notice be given to persons entering or occupying the Premises or neighboring properties. Notwithstanding the foregoing, Lessee may use any ordinary and customary materials reasonably required to be used in the normal course of the Agreed Use, so long as such use is in compliance with all Applicable Requirements, is not a Reportable Use, and does not expose the Premises or neighboring property to any meaningful risk of contamination or damage or expose Lessor to any liability therefor. In addition. Lessor may condition its consent to any Reportable Use upon receiving such additional assurances as Lessor reasonably deems necessary to protect itself, the public, the Premises and/or the environment against damage. contamination, injury and/or liability, including, but not limited to, the installation (and removal on or before Lease expiration or termination) of protective modifications (such as concrete encasements) and/or increasing the Security Deposit.

(b) Duty to Inform Lessor. If Lessee knows, or has reasonable cause to believe, that a Hazardous Substances has come to be located in, on, or under or about the Premises after the Commencement Date, other than as previously consented to by Lessor, Lessee shall immediately give written notice of such fact to Lessor, and to provide Lessor with a copy of any report, notice, claim or other documentation which it has concerning the presence of such Hazardous Substances.

(c) Lessee Remediation. Lessee shall not cause or intentionally permit any Hazardous Substances to be spilled or released in, on, under, or about the Premises (including through the plumbing or sanitary sewer system) and shall promptly, at Lessee's expense, take all investigatory and/or remedial action reasonably recommended, whether or not formally ordered or required, for the cleanup of any contamination of, and for the maintenance, security and/or monitoring of the Premises or neighboring properties, that was caused or materially contributed to by Lessee, or pertaining to or involving any Hazardous Substances brought onto the Premises during the term of this Lease, by or for Lessee, or any third party.

(d) Lessee Indemnification. Lessee shall indemnify, defend and hold Lessor, its agents, employees, lenders and ground lessor, if any, harmless from and against any and all loss of rents and/or damages, liabilities, judgments, claims, expenses, penalties, and attorneys' and consultants' fees arising out of or involving any Hazardous Substances brought onto the Premises by or for Lessee, or any third party (provided, however, that Lessee shall have no liability under this Lease with respect to any contamination occurring prior to the Commencement Date, nor for any underground migration of any Hazardous Substances under the Premises from adjacent properties). Lessee's obligations shall include, but not be limited to, the effects of any contamination or injury to person, property or the environment created or suffered by Lessee, and the cost of investigation, removal, remediation, restoration and/or abatement, and shall survive the expiration or termination of this Lease. No termination, cancellation or release agreement entered into by Lessor and Lessee shall release Lessee from its

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obligations under this Lease with respect to Hazardous Substances, unless specifically so agreed by Lessor in writing at the time of such agreement.

(e) Lessor Indemnification. Lessor and its successors and assigns shall indemnify, defend, reimburse and hold Lessee, its employees and lenders, harmless from and against any and all environmental damages which existed as a result of Hazardous Substances on the Premises prior to the Commencement Date or which are caused by the negligence, or intentional acts of Lessor, its agents or employees. Lessor's obligations, as and when required by the Applicable Requirements, shall include, but not be limited to, the cost of investigation, removal, remediation, restoration and/or abatement, and shall survive the expiration or termination of this Lease.

(f) Investigations and Remediations. Lessor shall retain the responsibility and pay for any investigations or remediation measures required by governmental entities having jurisdiction with respect to the existence of Hazardous Substances on the Premises prior to the Start Date. Lessee shall cooperate fully in any such activities at the request of Lessor, including allowing Lessor and Lessor's agents to have reasonable access to the Premises at reasonable times in order to carry out Lessor's investigative and remedial responsibilities.

(g) Lessor Termination Option. If a Hazardous Substances Condition occurs during, the term of this Lease, unless Lessee is legally responsible therefor (in which case Lessee shall make the investigation and remediation thereof required by the Applicable Requirements and this Lease shall continue in full force and effect, but subject to Lessor's rights under Paragraph 6.2(d) and Paragraph 13), Lessor may, at Lessor's option, either (i) investigate and remediate such Hazardous Substances Condition, if required, as soon as reasonably possible at Lessor's expense, in which event this Lease shall continue in full force and effect, or (ii) if the estimated cost to remediate such condition exceeds twelve (12) times the then monthly Base Rent or \$100,000, whichever is greater, give written notice to Lessee, within thirty (30) days after receipt by Lessor of knowledge of the occurrence of such Hazardous Substances Condition, of Lessor's desire to terminate this Lease as of the date sixty (60) days following the date of such notice. In the event Lessor elects to give a termination notice, Lessee may, within ten (10) days thereafter, give written notice to Lessor of Lessee's commitment to pay the amount by which the cost of the remediation of such Hazardous Substances Condition exceeds an amount equal to twelve (12) times the then monthly Base Rent or \$100,000, whichever is greater. Lessee shall provide Lessor with said funds or satisfactory assurance thereof within thirty (30) days following such commitment. In such event, this Lease shall continue in full force and effect, and Lessor shall proceed to make such remediation as soon as reasonably possible after the required funds are available. If Lessee does not give such notice and provide the required funds or assurance thereof within the time provided, this Lease shall terminate as of the date specified in Lessor's notice of termination. If neither party elects to complete such remediation. then Lessor shall pay Lessee \$300,000, less a sum equal to \$37,500, multiplied by the number of full or partial lease years (rounded to the nearest full month) elapsed between the Commencement Date and the date of Lessor's notice of termination.

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6.3 Lessee's Compliance with Applicable Requirements. Except as otherwise provided in this Lease, Lessee, shall, at Lessee's sole expense, fully, diligently and in a timely manner, materially comply with all (a) Applicable Requirements and the reasonable safety-related requirements of any applicable fire insurance underwriter or rating bureau, and (b) the reasonable safety-related recommendations of Lessor's engineers and/or consultants which relate in

any manner to the Premises, without regard to whether said requirements are now in effect or become effective after the Start Date. Lessee shall, within ten (10) days after receipt of Lessor's written request, provide Lessor with copies of all permits and other documents, and other information evidencing Lessee's compliance with any Applicable Requirements specified by Lessor, and shall immediately upon receipt, notify Lessor in writing (with copies of all permits and other documents, and the information evidencing Lessee's compliance with any Applicable Requirements specified by Lessors) and shall immediately upon receipt, notify Lessor in writing (with copies of any documents involved) of any threatened or actual claim, notice, citation, warning, complaint or report pertaining to or involving the failure of Lessee or the Premises to comply with any Applicable Requirements. Regardless of the other terms of this paragraph, Lessee's liability for costs relating to the above requirements shall be limited to a maximum of \$50,000 in any four-year period.

6.4 Inspection; Compliance. Lessor and Lessor's Lender and consultants shall have the right to enter into Premises at any time, in the case of an emergency, and otherwise at reasonable times, for the purpose of inspecting the condition of the Premises and for verifying compliance by Lessee with this Lease. The cost of any such inspections shall be paid by Lessor, unless a violation of Applicable Requirements, or a contamination for which Lessee is responsible under the terms of this Lease is found to exist or be imminent, or the inspection is requested or ordered by a governmental authority. In such case, Lessee shall upon request reimburse Lessor for the reasonable and competitive cost of such inspections, to the extent such inspection is reasonably related to the violation or contamination.

7. Maintenance; Repairs, Utility Installations; Trade Fixtures and Alterations

7.1 Lessee's Obligations. See Para.#52 of ADDENDUM for modifications.

(a) In General. Subject to the provisions of Paragraph 2.2 (Condition), 2.3 (Compliance), 6.3 (Lessee's Compliance with Applicable Requirements), 7.2 (Lessor's Obligations), 9 (Damage or Destruction), and 14 (Condemnation), Lessee shall, at Lessee's sole expense, keep the Premises, Utility installations, and Alterations in good order, condition and repair (whether or not the portion of the Premises requiring repairs, of the means of repairing the same, are reasonably or readily accessible to Lessee, and whether or not the need for such repairs occurs as a result of Lessee's use, any prior use, the elements or the age of such portion of the Premises), including, but not limited to, all equipment or facilities, such as plumbing, HVAC, electrical, lighting facilities, fire protection system, fixtures, interior walls, ceilings, floors, windows, doors, plate glass, skylights, landscaping, fences, and signs located in, on, or adjacent to the Premises. Lessee, in keeping the Premises in good order, condition and repair, shall exercise and perform good maintenance practices, specifically including the procurement and maintenance of the service contracts required by Paragraph 7.1(b) below. Lessee's obligations

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shall include restorations, replacements or renewals when necessary to keep the Premises and all improvements thereon or a part thereof in good order, condition and state of repair. Lessee shall, during the term of this Lease, keep the exterior appearance of the Building in a first-class condition consistent with the exterior appearance of other similar facilities of comparable age and size in the vicinity, including, when necessary, the exterior repainting of the Building. Regardless of the foregoing language, Lessor shall, during the first 8 years of the Term, repair, maintain, and replace as necessary all water and sewer pipes serving the Premises, to the extent outside of the building or under the concrete slab of the building. Lessor shall not, however, be required to clean out the drains or pipes, which shall be Lessee's responsibility. After

the first 8 years of the Term, Lessee shall bear such costs.

(b) Service Contracts. Lessee shall, at Lessee's sole expense, procure and maintain contracts, with copies to Lessor, in customary form and substance for, and with contractors specializing and experienced in the maintenance of the following equipment and improvements. ("Basic Elements"), if any, as and when installed on the Premises: (i) HVAC equipment, (ii) Intentionally Deleted, (iii) fire protection systems, (iv) Intentionally Deleted, (v) Intentionally Deleted, (vi) Intentionally Deleted, (vii) clarifiers and/or grease traps (as applicable), and (viii) any other equipment, as reasonably required by Lessor. In addition, Lessee shall maintain the landscaping in clean and orderly condition. Lessee shall keep the roof, roof drains, and downspouts free of debris.

(c) Replacement. Subject to Lessee's indemnification of Lessor as set forth in Paragraph 8.7 below, and without relieving Lessee of liability resulting from Lessee's failure to exercise and perform good maintenance practices, if the Basic Elements described in Paragraph 7.1(b) cannot be repaired other than at a cost which is in excess of 50% of the cost of replacing such Basic Elements, then such Basic Elements shall be replaced by Lessor, and the cost thereof shall be prorated between the Parties and Lessee shall only be obligated to pay, each month during the remainder of the term of this Lease, on the date on which Base Rent is due, an amount equal to the product of multiplying the cost of such replacement by a fraction, the numerator of which is one, and the denominator of which is the number of months of the useful life of such replacement as such useful life is specified pursuant to Federal income tax regulations or guidelines for depreciation thereof (including interest on the unamortized balance as is then commercially reasonable in the judgment of Lessor's accountants), with lessee reserving the right to prepay its obligation at any time.

7.2 Lessor's Obligations. Subject to the provisions of Paragraphs 2.2 (Condition), 2.3 (Compliance), 9 (Damage or Destruction) and 14 (Condemnation) and to any other contrary provision of this Lease and the Addendum attached to it, it is intended by the Parties hereto that Lessor have no obligation, in any manner whatsoever, to repair and maintain the Premises, or the equipment therein, all of which obligations are intended to be that of the Lessee. It is the intention of the Parties that the terms of this Lease govern the respective obligations of the Parties as to maintenance and repair of the Premises, and they expressly waive the benefit of any statute now or hereafter in effect to the extent it is inconsistent with the terms of this Lease. See Paragraph 52 of ADDENDUM for modifications.

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7.3 Utility Installations; Trade Fixtures; Alterations.

(a) Definitions; Consent Required. The term "Utility Installations" refers to all floor and window coverings, air lines, power panels, electrical distribution, security and fire protection systems, communication systems, lighting fixtures, HVAC equipment, plumbing, and fencing in or on the Premises. The term "'Trade Fixtures" shall mean Lessee's machinery and equipment installed in the Premises by or for Lessee and which is used primarily for the purpose of conducting Lessee's Permitted Use. Lessee shall pay all costs to restore any damage caused to the Premises by such removal. The term "Alterations" shall mean any modification of the improvements, other than Utility installations or Trade Fixtures, whether by addition or deletion. "Lessee Owned Alterations and/or Utility Installations" are defined as Alterations and/or Utility Installations made by Lessee that are not yet owned by Lessor pursuant to Paragraph 7.4(a). Lessee shall not make any Alterations or Utility Installations to the Premises without Lessor's prior written consent, which

shall not be unreasonably withheld. Lessee may, however, make non-structural Utility Installations to the interior of the Premises (excluding the roof) without such consent but upon notice to Lessor, as long as they are not visible from the outside, do not involve puncturing, relocating or removing the roof or any existing walls, and the cumulative cost thereof during this Lease as extended does not exceed \$50,000 in the aggregate or \$10,000 in any one year. Lessee may remove all of its Trade Fixtures, so long as it repairs any damage done to the Premises as a result of such removal. If the Lease expires or is terminated prior to the end of the eighth anniversary of the Commencement Date, then Lessee shall reimburse Lessor for a fraction of the reasonable costs of removing any improvements to the Premises as necessary to restore the Premises to a condition readily usable for warehousing and/or general purpose light manufacturing. The numerator of said fraction shall be the number of full calendar months remaining prior to the eighth anniversary of the Commencement Date, and the denominator of said fraction shall be 96. If the eighth anniversary of the Commencement Date shall have passed at the time the Lease expires or otherwise terminates, then Lessee shall not be required to incur any expense with respect to the removal of said items. Regardless of the above, Lessee shall in all events return the slab inside the Premises to a smooth, level condition.

(b) Consent. Lessor hereby approves* Lessee's plans for its initial improvements to the Premises. As to any subsequent Alterations or Utility Installations that Lessee shall desire to make and which require the consent of the Lessor shall be presented to Lessor in written form with detailed plans. Consent shall be deemed conditioned upon Lessee's (i) acquiring all applicable governmental permits, (ii) furnishing Lessor with copies of both the permits and the plans and specifications prior to commencement of the work, and (iii) compliance with all conditions of said permits and other Applicable Requirements in a prompt and expeditious manner. Any Alterations or Utility Installations shall be performed in a workmanlike manner with good and sufficient materials. Lessee shall promptly upon completion furnish Lessor with redlined plans and specifications. For work which costs an amount equal to the greater of one month's Base Rent, or \$10,000, Lessee shall give Lessor at least ten (10) days written notice prior to commencing such work, so that Lessor may post notices of nonresponsibility on the Premises. If any lien is asserted against the Premises because of any

*As of 3/10/98 plans have not yet been submitted to Lessor. Lessor will approve plans when submitted if they do not affect structural integrity of building.
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work contracted for by Lessee, Lessee will immediately post a lien bond in an amount equal to one and one-half times the estimated cost of such work.

(c) Indemnification. Lessee shall pay, when due, all claims for labor or materials furnished or alleged to have been furnished to or for Lessee at or for use on the Premises, which claims are or may be secured by any mechanic's or materialmen's lien against the Premises or any interest therein. Lessee shall give Lessor not less than ten (10) days' notice prior to the commencement of any work in. on or about the Premises, and Lessor shall have the right to post notices of non-responsibility. If Lessee shall contest the validity of any such lien, claim or demand, then Lessee shall, at its sole expense defend and protect itself, Lessor and the Premises against the same and shall pay and satisfy any such adverse judgment that may be rendered thereon before the enforcement thereof. If Lessor shall require, Lessee shall furnish a surety bond in an amount equal to one and one-half times the amount of such contested lien, claim or demand, indemnifying Lessor against liability for the same. If Lessor elects to participate in any such action, Lessee shall pay Lessor's attorneys' fees and

costs.

7.4. Ownership; Removal; Surrender; and Restoration.

(a) Ownership. Subject to Lessor's right to require removal or elect ownership as hereinafter provided and as modified under Section 7.3(a), all Alterations and Utility Installations made by Lessee shall be the property of Lessee, but considered a part of the Premises. Lessor may, at any time, elect in writing to be the owner of all or any specified part of the Lessee Owned Alterations and Utility Installations. Unless otherwise instructed per Paragraph 7.4(b) hereof, all Lessee Owned Alterations and Utility Installations shall, at the expiration or termination of this Lease, become the property of Lessor and be surrendered by Lessee with the Premises.

(b) Removal. Except as stated in Section 7.3(a), by delivery to Lessee of written notice from Lessor not later than ninety (90) days prior to the end of the term of this Lease, Lessor may require that any or all Lessee Owned Alterations or Utility Installations be removed by the expiration or termination of this Lease. Lessor may require the removal at any time of all or any part of any Lessee Owned Alterations or Utility Installations made without the required consent.

(c) Surrender/Restoration. Lessee shall surrender the Premises by the Expiration date or any earlier termination date, with all of the improvements parts and surfaces thereof broom clean and free of debris, and in good operating order, condition and state of repair, ordinary wear and tear and damage from casualty and condemnation excepted. "Ordinary wear and tear" shall not include any damage or deterioration that would have been prevented by good maintenance practice. Lessee shall repair and damage occasioned by the installation, maintenance or removal of Trade Fixtures, furnishings, and equipment as well as the removal of any storage tank installed by or for Lessee, and the removal, replacement, or remediation of any soil, material or groundwater contaminated by Lessee. Trade Fixtures shall remain the property of Lessee and shall be removed by Lessee. The failure by Lessee to timely vacate the Premises

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pursuant to this Paragraph 7.4(c) without the express written consent of Lessor shall constitute a holdover under the provisions of Paragraph 26 below.

8. Insurance; Indemnity (See also Paragraph 55)

8.1 Payment For Insurance. Lessee shall pay for all insurance required under Paragraph 8 except to the extent of the cost attributable to liability insurance carried by Lessor under Paragraph 8.2(b), which shall be paid for by Lessor. Premiums for policy periods commencing prior to or extending beyond the Lease term shall be prorated to correspond to the Lease term. It is anticipated that Lessee will pay applicable insurance premiums directly. However, if Lessor contracts for basic fire/liability coverage, Lessee shall reimburse Lessor for this expense on a monthly basis, at the same time as Lessee reimburses Lessor for its share of Real Estate Taxes.

8.2 Liability Insurance.

(a) Carried by Lessee. Lessee shall obtain and keep in force a Commercial General Liability Policy of Insurance protecting Lessee and Lessor against claims for bodily injury, personal injury and property damage based upon or arising out of the ownership, use, occupancy or maintenance of the Premises and all areas appurtenant thereto. Such insurance shall be on an occurrence basis providing single limit coverage in an amount not less than \$2,000,000 per occurrence with an "Additional Insured-Managers or Lessors of Premises

Endorsement" and contain the "Amendment of the Pollution Exclusion Endorsement" for damage caused by heat, smoke or fumes from a hostile fire. The Policy shall not contain any intra-insured exclusions as between insured persons or organizations, but shall include coverage for liability assumed under this Lease as an "insured contract" for the performance of Lessee's indemnity obligations under this Lease. The limits of said insurance shall not, however, limit the liability of Lessee nor relieve Lessee of any obligation hereunder. All insurance carried by Lessee shall be primary to and not contributory with any similar insurance carried by Lessor, whose insurance shall be considered excess insurance only.

(b) Carried by Lessor. Lessor shall maintain liability insurance as described in Paragraph 8.2(a), in addition to, and not in lieu of, the insurance required to be maintained by Lessee. Lessee shall not be named as an additional insured therein.

8.3 Property Insurance - Building, Improvements and Rental Value.

(a) Building and Improvements. The Lessee shall obtain and keep in force a policy or policies in the name of Lessor, with loss payable to Lessor and to any Lender insuring loss or damage to the Premises. The amount of such insurance shall be equal to the full replacement cost of the Premises, as the same shall exist from time to time, or the amount required by any Lenders, but in no event more than the commercially reasonable and available insurable value thereof. If the coverage is available and commercially appropriate, such policy or policies shall insure against all risks of direct physical loss or damage and flood (except

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earthquake), including coverage for debris removal and the enforcement of any Applicable Requirements requiring the upgrading, demolition, reconstruction or replacement of any portion of the Premises as the result of a covered loss. Said policy or policies shall also contain an agreed valuation provision in lieu of any coinsurance clause, waiver of subrogation, and inflation guard protection causing an increase in the annual property insurance coverage amount by a factor of not less than the adjusted U.S. Department of Labor Consumer Price Index for All Urban Consumers for the city nearest to where the Premises are located. If such insurance coverage has a deductible clause, the deductible amount shall not exceed \$25,000 per occurrence (unless Lessee delivers a letter of credit in favor of Lessor for the difference between the actual deductible and \$25,000, which shall be kept in force for so long as such higher deductible applies), and Lessee shall be liable for such deductible amount in the event of an Insured Loss.

(b) Rental Value. The Insuring Party shall obtain and keep in force a policy or policies in the name of Lessor with loss payable to Lessor and any Lender, insuring the loss of the full Rent for one (1) year. Said insurance shall provide that in the event the Lease is terminated by reason of an insured loss, the period of indemnity for such coverage shall be extended beyond the date of the completion of repairs or replacement of the Premises, to provide for one full year's loss of Rent from the date of any such loss. Said insurance shall contain an agreed valuation provision in lieu of any coinsurance clause, and the amount of coverage shall be adjusted annually to reflect the projected Rent otherwise payable by Lessee, for the next twelve (12) month period. Lessee shall be liable for any deductible amount up to \$10,000 in the event of such loss.

(c) Adjacent Premises. If the Premises are part of a larger building, or of a group of buildings owned by Lessor which are adjacent to the Premises, the Lessee shall pay for any increase in the premiums for the property insurance

of such building or buildings if said increase is caused by Lessee's acts, omissions, use or occupancy of the Premises.

8.4. Lessee's Property/Business Interruption Insurance.

(a) Property Damage. Lessee shall obtain and maintain insurance coverage on all of Lessee's personal property. Trade Fixtures, and Lessee Owned Alterations and Utility Installations. Such insurance shall be full replacement cost coverage with a deductible of not to exceed \$25,000 per occurrence. The proceeds from any such insurance shall be used by Lessee for the replacement of personal property, Trade Fixtures and Lessee Owned Alterations and Utility Installations. Lessee shall provide Lessor with written evidence that such insurance is in force. If Lessee desires a higher deductible than those required above, Lessee shall deliver a letter of credit in favor of Lessor for the difference between the actual deductibles and the deductibles required above, which shall be kept in force for so long as such higher deductibles apply.

(b) Business Interruption. If reasonably available, and if Lessor requests Lessee to do so in writing, Lessee shall obtain and maintain loss of income and extra expense insurance in amounts as will reimburse Lessee for direct or indirect loss of earnings attributable

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to all perils commonly insured against by prudent lessees in the business of Lessee or attributable to prevention of access to the Premises as a result of such perils.

(c) No Representation of Adequate Coverage. Lessor makes no representation that the limits or forms of coverage of insurance specified herein are adequate to cover Lessee's property, business operations or obligations under this Lease.

8.5 Insurance Policies. Insurance required herein shall be by companies duly licensed or admitted to transact business in the state where the Premises are located, and maintaining during the policy term a "General Policyholders Rating" of at least B+, V, as set forth in the most current issue of "Best's Insurance Guide", or such other rating as may be required by a Lender. Lessee shall not do or intentionally permit to be done anything which invalidates the required insurance policies. Lessee shall, prior to the Start Date, deliver to Lessor certified copies of policies of such insurance or certificates evidencing, the existence and amounts of the required insurance. No such policy shall be cancelable or subject to modification except after thirty (30) days prior written notice to Lessor. Lessee shall, at least thirty (30) days prior to the expiration of such policies, furnish Lessor with evidence of renewals or "insurance binders" evidencing renewal thereof, or Lessor may order such insurance and charge the cost thereof to Lessee, which amount shall be payable by Lessee to Lessor upon demand. Such policies shall be for a term of at least one year, or the length of the remaining term of this Lease, whichever is less. If either Party shall fail to procure and maintain the insurance required to be carried by it, the other Party may, but shall not be required to, procure and maintain the same.

8.6 Waiver of Subrogation. Without affecting any other rights or remedies, Lessee and Lessor each hereby release and relieve the other, and waive their entire right to recover damages against the other, for loss of or damage to its property arising out of or incident to the perils required to be insured against herein. The effect of such releases and waivers is not limited by the amount of insurance carried or required, or by any deductibles applicable hereto. The Parties agree to have their respective property damage insurance

carriers waive any right to subrogation that such companies may have against Lessor or Lessee, as the case may be, so long as the insurance is not invalidated thereby.

8.7 Indemnity. Except for Lessor's negligence or intentional misconduct, Lessee shall indemnify, protect, defend and hold harmless the Premises, Lessor and its agents, Lessor's master or ground lessor, partners and Lenders, from and against any and all claims, loss of rents and/or damages, liens, judgments, penalties, attorneys' and consultants' fees, expenses and/or liabilities arising out of, involving, or in connection with, the use and/or occupancy of the Premises by Lessee. If any action or proceeding is brought against Lessor by reason of any of the foregoing matters, Lessee shall upon notice defend the same at Lessee's expense by counsel reasonably satisfactory to Lessor and Lessor shall cooperate with Lessee in such defense. Lessor need not have first paid any such claim in order to be defended or indemnified.

8.8 Exemption of Lessor from Liability. Except to the extent caused by Lessor's negligence, intentional misconduct, or breach of this Lease (for which Lessor will remain liable) Lessor shall not be liable for injury or damage to the person or goods, wares, merchandise or

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other property of Lessee, Lessee's employees, contractors, invitees, customers, or any other person in or about the Premises, whether such damage or injury is caused by or results from fire, steam, electricity, gas, water or rain, or from the breakage, leakage, obstruction or other defects of pipes, fire sprinklers, wires, appliances, plumbing, HVAC or lighting fixtures, or from any other cause, whether the said injury or damage results from conditions arising upon the Premises or upon other portions of the Building of which the Premises are a part, or from other sources or places. Lessor shall not be liable for any damages arising from any act or neglect of any other tenant of Lessor.

9. Damage or Destruction

9.1 Definitions.

(a) "Premises Partial Damage" shall mean damage or destruction to the improvements on the Premises, other than Lessee Owned Alterations and Utility Installations, which can reasonably be repaired in six (6) months or less from the date of the damage or destruction. Lessor shall notify Lessee in writing within thirty (30) days from the date of the damage or destruction as to whether or not the damage is Partial or Total.

(b) "Premises Total Destruction" shall mean damage or destruction to the Premises, other than Lessee Owned Alterations and Utility Installations, which cannot reasonably be repaired in six (6) months or less from the date of the damage or destruction. Lessor shall notify Lessee in writing within thirty (30) days from the date of the damage or destruction as to whether or not the damage is Partial or Total.

(c) "Insured Loss" shall mean damage or destruction to improvements on the Premises, other than Lessee Owned Alterations and Utility Installations and Trade Fixtures, which was caused by an event required to be covered by the insurance described in Paragraph 8.3(a), irrespective of any deductible amounts or coverage limits involved.

(d) "Replacement Cost" shall mean the cost to repair or rebuild the improvements owned by Lessor at the time of the occurrence to their condition existing immediately prior thereto, including demolition, debris removal and upgrading required by the operation of Applicable Requirements, and without

deduction for depreciation.

(e) "Hazardous Substance Condition" shall mean the occurrence or discovery of a condition involving the presence of, or a contamination by, a Hazardous Substance as defined in Paragraph 6.2(a), in, on, or under the Premises.

9.2 Partial Damage - Insured Loss. If a Premises Partial Damage that is an Insured Loss occurs, then Lessor shall, at Lessor's expense, repair such damage (but not Lessee's Trade Fixtures or Lessee Owned Alterations and Utility Installations) as soon as reasonably possible and this Lease shall continue in full force and effect; provided, however, that Lessee shall, at Lessor's election, make the repair of any damage or destruction the total cost to repair of which is \$10,000 or less, and, in such event, Lessor shall make any applicable insurance proceeds

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available to Lessee on a reasonable basis for that purpose. Notwithstanding the foregoing, if the required insurance was not in force or the insurance proceeds are not sufficient to effect such repair, the Insuring Party shall promptly contribute the shortage in proceeds (except as to the deductible which is Lessee's responsibility) as and when required to complete said repairs. In the event, however, such shortage was due to the fact that, by reason of the unique nature of the improvements, full replacement cost insurance coverage was not commercially reasonable and available, Lessor shall have no obligation to pay for the shortage in insurance proceeds or to fully restore the unique aspects of the Premises unless Lessee provides Lessor with the funds to cover same, or adequate assurance thereof, within ten (10) days following receipt of written notice of such shortage and request therefor. If Lessor receives said funds or adequate assurance thereof within said ten (10) day period, the party responsible for making the repairs shall complete them as soon as reasonably possible and this Lease shall remain in full force and effect. If such funds or assurance are not received, Lessor may nevertheless elect by written notice to Lessee within ten (10) days thereafter to: (i) make such restoration and repair as is commercially reasonable with Lessor paying any shortage in proceeds, in which case this Lease shall remain in full force and effect, or have this Lease terminate thirty (30) days thereafter. Lessee shall not be entitled to reimbursement of any funds contributed by Lessee to repair any such damage or destruction. Premises Partial Damage due to flood or earthquake shall be subject to Paragraph 9.3, notwithstanding that there may be some insurance coverage, but the net proceeds of any such insurance shall be made available for the repairs if made by either Party.

9.3 Partial Damage - Uninsured Loss. If a Premises Partial Damage that is not an Insured Loss occurs, unless caused by a negligent or willful act of Lessee (in which event Lessee shall make the repairs at Lessee's expense), Lessor may either: (i) repair such damage as soon as reasonably possible at Lessor's expense, in which event this Lease shall continue in full force and effect, or (ii) terminate this Lease by giving written notice to Lessee within thirty (30) days after receipt by Lessor of knowledge of the occurrence of such damage. Such termination shall be effective sixty (60) days following the date of such notice. In the event Lessor elects to terminate this Lease, Lessee shall have the right within ten (10) days after receipt of the termination notice to give written notice to Lessor of Lessee's commitment to pay for the repair of such damage without reimbursement from Lessor. Lessee shall provide Lessor with said funds or satisfactory assurance thereof within thirty (30) days after making such commitment. In such event this Lease shall continue in full force and effect, and Lessor shall proceed to make such repairs as soon as reasonably possible after the required funds are available. If Lessee does not make the required commitment, this Lease shall terminate as of the date

specified in the termination notice.

9.4 Total Destruction. Notwithstanding any other provision hereof, if a Premises Total Destruction occurs, this Lease shall terminate sixty (60) days following such Destruction. If the damage or destruction was caused by the gross negligence or willful misconduct of Lessee, Lessor shall have the right to recover Lessor's damages from Lessee except as provided in Paragraph 8.6.

9.5 Damage Near End of Term. If at any time during the last six (6) months of this Lease, or any extension thereof, the Premises is damaged by casualty, for which the cost to repair

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exceeds one (1) month's Base Rent, whether or not an Insured Loss, either party may terminate this Lease effective sixty (60) days following the date of occurrence of such damage by giving a written termination notice to the other within thirty (30) days after the date of occurrence of such damage. Notwithstanding the foregoing: (i) a party shall not be entitled to terminate the lease if such damage was caused by that party's intentional or reckless act, and (ii) if Lessee at that time has an exercisable option to extend this Lease or to purchase the Premises, then Lessee may preserve this Lease by, (a) exercising such option and (b) providing Lessor with any shortage in insurance proceeds (or adequate assurance thereof) needed to make the repairs on or before the earlier of (i) the date which is ten days after Lessee's receipt of Lessor's written notice purporting to terminate this Lease, or (ii) the day prior to the date upon which such option expires. If Lessee duly exercises such option during such period and provides Lessor with funds (or adequate assurance thereof) to cover any shortage in insurance proceeds, Lessor shall, at Lessor's commercially reasonable expense, repair such damage as soon as reasonably possible and this Lease shall continue in full force and effect. If Lessee fails to exercise such option and provide such funds or assurance during such period, then this Lease shall terminate on the date specified in the termination notice and Lessee's option shall be extinguished.

9.6 Abatement of Rent; Lessee's Remedies.

(a) Abatement. In the event of Premises Partial Damage or Premises Total Destruction or a Hazardous Substance Condition for which Lessee is not responsible under this Lease, the Rent payable by Lessee for the period required for the repair, remediation or restoration of such damage shall be abated in proportion to the degree to which Lessee's use of the Premises is impaired, but not to exceed the proceeds received from the Rental Value insurance. All other obligations of Lessee hereunder shall be performed by Lessee, and Lessor shall have no liability for any such damage, destruction, remediation, repair or restoration except as provided herein. Notwithstanding the foregoing, if such activities are not completed before Lessee's right to a rent abatement expires, Lessee may terminate this Lease upon written notice to Lessor, effective as of the date such abatement right expires.

(b) Remedies. If Lessor shall be obligated to repair or restore the Premises and does not actually commence such repair or restoration within ninety (90) days after such obligation shall accrue, Lessee may, at any time prior to the commencement of such repair or restoration, give written notice to Lessor and to any Lenders of which Lessee has actual notice, of Lessee's election to terminate this Lease on a date not less than sixty (60) days following the giving of such notice. If Lessee gives such notice and such repair or restoration is not commenced within thirty (30) days thereafter, this Lease shall terminate as of the date specified in said notice. If the repair or restoration is commenced within said thirty (30) days, this Lease shall continue in full force and effect. If Lessor's delay is caused by delay in obtaining

permits, inspections, or other land use permits and approvals that is not reasonably avoidable by Lessor, then the deadline for Lessor's performance stated above shall be extended day for day for the period of such unavoidable delay.

9.7 Termination-Advance Payments. Upon termination of this Lease pursuant to Paragraph 6.2(g) or Paragraph 9, an equitable adjustment shall be made concerning advance

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Base Rent and any other advance payments made by Lessee to Lessor. Lessor shall, in addition, return to Lessee so much of Lessee's Security Deposit as has not been, or is not then required to be, used by Lessor.

9.8 Waive Statutes. Lessor and Lessee agree that the terms of this Lease shall govern the effect of any damage to or destruction of the Premises with respect to the termination of this Lease and hereby waive the provisions of any present or future statute to the extent inconsistent herewith.

10. Real Property Taxes See Para. #54 and Para. 955 of ADDENDUM for modifications.

10.1 Definition of "Real Property Taxes." As used herein, the term "Real Property Taxes" shall include any form of improvement bond or assessment (but only in the same proportion that the benefit corresponding to such bond or assessment accrues during the Term); real estate, general, special, ordinary or extraordinary, or rental levy or tax (other than inheritance, personal income or estate taxes); and/or license fee imposed upon or levied against any legal or equitable interest of Lessor in the Premises. Lessor's right to other income therefrom, and/or Lessor's business of leasing, by any authority having the direct or indirect power to tax and where the funds are generated with reference to the Building address and where the proceeds so generated are to be applied by the city, county or other local taxing authority of a jurisdiction within which the Premises are located. The term "Real Property Taxes" shall also include any tax, fee, levy, assessment or charge, or any increase therein, imposed by reason of events occurring during the term of this Lease, including but not limited to, a change in the ownership of the Premises. Lessor will seek to pay any assessments or bonds in installments, to the greatest extent possible, and Lessee shall only be responsible for that portion of installments accruing during the term of the Lease.

10.2

(a) Payment of Taxes. Lessee shall pay the Real Property Taxes applicable to the Premises during the term of this Lease. Subject to Paragraph 10.2(b), all such payments shall be made at least ten (10) days prior to any delinquency date. Lessee shall promptly furnish Lessor with satisfactory evidence that such taxes have been paid. If any such taxes shall cover any period of time prior to or after the expiration or termination of this Lease, Lessee's share of such taxes shall be prorated to cover only that portion of the tax bill applicable to the period that this Lease is in effect, and Lessor shall reimburse Lessee for any overpayment. If Lessee shall fail to pay any required Real Property Taxes. Lessor shall have the right to pay the same, and Lessee shall reimburse Lessor therefor upon demand.

(b) Advance Payment. In the event Lessee incurs a late charge on any Rent payment, Lessor may, at Lessor's option, estimate the current Real Property Taxes, and require that such taxes be paid in advance to Lessor by Lessee, either: (i) in a lump sum amount equal to the installment due, at least twenty (20) days prior to the applicable delinquency date, or (ii) monthly in advance

with the payment of the Base Rent. If Lessor elects to require payment monthly in advance, the monthly payment shall be an amount equal to the amount of the

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estimated Rent. If Lessor elects to require payment monthly in advance, the monthly payment shall be an amount equal to the amount of the estimated installment of taxes divided by the number of months remaining before the month in which said installment becomes delinquent. When the actual amount of the applicable tax bill is known, the amount of such equal monthly advance payments shall be adjusted as required to provide the funds needed to pay the applicable taxes. If the amount collected by Lessor is insufficient to pay such Real Property Taxes when due, Lessee shall pay Lessor, upon demand, such additional sums as are necessary to pay such obligations. All monies paid to Lessor under this Paragraph may be intermingled with other monies of Lessor and shall not bear interest. In the event of a Breach by Lessee in the performance of its obligations under this Lease, then any balance of funds paid to Lessor under the provisions of this Paragraph may at the option of Lessor, be treated as an additional Security Deposit.

10.3 Joint Assessment. If the Premises are not separately assessed, Lessee's liability shall be an equitable proportion of the Real Property Taxes for all of the land and improvements included within the tax parcel assessed, such proportion to be conclusively determined by Lessor from the respective valuations assigned in the assessor's work sheets or such other information as may be reasonably available.

10.4 Personal Property Taxes. Lessee shall pay, prior to delinquency, all taxes assessed against and levied upon Lessee Owned Alterations, Utility Installations, Trade Fixtures, furnishings, equipment and all personal property of Lessee. When possible, Lessee shall cause such property to be assessed and billed separately from the real property of Lessor. If any of Lessee's said personal property shall be assessed with Lessor's real property, Lessee shall pay Lessor the taxes attributable to Lessee's property within ten (10) days after receipt of a written statement.

11. Utilities. Lessee shall pay for all water, gas, heat, light, power, telephone, trash disposal and other utilities and services supplied to the Premises, together with any taxes thereon. If any such services are not separately metered to Lessee, Lessee shall pay a reasonable proportion, to be determined by Lessor, of all charges jointly metered.

12. Assignment and Subletting.

12.1 Lessor's Consent Required.

(a) Lessee shall not voluntarily or by operation of law assign, transfer, mortgage or encumber (collectively, "assign or assignment") or sublet all or any part of Lessee's interest in this Lease or in the Premises without Lessor's prior written consent, which shall not be unreasonably withheld or delayed.

(b) No merger, conversion, or consolidation of Lessee into or with another entity, nor any sale, issuance, or transfer of stock of Lessee shall be considered a prohibited or regulated assignment, sublet, or other transfer requiring consent of the Lessor, so long as the

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same is not done as a means of accomplishing a transfer of the Lease otherwise prohibited hereunder.

(c) An assignment or subletting without consent shall, at Lessor's opinion, be a Default curable after notice per Paragraph 13.1(c), or a noncurable Breach without the necessity of any notice and grace period. If Lessor elects to treat such unapproved assignment or subletting as a noncurable Breach, Lessor may either: (i) terminate this Lease, or (ii) upon thirty (30) days written notice, increase the monthly Base Rent to one hundred ten percent (110%) of the Base Rent then in effect. Further, in the event of such Breach and rental adjustment, (i) the purchase price previously in effect, and (ii) all fixed and non-fixed rental adjustments scheduled during the remainder of the Lease term shall be increased to One Hundred Ten Percent (110%) of the scheduled adjusted rent.

(d) Lessee's remedy for any breach of Paragraph 12.1 by Lessor shall be limited to compensatory damages and/or injunctive relief.

12.2 Terms and Conditions Applicable to Assignment and Subletting.

(a) Regardless of Lessor's consent, any assignment or subletting shall not: (i) be effective without the express written assumption by such assignee or sublessee of the obligations of Lessee under this Lease, (ii) release Lessee of any obligations hereunder, or (iii) alter the primary liability of Lessee for the payment of Rent or for the performance of any other obligations to be performed by Lessee.

(b) Lessor may accept Rent or performance of Lessee's obligations from any person other than Lessee pending approval or disapproval of an assignment. Neither a delay in the approval or disapproval of such assignment nor the acceptance of Rent or performance shall constitute a waiver or estoppel of Lessor's right to exercise its remedies for Lessee's Default or Breach.

(c) Lessor's consent to any assignment or subletting shall not constitute a consent to any subsequent assignment or subletting.

(d) In the event of any Default or Breach by Lessee, Lessor may proceed directly against Lessee, any Guarantors or anyone else responsible for the performance of Lessee's obligations under this Lease, including any assignee or sublessee, without first exhausting Lessor's remedies against any other person or entity responsible therefore to Lessor, or any security held by Lessor.

(e) Each request for consent to an assignment or subletting shall be in writing, accompanied by information relevant to Lessor's determination as to the financial and operational responsibility and appropriateness of the proposed assignee or sublessee, including but not limited to the intended use and/or required modification of the Premises, if any. Lessee shall, upon receipt of actual paid invoices therefor, reimburse Lessor for Lessor's reasonable attorney fees incurred in connection with Lessor's review of such request, not to exceed the

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greater of \$500 or 5% of the then-current monthly installment of Base Rent due hereunder. Lessee agrees to provide Lessor with such other or additional information and/or documentation as may be reasonably requested.

(f) Any assignee of, or sublessee under, this Lease shall, by reason of accepting such assignment or entering into such sublease, be deemed to have

assumed and agreed to conform and comply with each and every term, covenant, condition and obligation herein to be observed or performed by Lessee during the term of said assignment or sublease, other than such obligations as are contrary to or inconsistent with provisions of an assignment or sublease to which Lessor has specifically consented to in writing.

12.3 Additional Terms and Conditions Applicable to Subletting. The following terms and conditions shall apply to any subletting by Lessee of all or any part of the Premises and shall be deemed included in all subleases under this Lease whether or not expressly incorporated therein:

(a) Lessee hereby assigns and transfers to Lessor all of Lessee's interest in all Rent payable on any sublease, and Lessor may collect such Rent and apply same toward Lessee's obligations under this Lease; provided, however, that until a Breach shall occur in the performance of Lessee's obligations, Lessee may collect said Rent. Lessor shall not, by reason of the foregoing or any assignment of such sublease, nor by reason of the collection of Rent, be deemed liable to the sublessee for any failure of Lessee to perform and comply with any of Lessee's obligations to such sublessee. Lessee hereby irrevocably authorizes and directs any such sublessee, upon receipt of a written notice from Lessor stating that a Breach exists in the performance of Lessee's obligations under this Lease, to pay to Lessor all Rent due and to become due under the sublease. Sublessee shall rely upon any such notice from Lessor and shall pay all Rents to Lessor without any obligation or right to inquire as to whether such Breach exists, notwithstanding any claim from Lessee to the contrary.

(b) In the event of a Breach by Lessee, Lessor may, at its option, require sublessee to attorn to Lessor, in which event Lessor shall undertake the obligations of the sublessor under such sublease from the time of the exercise of said option to the expiration of such sublease; provided, however, Lessor shall not be liable for any prepaid rents or security deposit paid by such sublessee to such sublessor or for any prior Defaults or Breaches of such sublessor.

(c) Any matter requiring the consent of the sublessor under a sublease shall also require the consent of Lessor.

(d) No sublessee shall further assign or sublet all or any part of the Premises without Lessor's prior written consent, which shall not be unreasonably withheld or delayed.

(e) Lessor shall deliver a copy of any notice of Default or Breach by Lessee to the sublessee, who shall have the right to cure the Default of Lessee within the grace period, if

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any, specified in such notice. The sublessee shall have a right of reimbursement and offset from and against Lessee for any such Defaults cured by the sublessee.

13. Default; Breach; Remedies.

13.1 Default; Breach. A "Default" is defined as a failure by the Lessee to comply with or perform any of the terms, covenants, conditions or rules under this Lease. A "Breach" is defined as the occurrence of one or more of the following Defaults, and the failure of Lessee to cure such Default within any applicable grace period:

(a) The abandonment of the Premises (provided that Lessee shall not be deemed to have abandoned the Premises so long as it continues to pay rent and other charges due hereunder); or the vacating of the Premises without providing

a commercially reasonable level of security, or where the coverage of the property insurance described in Paragraph 8.3 is jeopardized as a result thereof, or without providing reasonable assurances to minimize potential vandalism.

(b) The failure of Lessee to make any payment of Rent or any other monetary payment required to be made by Lessee hereunder, whether to Lessor or to a third party, when due, to provide reasonable evidence of insurance or surety bond, or to fulfill any obligation under this Lease which endangers or threatens life or property, where such failure continues for a period of three (3) business days following written notice to Lessee.

(c) The failure by Lessee to provide (i) reasonable written evidence of compliance with Applicable Requirements, (ii) the service contracts, (iii) the recession of an unauthorized assignment or subletting, (iv) a Tenancy Statement, (v) a requested subordination, (vi) evidence concerning any guaranty and/or Guarantor, (vii) any document requested under Paragraph 42 (easements), or (viii) any other documentation or information which Lessor may reasonably require of Lessee under the terms of this Lease, where any such failure continues for a period of ten (10) days following written notice to Lessee.

(d) Default by Lessee as to the terms, covenants, conditions or provisions of this Lease, or of the rules adopted under Paragraph 40 hereof, other than those described in subparagraphs 13.1(a), (b) or (c), above, where such Default continues for a period of thirty (30) days after written notice; provided, however, that if the nature of Lessee's Default is such that more than thirty (30) days are reasonably required for its cure, then it shall not be deemed to be a Breach if Lessee commences such cure within said thirty (30) day period and thereafter diligently prosecutes such cure to completion.

(e) The occurrence of any of the following events: (i) the making of any general arrangement or assignment for the benefit of creditors; (ii) becoming a "debtor" as defined in 11 U.S.C. (S) 101 or any successor statute thereto (unless, in the case of a petition filed against Lessee, the same is dismissed within sixty (60) days); (iii) the appointment of a trustee or receiver to take possession of substantially all of Lessee's assets located at the Premises or of Lessee's interest in this Lease, where possession is not restored to Lessee within thirty (30) days;

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or (iv) the attachment, execution or other judicial seizure of substantially all of Lessee's assets located at the Premises or of Lessee's interest in this Lease, where such seizure is not discharged within thirty (30) days; provided, however, in the event that any provision of this subparagraph (e) is contrary to any applicable law, such provision shall be of no force or effect, and not affect the validity of the remaining provisions.

(f) The discovery that any financial statement of Lessee or of any Guarantor given to Lessor was materially false.

(g) If the performance of Lessee's obligations under this Lease is guaranteed: (i) the death of a Guarantor, (ii) the termination of a Guarantor's liability with respect to this Lease other than in accordance with the terms of such guaranty; (iii) a Guarantor's becoming insolvent or the subject of a bankruptcy filing, (iv) a Guarantor's refusal to honor the guaranty, or (v) a Guarantor's breach of its guaranty obligation on an anticipatory basis, and Lessee's failure, within sixty (60) days following written notice of any such event, to provide written alternative assurance or security, which, when coupled with the then existing resources of Lessee, equals or exceeds the combined financial resources of Lessee and the Guarantors that existed at the time of

execution of this Lease.

13.2 Remedies. If Lessee fails to perform any of its affirmative duties or obligations, within ten (10) days after written notice (or after such longer period of notice and opportunity to cure that may be provided for elsewhere in this Lease), or in case of an emergency, without notice, Lessor may, at its option, perform such duty or obligation on Lessee's behalf, including but not limited to the obtaining of reasonably required bonds, insurance policies, or governmental licenses, permits or approvals. The commercially reasonable costs and expenses of any such performance by Lessor shall be due and payable by Lessee upon receipt of invoice therefor. If any check given to Lessor by Lessee shall not be honored by the bank upon which it is drawn, Lessor, at its option, may require all future payments to be made by Lessee to be by cashier's check. In the event of a Breach, Lessor may, with or without further notice or demand, and without limiting Lessor in the exercise of any right or remedy which Lessor may have by reason of such Breach:

(a) Terminate Lessee's right to possession of the Premises by any lawful means, in which case this Lease shall terminate and Lessee shall immediately surrender possession to Lessor. In such event Lessor shall be entitled to recover from Lessee: (i) the unpaid Rent which had been earned at the time of termination; (ii) the worth at the time of award of the amount by which the unpaid rent which would have been earned after termination until the time of award exceeds the amount of such rental loss that the Lessee proves could have been reasonably avoided; (iii) the worth at the time of award of the amount by which the unpaid rent for the balance of the term after the time of award exceeds the amount of such rental loss that the Lessee proves could be reasonably avoided; and (iv) except as limited by the other terms of this Section, any other amount necessary to compensate Lessor for all the detriment proximately caused by the Lessee's failure to perform its obligations under this Lease or which in the ordinary course of things would be likely to result therefrom, including but not limited to the cost of recovering possession of the Premises, expenses of reletting, including such renovation and

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alteration of the Premises as may be necessary to return it to the condition in which Lessee was obligated to leave it upon expiration or sooner termination of the Lease, reasonable attorneys' fees required to regain possession of the Premises and to collect any amounts owed by Lessee to Lessor hereunder, and that portion of any leasing commission paid by Lessor in connection with this lease applicable to the unexpired term of this Lease. The worth at the time of award of the amount referred to in provision (iii) of the immediately preceding sentence shall be computed by discounting such amount at the discount rate of the Federal Reserve Bank of the District within which the Premises are located at the time of award plus one percent (1%). Efforts by Lessor to mitigate damages caused by Lessee's Breach of this Lease shall not waive Lessor's right to recover damages under Paragraph 12. If termination of this Lease is obtained through the provisional remedy of unlawful detainer, Lessor shall have the right to recover in such proceeding any unpaid Rent and damages as are recoverable therein, or Lessor may reserve the right to recover all or any part thereof in a separate suit. If a notice and grace period required under Paragraph 11 was not previously given, a notice to pay rent or quit, or to perform or quit given to Lessee under the unlawful detainer statute shall also constitute the notice required by Paragraph 13.1. In such case, the applicable grace period required by Paragraph 13.1 and the unlawful detainer statute shall run concurrently, and the failure of Lessee to cure the Default within the greater of the two such grace periods shall constitute both an unlawful detainer and a Breach of this Lease entitling Lessor to the remedies provided for in this Lease and/or by said statute.

(b) Continue the Lease and Lessee's right to possession and recover the Rent as it becomes due, in which event Lessee may sublet or assign, subject only to reasonable limitations. Acts of maintenance, efforts to relet, and/or the appointment of a receiver to protect the Lessor's interests, shall not constitute a termination of the Lessee's right to possession.

(c) Pursue any other remedy now or hereafter available under the laws or judicial decisions of the state wherein the Premises are located. The expiration or termination of this Lease and/or the termination of Lessee's right to possession shall not relieve Lessee from liability under any indemnity provisions of this Lease as to matters occurring or accruing during the term hereof or by reason of Lessee's occupancy of the Premises.

13.3 Inducement Recapture. Any agreement for free or abated rent or other charges, or for the giving or paying by Lessor to or for Lessee of any cash or other bonus, inducement or consideration for Lessee's entering into this Lease, all of which concessions are hereinafter referred to as "Inducement Provisions," shall be deemed conditioned upon Lessee's full and faithful performance of all of the terms, covenants and conditions of this Lease. Upon a termination of this Lease by Lessor following a Breach of this Lease by Lessee, any such Inducement Provision shall automatically be deemed deleted from this Lease and of no further force or effect, and a portion of any rent, other charge, bonus, inducement or consideration theretofore abated, given or paid by Lessor under such an Inducement Provision shall be immediately due and payable by Lessee to Lessor, in the same proportion that the then-expired term of the Lease bears to the initial four-year term. The foregoing paragraph shall not apply to, and there shall be no recapture of, the \$10,000 contribution by Lessor toward the cost of certain electrical work on the Premises.

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13.4 Late Charges. Lessee hereby acknowledges that late payment by Lessee of Rent will cause Lessor to incur costs not contemplated by this Lease, the exact amount of which will be extremely difficult to ascertain. Such costs include, but are not limited to, processing and accounting charges, and late charges which may be imposed upon Lessor by any Lender. Accordingly, if any Rent shall not be received by Lessor within five (5) days after such amount shall be due, then, without any requirement for notice to Lessee, Lessee shall pay to Lessor a one-time late charge equal to ten percent (10%) of each such overdue amount. The parties hereby agree that such late charge represents a fair and reasonable estimate of the costs Lessor will incur by reason of such late payment. Acceptance of such late charge by Lessor shall in no event constitute a waiver of Lessee's Default or Breach with respect to such overdue amount, nor prevent the exercise of any of the other rights and remedies granted hereunder. In the event that a late charge is payable hereunder, whether or not collected, for three (3) consecutive installments of Base Rent, then notwithstanding any provision of this Lease to the contrary, Base Rent shall, at Lessor's option, become due and payable quarterly in advance.

13.5 Interest. Any monetary payment due Lessor hereunder, other than late charges, not received by Lessor within thirty (30) days following the date on which it was due, shall bear interest from the thirty-first (31st) day after it was due. The interest ("Interest") charged shall be equal to the prime rate charged by the largest state chartered bank in the state in which the Premises are located plus 4%, but shall not exceed the maximum rate allowed by law. Interest is payable in addition to the potential late charges provided for in Paragraph 13.4.

13.6 Breach by Lessor.

(a) Notice of Breach. Lessor shall not be deemed in breach of this

Lease unless Lessor fails within a reasonable time to perform an obligation required to be performed by Lessor. For purposes of this Paragraph, a reasonable time shall in no event be less than thirty (30) days after receipt by Lessor, and any Lender whose name and address shall have been furnished Lessee in writing for such purpose, of written notice specifying wherein such obligation of Lessor has not been performed; provided, however, that if the nature of Lessor's obligation is such that more than thirty (30) days are reasonably required for its performance, then Lessor shall not be in breach if performance is commenced within such thirty (30) day period and thereafter diligently pursued to completion.

(b) Performance by Lessee on Behalf of Lessor. In the event that neither Lessor nor Lender cures said breach within thirty (30) days after receipt of said notice, or if having commenced said cure they do not diligently pursue it to completion, then Lessee may elect to cure said breach at Lessee's expense and offset from Rent an amount equal to the greater of one month's Base Rent or the Security Deposit, and to pay an excess of such expense under protest, reserving Lessee's right to reimbursement from Lessor. Lessee shall document the cost of said cure and supply said documentation to Lessor.

14. Condemnation. If the entire Premises or reasonable access to it are taken under the power of eminent domain or sold under the threat of the exercise of said power (collectively "Condemnation"), this Lease shall terminate as to the part taken as of the date a condemning

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authority takes title or possession, whichever first occurs. If more than ten percent (10%) of any building, or more than twenty-five percent (25%) of the land area not occupied by any building, is taken by Condemnation, Lessee may, at Lessee's option, to be exercised in writing within ten (10) days after Lessor shall have given Lessee written notice of such taking (or in the absence of such notice, within ten (10) days after the condemning authority shall have taken possession) terminate this Lease as of the date the condemning authority takes such possession. If Lessee does not terminate this Lease in accordance with the foregoing, this Lease shall remain in full force and effect as to the portion of the Premises remaining, except that the Base Rent shall be reduced in proportion to the reduction in utility of the Premises caused by such Condemnation. Condemnation awards and/or payments shall be the property of Lessor, whether such award shall be made as compensation for diminution in value of the leasehold, the value of the part taken, or for severance damages; provided, however, that Lessee shall be entitled to any compensation for Lessee's relocation expenses, loss of business goodwill and/or Trade Fixtures, without regard to whether or not this Lease is terminated pursuant to the provisions of this Paragraph. All Alterations and Utility Installations made to the Premises by Lessee, for purposes of Condemnation only, shall be considered the property of the Lessee and Lessee shall be entitled to any and all compensation which is payable therefor. In the event that this Lease is not terminated by reason of the Condemnation, Lessor shall repair any damage to the Premises caused by such Condemnation.

Commissions have been handled with a separate agreement between Lessor and Broker. J.W.P. [Handwritten on original.]

15. Broker's Fee.

15.1 Additional Commission. In addition to the payments owed pursuant to Paragraph 1.10 above, and unless Lessor and the Brokers otherwise agree in writing, Lessor agrees that: (a) if Lessee exercises any Option, (b) if Lessee acquires any rights to the Premises or other premises owned by Lessor and located within the same Project, if any, within which the Premises is located,

(c) if Lessee remains in possession of the Premises, with the consent of Lessor, after the expiration of this Lease, or (d) if Base Rent is increased, whether by agreement or operation of an escalation clause herein, then Lessor shall pay Brokers a fee in accordance with the schedule of said Brokers in effect at the time of the execution of this Lease.

15.2 Assumption of Obligations. Any buyer or transferee of Lessor's interest in this Lease shall be deemed to have assumed Lessor's obligation hereunder. Each Broker shall be a third party beneficiary of the provisions of Paragraphs 1.10, 15, 22 and 31. If Lessor fails to pay to a Broker any amounts due as and for commissions pertaining to this Lease when due, then such amounts shall accrue interest. In addition, if Lessor fails to pay any amounts to Lessee's Broker when due, Lessee's Broker may send written notice to Lessor and Lessee of such failure and if Lessor fails to pay such amounts within ten (10) days after said notice, Lessee shall pay said monies to its Broker and offset such amounts against Rent. In addition, Lessee's Broker shall be deemed to be a third party beneficiary of any commission agreement entered into by and/or between Lessor and Lessor's Broker.

15.3 Representations and Indemnities of Broker Relationships. Lessee and Lessor each represent and warrant to the other that it has had no dealings with any person, firm, broker or finder (other than the Brokers, if any) in connection with this Lease, and that no one other than

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said named Brokers is entitled to any commission or finder's fee in connection herewith. Lessee and Lessor do each hereby agree to indemnify, protect, defend and hold the other harmless from and against liability for compensation or charges which may be claimed by any such unnamed broker, finder or other similar party by reason of any dealings or actions of the indemnifying party, including any costs, expenses, attorneys' fees reasonably incurred with respect thereto.

16. Tenancy Statement/Estoppel Certificate.

16.1 Each Party (as "Responding Party") shall within ten (10) days after written notice from the other Party (the "Requesting Party") execute, acknowledge and deliver to the Requesting Party an estoppel certificate in writing, in form similar to the then most current "Tenancy Statement" form published by the American Industrial Real Estate Association, plus such additional information, confirmation and/or statements as may be reasonably requested by the Requesting Party.

16.2 If Lessor desires to finance, refinance, or sell the Premises, or any part thereof, Lessee and all Guarantors shall deliver to any potential lender or purchaser designated by Lessor such financial statements as may be reasonably required by such lender or purchaser, including but not limited to Lessee's financial statements for the past three (3) years. All such financial statements shall be received by Lessor and such lender or purchaser in confidence and shall be used only for the purposes herein set forth.

17. Definition of Lessor. The term "Lessor" as used herein shall mean the owner or owners at the time in question of the fee title to the Premises, or, if this is a sublease, of the Lessee's interest in the prior lease. In the event of a transfer of Lessor's title or interest in the Premises or this Lease, Lessor shall deliver to the transferee or assignee (in cash or by credit) any unused Security Deposit held by Lessor. Except as provided in Paragraph 15, upon such transfer or assignment and delivery of the Security Deposit, as aforesaid, the prior Lessor shall be relieved of all liability with respect to the obligations and/or covenants under this Lease thereafter to be performed by the Lessor. Subject to the foregoing, the obligations and/or covenants in this

Lease to be performed by the Lessor shall be binding only upon the Lessor as hereinabove defined. Notwithstanding the above, the original Lessor under this Lease, and all subsequent holders of the Lessor's interest in this Lease shall remain liable and responsible with regard to the potential duties and liabilities of Lessor pertaining to Hazardous Substances as outlined in Paragraph 6 above.

18. Severability. The invalidity of any provision of this Lease, as determined by a court of competent jurisdiction, shall in no way affect the validity of any other provision hereof.

19. Days. Unless otherwise specifically indicated to the contrary, the word "days" as used in this Lease shall mean and refer to calendar days.

20. Limitation on Liability. Except with respect to Lessor's fraud, gross negligence or willful misconduct, the obligations of Lessor under this Lease shall not constitute personal obligations of Lessor, the individual partners of Lessor or its or their individual partners,

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directors, officers or shareholders, and Lessee shall look to the Premises, and to no other assets of Lessor, for the satisfaction of any liability of Lessor with respect to this Lease, and shall not seek recourse against the individual partners of Lessor, or its or their individual partners, directors, officers or shareholders, or any of their personal assets for such satisfaction.

21. Time of Essence. Time is of the essence with respect to the performance of all obligations to be performed or observed by the Parties under this Lease.

22. No Prior or Other Agreements; Broker Disclaimer. This Lease contains all agreements between the Parties with respect to any matter mentioned herein, and no other prior, or contemporaneous agreement or understanding shall be effective. Lessor and Lessee each represents and warrants to the Brokers that it has made, and is relying solely upon, its own investigation as to the nature, quality, character and financial responsibility of the other Party to this Lease and as to the nature, quality and character of the Premises. Brokers have no responsibility with respect thereto or with respect to any default or breach hereof by either Party. The liability (including, court costs and attorneys' fees), of any Broker with respect to negotiation, execution, delivery or performance by either Lessor or Lessee under this Lease or any amendment or modification hereto shall be limited to an amount up to the fee received by such Broker pursuant to this Lease; provided, however, that the foregoing limitation on each Broker's liability shall not be applicable to any gross negligence or willful misconduct of such Broker.

23. Notices

23.1 Notice Requirements. All notices required or permitted by this Lease shall be in writing and may be delivered in person (by hand or by courier) or may be sent by regular, certified or registered mail or U.S. Postal Service Express Mail, with postage prepaid, or by facsimile transmission, and shall be deemed sufficiently given if served in a manner specified in this Paragraph 23. The addresses noted adjacent to a Party's signature on this Lease shall be that Party's address for delivery or mailing of notices. Either Party may upon written notice to the other specify a different address for notice, except that upon Lessee's taking possession of the Premises, the Premises shall constitute Lessee's address for notice. A copy of all notices to Lessor shall be concurrently transmitted to such party or parties at such addresses as Lessor may from time to time hereafter designate in writing.

23.2 Date of Notice. Any notice sent by registered or certified mail, return receipt requested, shall be deemed given on the date of delivery shown on the receipt card or if no delivery date is shown, the postmark thereon. If sent by regular mail the notice shall be deemed given forty-eight (48) hours after the same is addressed as required herein and mailed with postage prepaid. Notices delivered by United States Express Mail or overnight courier that guarantee next day delivery shall be deemed given twenty-four (24) hours after delivery of the same to the Postal Service or courier. Notices transmitted by facsimile transmission or similar means shall be deemed delivered upon telephone confirmation of receipt, provided a copy is also delivered via delivery or mail. If notice is received on a Saturday, Sunday or legal holiday, it shall be deemed received on the next business day.

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24. Waivers. No waiver by Lessor of the Default or Breach of any term, covenant or condition hereof by Lessee, shall be deemed a waiver of any other term, covenant or condition hereof, or of any subsequent Default or Breach by Lessee of the same or of any other term, covenant or condition hereof. Lessor's consent to, or approval of, any act shall not be deemed to render unnecessary the obtaining of Lessor's consent to, or approval of, any subsequent or similar act by Lessee, or be construed as the basis of an estoppel to enforce the provision or provisions of this Lease requiring such consent. The acceptance of Rent by Lessor shall not be a waiver of any default or Breach by Lessee. Any payment by Lessee may be accepted by Lessor on account of monies or damages due Lessor, notwithstanding any qualifying statements or conditions made by Lessee in connection therewith, which such statements and/or conditions shall be of no force or effect whatsoever unless specifically agreed to in writing by Lessor at or before the time of deposit of such payment.

25. Recording. Either Lessor or Lessee shall, upon request of the other, execute, acknowledge and deliver to the other a short form memorandum of this Lease for recording purposes. The Party requesting recordation shall be responsible for payment of any fees applicable thereto.

26. No Right To Holdover. Lessee has not right to retain possession of the Premises or any part thereof beyond the expiration or termination of this Lease. In the event that Lessee holds over, then the Base Rent shall be increased to one hundred fifty percent (150%) of the Base Rent applicable during the month immediately preceding the expiration or termination. Nothing contained herein shall be construed as consent by Lessor to any holding over by Lessee. (See Paragraph 56 of Addendum for modifications.)

27. Cumulative Remedies. No remedy or election hereunder shall be deemed exclusive but shall, wherever possible, be cumulative with all other remedies at law or in equity.

28. Covenants and Conditions; Construction of Agreement. All provisions of this Lease to be observed or performed by Lessee are both covenants and conditions. In construing this Lease, all headings and titles are for the convenience of the parties only and shall not be considered a part of this Lease. Whenever required by the context, the singular shall include the plural and vice versa. This Lease shall not be construed as if prepared by one of the parties, but rather according to its fair meaning as a whole, as if both parties had prepared it.

29. Binding Effect; Choice of Law. This Lease shall be binding upon the parties, their personal representatives, successors and assigns and be governed by the laws of the State in which the Premises are located. Any litigation between the Parties hereto concerning this Lease shall be initiated in the county in which the Premises are located.

30. Subordination; Attornment; Non-Disturbance.

30.1 Subordination. This Lease and any Option granted hereby shall be subject and subordinate to any ground lease, mortgage, deed of trust, or other hypothecation or security device (collectively, "Security Device"), now or hereafter placed upon the Premises, to any and

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all advances made on the security thereof, and to all renewals, modifications, and extensions thereof. Lessee agrees that the holders of any such Security Devices shall have no liability or obligation to perform any of the obligations of Lessor under this Lease, unless and until such party acquires title to the Premises. Any Lender may elect to have this Lease and/or any Option granted hereby superior to the lien of its Security Device by giving written notice thereof to Lessee. This Lease and such Options shall be deemed prior to such Security Device, notwithstanding the relative dates of the documentation or recordation thereof.

30.2 Attornment. Subject to the non-disturbance provisions of Paragraph 30.3, Lessee agrees to attorn to a Lender or any other party who acquires ownership of the Premises by reason of a foreclosure of a Security Device, and that in the event of such foreclosure, such new owner shall not: (i) be liable for any act or omission of any prior lessor or with respect to events occurring prior to acquisition of ownership; (ii) be subject to any offsets or defenses which Lessee might have against any prior lessor, or (iii) be bound by prepayment of more than one (1) month's rent.

30.3 Non-Disturbance. With respect to Security Devices entered into by Lessor after the execution of this Lease, Lessee's subordination of this Lease shall be subject to receiving a commercially reasonable non-disturbance agreement (a "Non-Disturbance Agreement") from the Lender which Non-Disturbance Agreement provides that Lessee's possession of the Premises, and this Lease, including any options to extend the term hereof, will not be disturbed so long as Lessee is not in Breach hereof and attorns to the record owner of the Premises. Further, within sixty (60) days after the execution of this Lease, Lessor shall use its commercially reasonable efforts to obtain a Non-Disturbance Agreement from the holder of any pre-existing Security Device which is secured by the Premises. In the event that Lessor is unable to provide the Non-Disturbance Agreement within said sixty (60) days, then Lessee may, at Lessee's option, directly contact Lessor's lender and attempt to negotiate for the execution and delivery of a Non-Disturbance Agreement.

30.4 Self-Executing. The agreements contained in this Paragraph 30 shall be effective without the execution of any further documents; provided, however, that, upon written request from Lessor or a Lender in connection with a sale, financing or refinancing of the Premises. Lessee and Lessor shall execute such further writings as may be reasonably required to separately document any subordination, attornment and/or Non-Disturbance Agreement provided for herein.

31. Attorney's Fees. If any Party or Broker brings an action or proceeding to enforce the terms hereof or declare rights hereunder, the Prevailing Party (as hereafter defined) in any such proceeding, action, or appeal thereon, shall be entitled to reasonable attorneys' fees. Such fees may be awarded in the same suit or recovered in a separate suit, whether or not such action or proceeding is pursued to decision or judgment. The term, "Prevailing Party" shall include, without limitation, a Party or Broker who substantially obtains or defeats the relief sought, as the case may be, whether by compromise, settlement, judgment, or the abandonment by the other Party or Broker of its claim or defense. The attorneys' fees award shall not be computed in accordance with any court fee schedule, but shall be such as to fully reimburse all attorneys' fees

reasonably incurred. In addition, Lessor shall be entitled to attorneys' fees, costs and expenses incurred in the preparation and service of notices of Default and consultations in connection therewith, whether or not a legal action is subsequently commenced in connection with such Default or resulting Breach.

32. Lessor's Access' Showing Premises; Repairs. Lessor and Lessor's agents shall have the right to enter the Premises at any time, in the case of an emergency, and otherwise at reasonable times for the purpose of showing the same to prospective purchasers, lenders, or lessees, and making such repairs to the Premises as Lessor may be required to do under this Lease. All such activities shall be without abatement of rent or liability to Lessee, so long as Lessor uses reasonable care to avoid disrupting Lessee's business on the Premises. Lessor may at any time place on the Premises any ordinary "For Sale" signs and Lessor may during the last six (6) months of the term hereof place on the Premises any ordinary "For Lease" signs. Lessee may at any time place on or about the Premises any ordinary "For Sublease" sign. Landlord may make other general purpose improvements to Premises that do not disrupt Tenant's operations on the Premises.

33. Auctions. Lessee shall not conduct, nor permit to be conducted, any auction upon the Premises without Lessor's prior written consent. Lessor shall not be obligated to exercise any standard of reasonableness in determining whether to permit an auction.

34. Signs. Except for reasonable Signage identifying Lessee's business upon the Premises and ordinary "For Sublease" signs, Lessee shall not place any sign upon the Premises without Lessor's prior written consent, which shall not be unreasonably withheld or delayed. All signs must comply with all Applicable Requirements.

35. Termination; Merger. Unless specifically stated otherwise in writing by Lessor, the voluntary or other surrender of this Lease by Lessee, the mutual termination or cancellation hereof, or a termination hereof by Lessor for Breach by Lessee, shall automatically terminate any sublease or lesser estate in the Premises; provided, however, that Lessor may elect to continue any one or all existing subtenancies. Lessor's failure within ten (10) days' following any such event to elect to the contrary by written notice to the holder of any such lesser interest, shall constitute Lessor's election to have such event constitute the termination of such interest.

36. Consents. Except as otherwise provided herein, wherever in this Lease the consent of a Party is required to an act by or for the other Party, such consent shall not be unreasonably withheld or delayed. Except as expressly limited elsewhere in this Lease, Lessor's actual reasonable costs and expenses (including but not limited to architects', attorneys', engineers' and other consultants' fees) incurred in the consideration of, or response to, a request by Lessee for any Lessor consent, including but not limited to consents to an assignment, a subletting or the presence or use of a Hazardous Substance, shall be paid by Lessee upon receipt of an invoice and supporting documentation therefor. Lessor's consent to any act, assignment or subletting shall not constitute an acknowledgment that no Default or Breach by Lessee of this Lease exists, nor shall such consent be deemed a waiver of any then existing Default or Breach, except as may be otherwise specifically stated in writing by Lessor at the time of such consent. In the event that

either Party disagrees with any determination made by the other hereunder and reasonably requests the reasons for such determination, the determining party shall furnish its reasons in writing and in reasonable detail within ten (10) business days following such request.

37. Guarantor.

37.1 Execution. The Guarantors if any, shall each execute a guaranty in the form most recently published by the American Industrial Real Estate Association, and each such Guarantor shall have the same obligations as Lessee under this Lease.

37.2 Default. It shall constitute a Default of the Lessee if any Guarantor fails or refuses, upon request to provide: (a) evidence of the execution of the guaranty, including the authority of the party signing on Guarantor's behalf to obligate Guarantor, and in the case of a corporate Guarantor, a certified copy of a resolution of its board of directors authorizing the making of such guaranty, (b) current financial statements, (c) a Tenancy Statement, or (d) written confirmation that the guaranty is still in effect.

38. Quiet Possession. Subject to payment by Lessee of the Rent and performance of all of the covenants, conditions and provisions on Lessee's part to be observed and performed under this Lease, Lessee shall have quiet possession and quiet enjoyment of the Premises during the term hereof.

39. Options See Addendum Paragraph 53 for Options to Extend Term of Lease.

39.1 Definition. "Option" shall mean: (a) the right to extend the term of or renew this Lease or to extend or renew any lease that Lessee has on other property of Lessor; (b) the right of first refusal or first offer to lease either the Premises or other Property of Lessor; (c) the right to purchase or the right of first refusal to purchase the Premises or other property of Lessor.

39.2 Options Personal To Original Lessee. INTENTIONALLY DELETED.

39.3 Multiple Options. In the event that Lessee has any multiple Options to extend or renew this Lease, a later Option cannot be exercised unless the prior Options have been validly exercised.

39.4 Effect of Default on Options.

(a) Lessee shall have no right to exercise an Option: (i) during the period commencing with the giving of any notice of Default and continuing until said Default is cured, (ii) during the period of time any Rent is unpaid (without regard to whether notice thereof is given to Lessee), (iii) during the time Lessee is in Breach of this Lease, or (iv) in the event that Lessee has been given three (3) or more notices of Default, whether or not the Defaults are cured, during the twelve (12) month period immediately preceding the exercise of the Option.

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(b) The period of time within which an Option may be exercised shall not be extended or enlarged by reason of Lessee's inability to exercise an Option because of the provisions of Paragraph 39-4(a).

(c) An Option shall terminate and be of no further force or effect, notwithstanding Lessee's due and timely exercise of the Option, if, after such exercise and prior to the commencement of the extended term, (i) Lessee fails to pay Rent for a period of thirty (30) days after such Rent becomes due (without

any necessity of Lessor to give notice thereof), (ii) Lessor gives to Lessee three (3) or more notices of separate Default during any twelve (12) month period, whether or not the Defaults are cured, or (iii) if Lessee commits a Breach of this Lease.

40. Multiple Buildings. INTENTIONALLY DELETED.

41. Security Measures. Lessee hereby acknowledges that the rental payable to Lessor hereunder does not include the cost of guard service or other security measures, and that Lessor shall have no obligation whatsoever to provide same. Lessee assumes all responsibility for the protection of the Premises, Lessee, its agent and invitees and their property from the acts of third parties.

42. Reservations. Lessor reserves to itself the right, from time to time, to grant, without the consent or joinder of Lessee, such easement, rights and dedications that Lessor deems necessary, and to cause the recordation of parcel maps and restrictions, so long as such easements, rights, dedications, maps and restrictions do not unreasonably interfere with the use of the Premises by Lessee. Lessee agrees to sign any documents reasonably requested by Lessor to effectuate any such easement rights, dedication, map or restrictions.

43. Performance Under Protest. If at any time a dispute shall arise as to any amount or sum of money to be paid by one Party to the other under the provisions hereof, the Party against whom the obligation to pay the money is asserted shall have the right to make payment "under protest" and such payment shall not be regarded as a voluntary payment and there shall survive the right on the part of said Party to institute suit for recovery of such sum. If it shall be adjudged that there was no legal obligation on the part of said Party to pay such sum or any part thereof, said Party shall be entitled to recover such sum or so much thereof as it was not legally required to pay.

44. Authority. If either Party hereto is a corporation, trust, limited liability company, partnership, or similar entity, each individual executing this Lease on behalf of such entity represents and warrants that he or she is duly authorized to execute and deliver this Lease on its behalf. Each party shall, within thirty (30) days after request, deliver to the other party satisfactory evidence of such authority.

45. Conflict. Any conflict between the printed provisions of this Lease and the typewritten or handwritten provisions shall be controlled by the typewritten or handwritten provisions.

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46. Offer. Preparation of this Lease by either Party or their agent and submission of same to the other Party shall not be deemed an offer to lease to the other Party. This Lease is not intended to be binding until executed and delivered by all Parties hereto.

47. Amendments. This Lease may be modified only in writing, signed by the Parties in interest at the time of the modification. As long as they do not materially change Lessee's rights or obligations hereunder or those of Lessor, Lessee agrees to make such reasonable non-monetary modifications to this Lease as may be reasonably required by a Lender in connection with the obtaining of normal financing or refinancing of the Premises.

48. Multiple Parties. If more than one person or entity is named herein as either Lessor or Lessee, such multiple Parties shall have joint and several responsibility to comply with the terms of this Lease.

49. Mediation and Arbitration of Disputes. An Addendum requiring the

Mediation and/or the Arbitration of all disputes between the Parties and/or Brokers arising out of this Lease [] is, [X] is not attached to this Lease.

See ADDENDUM and EXHIBITS attached to this Lease which are an integral part of this Agreement.

LESSOR AND LESSEE HAVE CAREFULLY READ AND REVIEWED THIS LEASE AND EACH TERM AND PROVISION CONTAINED HEREIN, AND BY THE EXECUTION OF THIS LEASE SHOW THEIR INFORMED AND VOLUNTARY CONSENT THERETO. THE PARTIES HEREBY AGREE THAT AT THE TIME THIS LEASE IS EXECUTED, THE TERMS OF THIS LEASE ARE COMMERCIALY REASONABLE AND EFFECTUATE THE INTENT AND PURPOSE OF LESSOR AND LESSEE WITH RESPECT TO THE PREMISES.

ATTENTION: NO REPRESENTATION OR RECOMMENDATION IS MADE BY THE AMERICAN INDUSTRIAL REAL ESTATE ASSOCIATION OR BY ANY BROKER AS TO THE LEGAL SUFFICIENCY, LEGAL EFFECT OR TAX CONSEQUENCES OF THIS LEASE OR THE TRANSACTION TO WHICH IT RELATES. THE PARTIES ARE URGED TO:

- 1. SEEK ADVICE OF COUNSEL AS TO THE LEGAL AND TAX CONSEQUENCES OF THIS LEASE.
2. RETAIN APPROPRIATE CONSULTANTS TO REVIEW AND INVESTIGATE THE CONDITION OF THE PREMISES. SAID INVESTIGATION SHOULD INCLUDE BUT NOT BE LIMITED TO: THE POSSIBLE PRESENCE OF HAZARDOUS SUBSTANCES, THE ZONING OF THE PREMISES, THE STRUCTURAL INTEGRITY, THE CONDITION OF THE ROOF AND OPERATING SYSTEMS AND THE SUITABILITY OF THE PREMISES FOR LESSEE'S INTENDED USE.

WARNING: IF THE PREMISES IS LOCATED IN A STATE OTHER THAN CALIFORNIA, CERTAIN PROVISIONS OF THE LEASE MAY NEED TO BE REVISED TO COMPLY WITH THE LAWS OF THE STATE IN WHICH THE PREMISES IS LOCATED.

[Initial]

ADDENDUM (Paragraphs 50 - 57 on Pages 37-41) and EXHIBIT 11 is attached hereto and is part of this Lease Agreement.

The parties hereto have executed this Lease at the place and on the dates specified above their respective signatures.

<TABLE>

<S>

Executed at: Santa Monica, California

on: March 10, 1998

By LESSOR:

CENTER/NEVADA ASSOCIATES

A California General Partnership

Fred W. Plotke - Managing Partner

By: /s/ Fred W. Plotke

Name Printed: Fred W. Plotke

Title: Managing Partner

<C>

Executed at: Seattle, Washington

on: March, 1998

By LESSEE:

BRIAZZ, INC.

A Washington State Corporation

Federal ID# 91-1672311

By: _____

Name Printed: Bruce D. Boxer

Title: Vice-President

xx: Business Address

Name Printed: TIME REALTY INVESTMENTS, INC.

Title: 1511 - 18/th/ Street

Address: Santa Monica, CA 90404

Telephone: 310/828-4481

Facsimile: 310/453-2216

Federal ID No.: 95-4083570 (TRI, INC.)

95-4223148 (CENTER/NEVADA)
(ASSOCIATES)

By: /s/ James A .McDermet

Name Printed: James A .McDermet

Title: President

Address: 1011 Klickitat Way - Suite 202

Telephone: 206/467-0994

Facsimile: 206/467-1970

Federal ID No.: 91-1672311

</TABLE>

BROKER:	BROKER:
Executed at: _____	Executed at: _____
on: _____	on: _____
By: _____	By: _____
Name Printed: _____	Name Printed: _____
Title: _____	Title: _____
Address: _____	Address: _____
Telephone: _____	Telephone: _____
Facsimile: _____	Facsimile: _____
Federal ID No.: _____	Federal ID No.: _____

NOTE: These forms are often modified to meet changing requirements of law and industry needs. Always write or call to make sure you are utilizing the most current form:

[Initial]

AMERICAN REAL ESTATE ASSOCIATION, 700 So. Flower Street, Suite 600, Los Angeles, California 90017. (213) 687-8777. Fax No. (213) 687-8616.

[Initial]

ADDENDUM TO THE LEASE DATED DECEMBER 15, 1997

50. Rental Payments During Initial Term of Lease and First Option Period (First 96 Months). The base rental rate for the first 12 months of the lease term shall be \$9500/month payable in advance on the first day of each successive month. The rent shall be increased 3%/year, compounded annually, on the anniversary date (March 1st) of each successive year. More specifically, the base rental rates during the initial term of the lease and first option period (96 months) of the lease term, rounded to the nearest \$50 are as follows:

- 1) 3/1/98 - 2/28/99 Base Rental Rate = \$9500/month (except for

3/1/98-4/30/98, for which \$4,750 shall be paid)

- 2) 3/1/99 - 2/28/00 Base Rental Rate = 9800/month
- 3) 3/1/00 - 2/29/01 Base Rental Rate = 10100/month
- 4) 3/1/01 - 2/28/02 Base Rental Rate = 10400/month
- 5) Year 1 - 1st Option
3/1/02 - 2/28/03 Base Rental Rate = 10700/month
- 6) Year 2 - 1st Option
3/1/03 - 2/29/04 Base Rental Rate = 11000/month
- 7) Year 3 - 1st Option
3/1/04 - 2/28/05 Base Rental Rate = 11350/month
- 8) Year 4 - 1st Option
3/1/05 - 2/28/06 Base Rental Rate = 11700/month

Lessor acknowledges that Lessee has previously deposited \$15,000 with Lessor. Upon execution of the Lease, such funds shall be held as a Security Deposit. Lessee shall also then pay \$4,750 advance rent for the period through 4/30/98 (total of \$19,750). Lessor agrees to pay interest on the Security Deposit at the rate of 4% annum payable on March 1st of each successive year with the first interest payment of \$600 to be paid on 3/1/98, and with payments thereafter at the rate of \$600 per year on each March 1st.

51. Use of the Premises. This paragraph modifies Para. 6 of the Lease Agreement. The subject premises shall be used by Lessee for the following lawful purpose: commissary facility for a group of sandwich shops and fast-food kiosks operated by BRIAZZ, INC., and/or its permitted transferees. The intended activities to be conducted within the subject premises shall include food storage and preparation, delivery and catering, office support activities and other related uses. The subject premises may be also used for other legally permitted business activities, unless such activities create significant additional physical and/or legal hazards beyond

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those associated with the intended initial use (food preparation commissary), (e.g., uses such as manufacturing of inflammable spray paints, manufacture or distribution of lacquers or insecticides, warehousing and distribution of fireworks, or use as an automotive body shop --even though such uses may be technically legal in this area of the City of El Segundo).

52. Condition of Premises. This paragraph modifies Paragraphs 2.2 and 7.1(b) and 7.1(c) of the Lease Agreement. Lessee shall accept the subject premises in their current existing condition as of the date of Lease commencement, except that Lessor shall deliver the subject premises broom-swept clean and with all currently existing plumbing, electrical and HVAC systems and equipment in good operating condition. Lessor shall meet all obligations as generally described in Para. 2.2 of the Lease Agreement. Lessor will also accept responsibility for maintenance of the roof (including the roof membrane), exterior walls, foundation, and parking lot areas over the lease term (presuming normal use by Lessee).

53. Options to Extend the Term of Lease. Lessee shall have certain Options to Extend the Term of Lease for three additional 48 month periods as follows:

--First Option Period: 3/1/2002 - 2/28/2006
 --Second Option Period: 3/1/2006 - 2/28/2010
 --Third Option Period: 3/1/2010 - 2/28/2014

Rent for the first option period shall be as set forth in the schedule in Paragraph 50 above. The base rental rates for the second option period shall be determined by establishing a new "fair market rent" on 3/1/2006 and then using consumer price index adjustments for the next three years of the second option period. The new "fair market rent" (FMRI) on 3/1/2006 shall be determined by the following procedure:

Four months prior to the first day of the second option term (the "Market Rental Value (MRV) Adjustment Date"), Lessor and Lessee shall meet to establish an agreed upon new MRV for the specified term. If agreement cannot be reached, then:

i) Lessor and Lessee shall immediately appoint a mutually acceptable appraiser or broker to establish the new MRV within the next 30 days. Any associated costs will be split equally between the parties, or

ii) Both Lessor and Lessee shall each immediately select and pay the appraiser or broker of their choice to establish a MRV within the next 30 days. If, for any reason, either one of the appraisals is not completed within the next 30 days, as stipulated, then the appraisal that is completed at that time shall automatically become the new MRV. If both appraisals are completed and the two appraisers/brokers cannot agree on a reasonable average MRV then they shall immediately select a third mutually acceptable appraiser/broker to establish a third MRV within the next 30 days. The average of the two appraisals closest in value shall then become the new MRV. The costs of the third appraisal will be split equally between the parties.

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iii) In any event, the new MRV shall not be less than the rent payable for the month immediately preceding the date for rent adjustment.

The base rental rates for the second option period shall be determined as follows:

<S>	<C>	<C>
Base Rental Rate 3/1/06 - 2/28/07	FMR1 determined on 3/1/06 by procedure indicated above	
Base Rental Rate 3/1/07 - 2/28/08	CPI on 3/1/07 ----- CPI on 3/1/06	X FMR1 Minimum Rent = 3% more than previous rate Maximum Rent = 6% more than previous rate
Base Rental Rate 3/1/09 - 2/28/10	CPI on 3/1/09 ----- CPI on 3/1/06	X FMR1 Minimum Rent = 3% increase Maximum Rent = 6% increase
Base Rental Rate 3/1/11 - 2/28/12	CPI on 3/1/11 ----- CPI on 3/1/06	X FMR1 Minimum Rent = 3% increase Maximum Rent = 6% increase

The base rental rates for the third option period shall be determined by the establishment of a new "fair market rent" on 3/1/10 and then using CPI adjustments for the next three years of the third option period. The CPI Index to be used shall be the CONSUMER PRICE INDEX FOR URBAN WAGE EARNERS AND CLERICAL WORKERS - ALL U.S. CITIES (National CPI Index) which is published by the U.S. Bureau of Labor Statistics and is updated monthly. The new "fair market rent" (FMR2) on 3/1/10 shall be determined by the same procedure as indicated above for FMR1. The rental rate adjustments for the 2nd, 3rd and 4th years of the third option period shall be computed by reference to the Consumer Price Index (CPI) using 3/1/10 as the base period and FMR2 as the base rent. The rental rate computations for the second option period are as follows:

<S>	<C>	<C>
Base Rental Rate 3/1/01 - 2/28/11	FMR1 determined on 3/1/10 by procedure indicated above	
Base Rental Rate 3/1/11 - 2/28/12	CPI on 3/1/2011 ----- CPI on 3/1/2010 previous rate	X FMR2 Minimum Rent = 3% more than previous rate Maximum Rent = 6% more than
Base Rental Rate 3/1/12 - 2/28/13	CPI on 3/1/2012 ----- CPI on 3/1/2010	X FMR2 Minimum Rent = 3% increase Maximum Rent = 6% increase
Base Rental Rate 3/1/13 - 2/28/14	CPI on 3/1/2013 ----- CPI on 3/1/2010	X FMR2 Minimum Rent = 3% increase Maximum Rent = 6% increase

</TABLE>

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3/1/13 - 2/28/14 CPI on 3/1/2010 Maximum Rent = 6% increase

To exercise the Option(s) to Extend the Term of Lease (first, second or third Options to Extend), Lessee must not be in violation of any of the general terms and conditions of the Lease, rental payments must be current, and Lessee must give Lessor a minimum of ninety (90) days advance written Notice of its intent to exercise the Option(s) to Extend which Notice shall be delivered to Lessor's address as set forth on the first page of this Lease. However, Lessor shall be obligated to give a written Notice to Lessee at least 100 days prior to the expiration date of the Lease (or extended term of Lease), indicating that the Lease will be terminating which Notice shall be sent to Lessee's address set forth on the first page of this Lease. Either party may change its address for notice by written notice to the other party, given in accordance with the terms of this Lease. Lessee shall have at least 10 days advance notice of the necessity to respond to Lessor, if Lessee wishes to extend the Lease term.

If Lessor does not receive timely Notice of Lessee's intent to extend the Lease, Lessor shall have no further obligation to Lessee to extend the Lease and shall be free to make alternative leasing commitments for the Subject Premises.

54. Limitation on Lessee's Obligation for R.E. Taxes during Initial Lease Term. This paragraph modifies Para. 10 of this Lease Agreement. During the initial term of the Lease (first 48 months) Lessee's responsibility for R.E. Taxes shall be limited to those based on valuation assessments which would be normally be imposed on the ownership of the property in the absence of a sale or transfer of the property (which could result in a valuation re-assessment). However, this limitation shall not be applicable if the term of the Lease is extended (i.e., after 3/1/2002).

55. Payment of Real Estate Property Taxes and Insurance Premiums. This Paragraph modifies Para. 10 of the Lease Agreement. Lessee shall pay Lessor 1/12 of the estimated annual R.E. Taxes applicable to the subject leased premises each month. The monthly R.E. Tax Payments shall be due and payable on the first day of each successive calendar month together with the Net Monthly Rental Payment also due on the first day of each month. Any required adjustment in the total R.E. Taxes due and/or paid shall be made annually on the anniversary date of this Lease (March 1st of each successive year) upon presentation of the documented R.E. Tax billing to Lessee. This arrangement for estimated monthly R.E. Tax payments shall be applicable during the entire term of the Lease including the initial 48 month period as well as extended periods. The monthly allocation for R.E. Taxes shall be deemed additional rent payable. The terms and conditions indicated in this paragraph are subject to the limitation on Lessee's total R.E. Tax obligations during the first 48 months of the Lease terms as indicated in Para. 54 above.

For the initial twelve (12) month period of this Lease (3/11/98 - 2/28/2002) the estimated monthly R.E. Tax allocation shall be \$800/Month (except that there shall be no real estate taxes paid by Lessee for the period from 3/1/98 to 4/14/98). This initial estimate of the monthly R.E. Tax allocation is based on the anticipated assessment of the subject property as of 3/1/98. If Lessee

[Initial]

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elects to have Lessor insure the Premises in the manner provided in the Lease, Lessee shall reimburse Lessor for 1/12 the cost of such premiums at the time Lessee pays its monthly installment of Real Estate Taxes. By December 1 of each year, Lessor will forward to Lessee a reconciliation of amounts impounded versus amounts actually paid by Lessee. If Lessee has overpaid or underpaid any of the above amounts, future impounds due for the then-coming calendar year will be adjusted up or down to compensate for such overpayment or underpayment, or if a full year does not remain in the term of the lease, then the adjustment will be made over the remaining months of the lease.

56. Holding Over by Lessee. In the event that Lessee shall hold the premises after the expiration of the term of the Lease hereof or any extension thereof, such holding over shall, in the absence of a superseding written agreement, be deemed to have created a tenancy on a month-to-month basis terminable upon thirty (30) days written Notice by either party to the other. In the event that Lessee shall hold possession of the subject premises after the expiration of the initial lease term (i.e., after 2/28/2002), Lessee shall pay Lessor a monthly rental rate of \$12,000/month commencing 3/1/2002. In the event that Lessee shall hold the premises upon expiration of the first, second, or third Option Extension Terms (after 2/28/2006, 2/28/2010 or 2/28/2014), Lessee shall pay Lessor the established prevailing monthly base rent for the previous month plus \$2500/Month on a month-to-month basis until such arrangement is superseded with a written agreement or until Lessee terminates tenancy of the subject premises.

57. Lessor's Contribution to Costs of Electrical Work. Lessor will pay \$10,000 of the cost of modifying the electrical system serving the Premises in connection with Lessee's initial improvements. Such payment will be made upon presentation to Lessor by Lessee of invoices equal to or exceeding such amount.

END OF ADDENDUM TO THE LEASE

[Initial]

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EXHIBIT I - DIAGRAM OF THE SUBJECT PREMISES

NOTE: This diagram indicates the initial configuration - prior to Lessee's planned Tenant Improvement (TI) modifications.

[Graphics showing layout and floor design]

[Initial]

200 CENTER STREET
EL SEGUNDO, CA 90245

BRIAZZ, INC. - A WASHINGTON STATE CORPORATION

EXHIBIT II -- SAMPLE CPI SCHEDULE

\PFS\CPI

Revised 1/22/98

CONSUMER PRICE INDEX, ALL ITEMS

U.S. CITY AVERAGE

This Consumer Price Index (CPI) is published by the U.S. Department of Labor Bureau of Labor Statistics. Statistics are updated monthly. For national and local CPI information you may contact the local office of the Bureau of Labor Statistics at (213) 252-7528 or (213) 252-7521.

Data prior to January 1978 is used with the CPI for all Urban Wage Earners and Clerical Workers (CPI-W).

CONSUMER PRICE INDEX
FOR URBAN WAGE EARNERS AND CLERICAL WORKERS (CPI-W)

<TABLE>
<CAPTION>

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual Average
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
1978	187.1	188.4	189.7	191.4	193.3	195.3	196.7	197.7	199.1	200.7	201.8	202.9	195.3
1979	204.7	207.1	209.3	211.8	214.3	216.9	219.4	221.5	223.7	225.6	227.6	230.0	217.7
1980	233.1	236.5	239.9	242.6	245.1	247.8	248.0	249.6	251.9	254.1	256.4	258.7	247.0
1981	260.7	263.5	265.2	266.8	269.1	271.4	274.6	276.5	279.1	279.7	280.4	281.1	272.8
1982	282.1	282.9	282.5	283.7	280.5	290.1	291.8	292.4	292.8	293.6	293.2	292.0	288.6
1983	292.1	292.3	293.0	294.9	296.3	297.2	298.2	299.5	300.8	301.3	301.4	301.5	297.4
1984	302.7	303.3	303.3	304.1	305.4	306.2	307.5	310.3	312.1	312.2	311.9	312.2	307.0
1985	312.6	313.9	315.3	316.7	317.8	318.7	319.1	319.6	320.5	321.3	322.6	323.4	318.5
1986	324.3	321.2	321.4	320.4	321.4	323.0	322.9	323.4	324.9	325.0	325.4	325.7	323.4
1987	327.7	329.0	330.5	332.2	333.4	334.9	335.6	337.4	339.1	340.0	340.4	340.2	334.3
1988	341.0	341.6	343.0	344.7	346.1	347.6	349.1	350.7	343.0	354.2	354.6	355.0	348.4
1989	356.7	358.0	360.0	362.9	364.9	365.9	366.8	367.0	368.3	369.8	370.6	371.1	365.2
1990	375.0	376.6	378.5	379.2	379.9	382.1	383.4	386.9	390.5	393.0	393.8	393.8	384.4

1991	395.4	395.7	396.1	397.1	398.5	399.6	400.0	401.0	402.8	403.2	404.5	404.7	399.9
1992	405.2	406.2	408.1	408.9	490.9	411.4	412.1	413.3	414.5	415.8	416.5	416.3	411.5

[Initial]

<TABLE>
<CAPTION>

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual Average
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
1993	417.8	419.2	420.4	421.6	422.6	423.1	423.2	424.2	424.9	426.7	427.1	426.9	423.1
1994	427.7	428.8	430.2	430.9	431.7	433.2	434.3	436.4	437.5	437.8	438.6	438.6	433.8
1995	440.2	441.7	443.0	444.6	445.6	446.5	446.5	447.4	448.5	449.6	449.5	449.5	446.1
1996	451.9	453.2	455.6	457.6	458.7	459.1	459.7	460.2	451.9	463.2	464.2	464.3	459.1
1997	465.7	467.0	467.8	468.3	468.3	468.8	470.0	470.0	471.5	472.3	472.2	471.3	469.4
1998	471.9	472.5	473.1	473.7									

Note: Boldface figures are estimated figures based on the latest available

figures. In the chart above, the latest available figures are for December 1997. To project the estimated figures for January through April 1998, we have added the average monthly increase over the previous year, i.e. the CPI in December 1997 = 471.3 less the CPI in December 1996 of 464.3 = 7.0 Index Points per year and when divided by 12 months = an average increase of 0.6 Index Points per month. So, 0.6 Index Points have been added to each of the estimated months above beginning with January 1998 (i.e., December figure of 471.3 + 0.6 = 471.9).

INDUSTRIAL BUILDING LEASE
(For Use in Illinois)

NO. 1201
FEBRUARY 1986

GEORGE E. COLE
LEGAL FORMS

CAUTION: Consult a lawyer before using or acting under this form. Neither the publisher nor the seller of this form makes any warranty with respect thereto, including any warranty of merchantability or fitness for a particular purpose.

INDUSTRIAL BUILDING LEASE

Date of Lease	Term of Lease	Monthly Rent
April 7, 1997	Beginning: April 7, 1997 Ending: March 31, 2002	SEE RIDER R-3

Location of Premises:

Approximately 11,557 sq. ft. in the building commonly known as 1642 Lake Street, Chicago, Illinois, as set forth on the floor plan outlined in yellow on Exhibit A attached hereto and made a part hereof.

Lessee shall also have the use of all common areas in the building in which the Premises are located and the surrounding property, including without limitation the adjacent alley providing access to Lake Street and Walnut Street.

Purpose:

Lessee shall use the Leased Premises solely for the purpose of commissary and general office use and Lessee will not use or permit or suffer the use of the premises or any part thereof for any other business or purpose or violate any zoning ordinance or impair the reputation of the building.

<TABLE>

<S>	<C>	<C>
LESSEE: BRIAZZ, INC. a Washington Corporation, Jim McDermet	LESSOR: Address	WALNUT STREET PROPERTIES, INC. 1639 W. Walnut Chicago, Illinois 60622
Address: 1011 SW Klickitat Avenue, Suite 202 Seattle, WA 98134		

</TABLE>

In consideration of the mutual covenants and agreements herein stated, Lessor hereby leases to Lessee and Lessee hereby leases from Lessor solely for the above purpose the premises designated above (the "Premises"), together with the appurtenances thereto, for the above Term. Subject to the terms and conditions of the Rider attached hereto and made a part of hereof, Lessor and Lessee agree as follows:

RENT 1. Lessee shall pay Lessor or Lessor's agent as base rent

for the Premises the sum stated above, monthly in advance on the first day of each month, until termination of this lease, at Lessor's address stated above or such other address as Lessor may designate in writing. In the event Lessee does not pay the base rent within the first five days of each month then a penalty shall accrue on the unpaid rent at a rate of \$15.00 per day from the first day of each

month. Notwithstanding the above Lessor agrees to notify Lessee the first two times of Lessee's default in payment during any calendar year and in the event Lessee does not pay the base rent within five days after notice of default from Lessor then a penalty will accrue on the unpaid rent at a rate of \$15.00 per day from the first day of each month.

LESSEE NOT TO

MISUSE SUBLET

ASSIGNMENT

2. Lessee will not allow the Premises to be used for any purpose other than that herein before specified, and will not load floors with machinery or goods beyond the floor

load rating prescribed by applicable municipal ordinances, and will not allow the Premises to be occupied in whole, or part, by any other person, and except as otherwise provided in the Rider attached hereto will not sublet the same or any part thereof, nor assign this lease without in each case first obtaining the written consent of the Lessor, and Lessee will not permit any transfer by operation of law of the interest in Premises acquired through this lease, and will not permit the Premises to be used for any unlawful purpose, or any purpose that will injure the reputation of the building or increase the fire hazard of the building; or disturb the tenants or the neighborhood. In each instance where Landlord's consent is required hereunder, such consent shall not be unreasonably withheld or delayed.

INDEMNITY FOR

ACCIDENTS

3. Lessee covenants and agrees to protect and defend and save and keep Lessor forever harmless and indemnified

against and from any penalty or damages or charges imposed for any violation of any laws or ordinances by Tenant, its agents, contractors, servants, employees, subleases and assignees and invitees, whether occasioned by the neglect of the Lessee, its agents, contractors, servants, employees, subleases and assignees and invitees, or otherwise and Lessee will at all times protect indemnify, and save and keep harmless the Lessor against and from any and all loss, cost, damage or expense, arising out of or from any accident or other occurrence on or about the Premises, with the exception of those caused by the negligence or intentional wrongful acts of Lessor, causing injury to any person or property whomsoever or whatsoever and will protect, indemnify and save and keep harmless the Lessor against and from any and all claims and against and from any and all loss, cost, damage or expense arising out of any failure of

Lessee in any respect to comply with and perform all the requirements and provisions hereof.

NONLIABILITY

OF LESSOR

4. Except as provided by Illinois statute, or by Lessor's failure to perform its obligations hereunder, Lessor shall not be liable for any damage occasioned by failure to keep the Premises in repair, nor for any damage done or occasioned by or from plumbing, gas, water, sprinkler, steam, or other pipes or sewerage or the bursting, leaking or running of any pipes, tank or plumbing fixtures, in, above, upon or about Premises or any building or improvement thereon nor for any damage occasioned by water, snow or ice being upon or coming through the roof, skylights, trap door or otherwise, nor for any damages arising from act or neglect of any owners or occupants of adjacent or contiguous property.

ACCESS TO

PREMISES

5. Lessee will allow Lessor free access to the Premises, upon reasonable notice (not less than 24 hours, except in emergency cases) for examining or exhibiting or to make any needful repairs, or alterations thereof which the Lessor may see fit to make and which shall be made without interfering with Lessee's business.

ABANDONMENT

AND RELETTING

6. If Lessee shall abandon the Premises, or if Lessee's right to occupy the Premises be terminated by Lessor by reason of Lessee's breach of any of the covenants herein not cured within any applicable cure period, the same may be relet by Lessor for such rent and upon such terms as Lessor may deem fit and are commercially reasonable, subject to Illinois statute; and if a sufficient sum shall not thus be realized monthly, after paying the expenses reserved, Lessee agrees to satisfy and pay all deficiency monthly during the remaining period of this lease. Only those expenses incurred by Lessor which are allocable to the remainder of the Term shall be credited against rents received by Lessor.

HOLDING

OVER

7. Lessee will, at the end of this Lease by lapse of time or otherwise yield up immediate possession to he Lessor, and failing so to do, will pay as liquidated damages, for the whole time such possession is withheld a sum equal to I 1/2 the daily amount of rent provided for in this Lease for the period immediately proceeding the termination of the lease for each day possession is withheld; and Lessee shall also pay Lessor all reasonable and direct damages sustained by Lessor by reason of Lessee's retention of possession in

excess of such sum; but the provisions of this clause shall not be held as a waiver by Lessor of any right of re-entry as hereinafter set forth; nor shall the receipt of said rent or any part thereof, or any other act in apparent affirmance of tenancy, operate as a waiver of the right to forfeit this lease and the term hereby granted for the period still unexpired, for a breach of any of the covenants herein.

EXTRA FIRE

HAZARD

8. There shall not be allowed, kept, or used on the Premises any inflammable or explosive liquids or materials save such as may be necessary for use in the business of the Lessee, and in such case, any such substances shall be delivered and stored in amount, and used in accordance with reasonable requirements Lessor's insurance carrier and statutes and ordinances now hereafter in force.

DEFAULT BY

LESSEE

9. Subject to the Rider attached hereto, if a default be made in the payment of the above rent, or any part thereof, or in any of the covenants herein contained to be kept by the Lessee, and which defaults are not cured within the applicable cure periods provided for in the Rider, Lessor may at any time thereafter at his election declare said term ended and re-enter the Premises or any part thereof, with or (at the extent permitted by law) without notice or process of law, and remove Lessee or any persons occupying the same without prejudice to any remedies which might otherwise be used for arrears of rent and Lessor shall have at all times the right to distrain for rent due and shall have a valid lien upon all personal property which Lessee now owns, or may hereafter acquire, or have an interest in which by law subject to such distraint as security for payment of the rent herein reserved, provided, however, that any such lien or right of distraint of Lessor against personal property of Lessee shall be junior and subordinate to all present and future security interests granted by Lessee in any such items of personal property. If required by any lender of Lessee, Lessor shall execute an instrument confirming such subordination to any lender of Lessee having a security interest in Lessee's personal property.

NO RENT

DEDUCTION

OR SET OFF

10. Lessee's covenant to pay rent is and shall be independent of each and every other covenant of this Lease. Subject to the Rider attached hereto, Lessee agrees that any claim by Lessee against Lessor shall not be deducted from rent nor set off against any claim for rent in any action.

RENT AFTER

NOTICE OR SUIT

11. It is further agreed, by the parties hereto, that after the service of this notice, or the commencement of a suit or

after final judgment of possession of the Premises, Lessor may receive and collect any rent due, and the payment of said rent shall not, except to the extent of the rent paid, waive or affect said notice, said suit, or said judgment.

PAYMENT OF

COSTS

12. Lessee will pay and discharge all reasonable costs, attorney's fees and expense that shall be made and incurred by Lessor in enforcing the agreements of this Lease, in the event of Lessee's default. In the event of any dispute between the parties regarding this Lease, the non-prevailing party in such dispute shall pay the reasonable attorneys fees and expenses incurred by the prevailing party.

RIGHTS

CUMULATIVE

13. The rights and remedies of Lessor under this lease are cumulative. The exercise or use of any one or more thereof shall not bar Lessor from exercise or use of any other right or remedy provided herein or otherwise provided by law, nor shall exercise nor use of any right or remedy by Lessor waive any other right or remedy.

FIRE AND

CASUALTY

14. In case the Premises shall be rendered untenable during the term of this Lease by fire or other casualty and the damage can be repaired within 120 days, Lessor shall repair the Premises. If the damage will take more than 120 days to repair, either Lessor or Lessee may terminate this Lease by giving written notice of termination within 30 days after the damage occurs, and if no such notice is given by either party, Lessor will repair the Premises and this Lease will continue in full force and effect. If Lessor is required to repair the Premises, this Lease shall remain in effect except that rental payments shall abate from the date of such fire or casualty until the Premises are again tenantable. If this lease is terminated by reason of fire or casualty as herein specified, rent shall be apportioned and paid to the day of such fire or other casualty.

SUBORDINATION

15. This Lease is subordinate to all mortgages which may now or hereafter affect the Premises provided that the holder of any such mortgage shall agree to recognize this Lease and not disturb Lessee's occupancy of the Premises so long as Lessee is not in default beyond any applicable cure period. Within 15 days after the date hereof, a form of subordination and non disturbance/attornment agreement in form reasonably acceptable to Lessee shall be obtained by Lessor from any present mortgage holder and shall be executed by such holder and by Lessee and Lessor.

PLURALS;

SUCCESSORS

16. The words "Lessor" and "Lessee" wherever herein occurring and used shall be construed to mean "Lessors" and "Lessees: in case more than one person constitutes either party to this Lease; and all the covenants and agreements contained shall be binding upon, and inure to, their respective successors, heirs, executors, administrators and assigns and may be exercised by his or their attorney or agent.

SEVERABILITY

17. Wherever possible, each provision of this Lease shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Lease shall be prohibited by or invalid under applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Lease.

PERMITS,

EXAMINATION

OF PREMISES

18. It is hereby understood that Lessee has applied for all permits required for Lessee's use of the Premises for the purposes permitted under this Lease. In the event Lessee is unable to obtain all such permits within forty-five (45) days from the date hereof, Lessee may give notice to Lessor terminating this Lease, with a penalty payment of \$13,906.92 from Lessee to Lessor, which payment shall be accomplished by Lessee's forfeiture of the Security Deposit. If no such notice is given within sixty (60) days from the date hereof, Lessee's right of termination shall expire and be of no further force or effect.

MEMORANDUM

OF LEASE

19. At the request of either party, both parties shall execute a memorandum of Lease, in recordable form reasonably acceptable to both parties, describing the Premises including all common areas, setting forth the term of this Lease and the Occupancy Date, the existence of the three options to extend and Lessee's right to expand and right of first refusal. Either party may record the Memorandum of Lease provided that a copy of the recorded document is provided to the other party.

ATTACH RIDERS HERE

If this instrument is executed by a corporation, such execution has been authorized by a duly adopted resolution of the Board of Directors of such operation.

This Lease consists of _____ pages numbered 1 to _____, including a rider consisting of _____ pages, identified by Lessor and Lessee.

IN WITNESS WHEREOF, the parties hereto have executed this instrument as of the Date of Lease stated above.

LESSEE: BRIAZZ, INC.

LESSOR: WALNUT STREET PROPERTIES, INC.

By: /s/ James McDermet (seal)

By: _____ (seal)

JIM MCDERMET

JAMES BOLDUC

Title: President

Title:

RIDER ATTACHED TO AND MADE A PART OF THAT CERTAIN INDUSTRIAL BUILDING LEASE DATED AS OF APRIL 7, 1997 C-LEASE") BY AND BETWEEN BRIAZZ, INC. ("LESSEE") AND WALNUT STREET PROPERTIES, INC. ("LESSOR") FOR THE PREMISES COMMONLY KNOWN AS 1642 LAKE STREET, CHICAGO, ILLINOIS.

R-1. Should any conflict or inconsistency arise between any term, provision or condition of this Rider and the pre-printed portion of this Lease (pages I through 3), except as may be specified to the contrary, the terms, provisions or conditions of this Rider shall control. References in this Lease or the Rider to "lease" or "Lease" shall be deemed to include this Rider. This Lease contains the sole and exclusive agreement between the parties with respect to the subject matter hereof, supersedes all prior understandings, if any, with respect thereto, and may not be amended, supplemented or terminated, nor shall any obligation hereunder or condition hereof be deemed waived, except by a written agreement signed by the party to be charged. The provisions of this Lease are to apply to and bind the successors (personal representatives and heirs) and assigns of the respective parties. This Lease shall be governed by and construed in accordance with the laws of the State of Illinois.

R-2. Upon the execution of this Lease, Lessee shall pay to Lessor the sum of Thirteen Thousand Nine Hundred and Six Dollars and 92/100 (\$13,906.92) in cash (the "Security Deposit"), to be held by Lessor as security for Lessee's faithful performance and observance of all of the terms, covenants and conditions of this lease, including, without limitation, the surrender of possession of the Premises to Lessor as herein provided. Lessor may commingle the Security Deposit funds with other funds of Lessor, and there shall be no requirement that any interest be paid on said Security Deposit. It is agreed that in the event Lessee defaults in respect to any of the terms, provisions and conditions of this Lease, including, but not limited to, the payment of Base Rent and Additional Rent, Lessor may apply or retain the whole or any part of the Security Deposit to the extent required for the payment of any Base Rent and additional Rent or any other sum as to which Lessee is in default, or for any sum that Lessor may expend or may be required to expend by reason of Lessee's default

in respect of any of the terms, covenants and conditions of this Lease (including, but not limited to, any damages or deficiency in the relating of the Premises, whether such damages or deficiency accrues before or after summary proceeding or other reentry by Lessor). The Security Deposit is not to be used or applied by Lessee as a substitute for Base Rent, Additional Rent or any other payment due to Lessor in any month, but may be so applied by Lessor at any time and at Lessor's option; provided however, and notwithstanding any other terms of this paragraph, in the event Lessee is not then in default, Lessee may apply \$5,056.19 from the Security Deposit to payment of Base Rent accruing on and after April 1, 1999 only upon prior written notice to Lessor. The Lessor's use, application or retention of all or any portion of the Security Deposit shall not prevent Lessor from exercising any other right or remedy available against Lessee and provided by this Lease or by law or equity, and shall not operate as a limitation on any recovery to which Lessor may otherwise be entitled. If Lessor so applies or retains any part of the Security Deposit, then upon written demand from Lessor, Lessee shall deposit cash with Lessor in the amount required to ensure that Lessor shall have the full Security Deposit on hand at all times during the term. If Lessee fully and faithfully complies with all of the terms, provisions, covenants and conditions of this Lease, the balance of the Security Deposit, if any, shall be returned to Lessee within thirty (30) days after Lessee surrenders the entire Premises to Lessor in the condition required under the Lease; provided, however, that if Lessee fails to so comply with the preceding requirement and, as a result, Lessor retains or applies all or some portion of the Security Deposit to the cure of such default, Lessor shall provide Lessee with a reasonably detailed written explanation of the nature of such default or breach.

R-3 The base rental for each month of the initial term of the lease shall be as follows:

YEAR:	RATE:
4/1/97 - 3/31/98:	\$5,056.19 per month
4/1/98 - 3/31/99:	\$5,056.19 per month
4/1/99 - 3/31/2000:	\$5,056.19 per month
4/1/00 - 3/31/01:	\$5,826.65 per month
4/1/01 - 3/31/02:	\$6,000.01 per month

It is hereby understood that Lessee, prior to the Lease Commencement Date, shall have the non-exclusive right to enter the Leased Premises for the sole purpose of preparing the Leased Premises for move-in condition with all terms of this Lease in full force and effect, except rental. Lessee acknowledges that prior to the Lease Commencement Date the Leased Premises will be under construction. Lessor shall have no liability for any of Lessee's personal property prior the Lease Commencement Date. Lessee agrees to confer with Lessor, so as not to unreasonably interfere with Lessors' construction within the Leased Premises.

R-4. Lessor shall have no duty or obligation to provide and maintain any utilities or services of any kind or nature whatsoever to the Leased Premises or to Lessee except that to the extent any utilities are

located outside the Premises upon Lessor's property and within Lessor's control, Lessor shall take any action required by Lessor to continue utility services to the Premises. However, Lessor acknowledges that utility services are currently being provided to the Leased Premises. Without limitation of the foregoing, Lessee shall arrange for and pay directly to the appropriate supplier, all charges for all utilities for the Premises including electricity, gas, water and sewer charges as well as for security services, if they elect to provide for such service. Lessee shall also pay directly for such janitor/cleaning service and scavenger services for the removal of all Lessee's refuse and garbage as may be required for waste generated by Lessee so as to keep the Leased Premises clean and in slightly condition, odor and rodent free and as maybe required to comply with all city ordinances, state laws and rules and regulations of other applicable regulatory bodies. Lessee agrees to comply with all city ordinances, state laws and rules and regulations of other applicable regulatory bodies pertaining to their garbage dumpsters agreeing to maintain the area in a clean and slightly condition, odor and rodent free and any improvements or appurtenances required by virtue of said compliance shall be installed, maintained and paid for by Lessee. Lessee agrees to maintain heat in the Premises at all necessary levels so that the sprinkler system including, without limitation, the pipes therein, shall not freeze. The failure of the Lessee to pay in a timely fashion any of the above described charges, which failure is not cured within any applicable cure period, shall constitute an event of default under this Lease. The obligations imposed on Lessee under this Paragraph R-4 shall survive the Expiration Date, extension hereof or any earlier termination of Lease, but only with respect to those utility charges that accrue through the date on which this Lease or any extension hereof expires or is otherwise terminated.

R-5. Lessee shall obtain and pay for Commercial General Liability Insurance (bodily injury and property damage liability), in an insurance company acceptable to Lessor, covering the leased premises and also insuring Lessor, the title-holding trust and its beneficiaries. Lessee's insurance company shall supply a certificate of Insurance to Lessor showing Lessor as an additional insured. The combined limit for said insurance shall be \$2,000,000.00. Lessee shall be responsible for insuring its own personal property. Prior to taking possession, Lessee shall deposit with Lessor copies of the policy, receipt of which by Lessor and proof of premium payment, as payment, is made from time to time. Lessee shall be responsible for and carry workers compensation covering the leased premises and also insuring Lessor, the title-holding trust and its beneficiaries with statutory limits of liability and including employers liability coverage with limits of liability of \$100,000/\$500,000/\$100,000.

R-6. Each of the parties to this Lease hereby waives all claims for recovery from the other party for any loss or damage to any of its property insured (or required hereunder to be insured) under valid and collectible insurance policies, to the extent of any recovery collectible (or which would have been collectible had such insurance required hereunder been obtained) under such insurance policies plus any deductible amounts, and each party hereby waives any right of subrogation that may otherwise accrue to any insurance company or other entity against the other party hereunder. Nothing contained in this paragraph shall release Lessee from the obligation set forth in

this Lease above to obtain insurance policies or certificates thereof.

R-7. Lessee agrees with Lessor that in the event there is any change in Lessee's use of the Premises (from the use permitted hereunder) which in any manner or form increases the insurance premiums that are presently carried by Lessor, then, and in such event, Lessee agrees to pay Lessor, as additional rent for the Premises, the total increased amount of any such premiums which are the result of such change in use. In addition to the foregoing, if the cost of the insurance presently covering the premises commonly known as 1642 Lake Street, Chicago, Illinois is increased, then, and in such event, Lessee agrees to pay Lessor Lessee's pro-rata share of such increased insurance costs within ten (10) days after being rendered a statement for the foregoing increase in insurance costs. Notwithstanding anything herein contained to the contrary, in the event there is an increase in the rate of insurance caused by the purposes for which the premises commonly known as 1642 Lake Street Chicago, Illinois are used by other lessees, Lessee shall not be liable for any such increased insurance costs.

R-8. Lessee has inspected the Leased Premises, and, except as otherwise stated herein knows the condition of the Premises, has received the same in good order and repair, and acknowledges that no representations as to the condition and repair thereof have been made by Lessor, or his agent, prior to or at the execution of this Lease that are not herein expressed. Lessee understands that the Leased Premises is located in an industrial building, which is inherently noisy and dusty and Lessee agrees to accept this Agreement subject to those inherent conditions. Upon the Lease Commencement Date, Lessor agrees that all doors and windows, including skylights, exterior entry doors and garage doors and all existing plumbing and electrical systems in the Leased Premise and which are not to be replaced as part of the initial alterations shall be in good repair and condition. Any capital expenditures or other improvements or repairs to any part of the Building or property of which the Leased Premises is a part required by statute, ordinance, rule or regulation of any governmental or quasi-governmental body or authority, and which is common area not the responsibility of other tenants who are obligated to pay the same, shall be made and paid for by Lessor. Lessee's use of the Leased Premises shall also, at all times comply with all applicable laws, ordinances and regulations of governmental or quasi-governmental authorities having jurisdiction thereof. NO liquor shall be sold on the Leased Premises. Lessee shall not commit waste or do or permit any act or omission in or about the Leased Premises which may be dangerous to person or property, or which may invalidate, violate the terms of or increase the amount of premiums for any policy. of insurance carried on the Property or covering operation of the building. Lessee shall not do or permit anything to be done upon the Leased Premises, or bring or keep anything thereon which is in violation of rules, regulations or requirements of the Chicago Fire Department, Illinois Inspection and Rating Bureau, Fire Insurance Rating Organization, or any other similar authority having jurisdiction over the Property.

R-9. Lessee has inspected the Leased Premises, and, subject to the other

provisions of this Lease, including the improvements (defined below), accepts the condition of the Leased Premises on an "as-is" "where-is" basis, and Lessor shall have no duty or obligation, of any nature or kind (except as set forth elsewhere in this Lease) to complete or perform any improvements to the Leased Premises in connection with the Lease or Lessee's occupancy of the Leased Premises, except as specifically set forth in this Lease. Lessee further understands and agrees that Lessor shall have no liability or responsibility to pay any costs or expenses in connection with the maintenance and repair of the Leased Premises of any kind during the Lease term or any extension hereof other than as provided herein. Lessee agrees at its sole cost and expense that it will maintain, repair and make all replacements, additions and improvements required to keep or cause to be kept in the interior of the Leased Premises and the plumbing, heating, air conditioning, electrical, hot water tank, fire protection, ventilating, lighting, and pipes and other mechanical equipment and appurtenances situated inside the Leased Premises or situated outside the Leased Premises but exclusively serving the Leased Premises in good order, repair and condition, sanitary and safe, at its cost, including any damage to the internal structural members of the building caused by Lessee. Lessee will also maintain, repair, and make all replacements, additions and improvements and keep in good repair and condition and clean, sanitary and safe, at its costs, all doors and garage door openings, door frames, fixtures, equipment and appurtenances thereof, partitions, windows and moldings, glass (including plate glass) that is in Lessee's sole possession and shall repair any damage to the common areas including but not limited to the parking area, the security system for the parking area, all access areas, dock areas, equipment doors and garage door openings caused by Lessee. If replacement of equipment, fixtures and/or appurtenances thereto is necessary, Lessee shall at Lessee's sole cost and expense replace the same with equipment, fixtures and/or appurtenances of the same quality and utility, and repair all damage done in or by such replacement. If Lessee does not make repairs as required hereunder promptly and adequately, Lessor may but need not make such repairs and pay the costs thereof, and such costs shall be additional rent immediately due from and payable by Lessee to Lessor. Except in emergency cases, Lessor shall not make any such repairs unless Lessor has first given Lessee at least ten days notice specifying any repair which Lessor believes is required. Lessee will comply with all city ordinances, state laws and rules and regulations of other applicable regulatory bodies pertaining to the use and occupancy of said premises and the common areas used exclusively by Lessee, and any repairs, capital expenditures, improvements or appurtenances required by virtue of said compliance and related to Lessee's business operation shall be installed and paid for by Lessee. Lessee will replace all broken and damaged glass in the Leased Premises, and will also replace all broken and damaged glass in the common areas if such breakage or damage was caused by Lessee. Upon receipt of written request from Lessee, the Lessor shall, during the term of this Lease, make any and all necessary repairs to the internal or external structural members, common walls floor (excluding floor coverings), foundation and roof, except where such damage was caused by Lessee cutting through said roof or is otherwise caused by Lessee. Lessor shall also, as reasonably determined by Lessor, maintain and make any and all necessary repairs to all common areas, including the parking area, the security system for the parking area and all access areas, except

where said damage is caused by Lessee. Lessor shall not make any changes in the common areas in a manner which would materially interfere with Lessee's business conducted in the Leased Premises, except as required to comply with all applicable laws, statutes, ordinances, rules or regulation of any governmental or quasi-governmental body or authority. At the expiration of this Lease, Lessee shall surrender and yield up the Leased Premises to Lessor in good order and condition, ordinary wear and tear and loss by casualty excepted. If the Premises are equipped with heating and air conditioning units, said units may be used by Lessee for the purpose of providing heat and air conditioning to the Premises. Lessee, at its sole costs and expense, shall repair, operate and maintain the said equipment in good working order.

R-10. During the term of this Lease, Lessee shall furnish and maintain in good condition, working order and repair, fire extinguishers in compliance with all city and state fire codes, regulations, ordinances and laws.

R-11. At the termination of this Lease by lapse of time or for whatsoever reason, Lessee will at once surrender possession of the Leased Premises to Lessor and shall remove such of Lessee's goods and effects as are not permanently affixed to the premises, remove all of Lessee's signs and return the Premises to its original condition as altered by Lessee, reasonable wear and tear and loss by casualty excepted; repair any damage caused by such removal; and promptly surrender the Premises and all alterations and additions thereto and all decorating, fixtures, furnishings, partitions, electrical wiring, panel boxes and other electrical equipment, heating, ventilating and cooling equipment, and other equipment and floor coverings, all of which are permanently affixed to the Premises, which shall thereupon become the property of Lessor, in clean and good order, repair and condition, damage by fire or other casualty and ordinary wear and tear excepted. If Lessee shall fail or refuse to remove all such property from the Leased Premises within fifteen (15) days, following such termination any personal property of Lessee not removed shall at Lessor's option, become the property of Lessor to the fullest extent allowed by law. In said event it shall be conclusively presumed that Lessee abandoned said personal property, and title thereto shall thereupon pass to Lessor without any cost to Lessor either by setoff, credit allowance or otherwise, and Lessor shall be entitled to be reimbursed by Lessee for any removal or other expenses incurred by Lessor as a result of such abandonment.

R-12. Lessee shall not remodel or make any alterations, repairs, additions or improvements in or to the Premises including the initial alteration except with the advance written consent of Lessor, which said consent shall not be unreasonably withheld. Notwithstanding the foregoing without Lessor's consent Lessee shall be entitled to make alterations not affecting any structural components, the building systems or the other tenants in the Building and costing up to \$20,000.00 in any year. If such written approval of Lessor is obtained (or is not required), then the Lessee shall, during or before the term of this Lease, repair, remodel, alter and improve the demised premises at its

own expense, all of which must be done by the Lessee in conformity with any law, ordinance or regulation pertaining thereto and in a good and workmanlike manner, using only materials of good grade or quality and which will not in any way endanger or weaken the structural support of said premises. All such repairing, remodeling, altering and improving of the demised premises will become the property of the Lessor unless otherwise expressly provided in the aforesaid consent.

Lessee shall promptly pay or cause to be paid the costs of all such alterations, additions, repairs, improvements or changes made by through and/or on behalf of Lessee. Lessee shall not permit any mechanic's lien, materialmen's contractor's or subcontractor's liens or liens arising from, or any claim for damage growing out of, the work of any construction, repair, restoration, replacement or improvement by, through and/or on behalf of Lessee, to be placed upon the Premises or any part of the entire property or improvements thereon, and in the event that such a lien is filed, Lessee shall promptly pay all of such lien, claims or demands before any action is brought to enforce the same against the Premises, and Lessee agrees to indemnify, defend and save Lessor and Property free and harmless from any and all such liens, claims and demands, together with reasonable attorneys' fees and all costs and expenses in connection therewith. If default in payment thereof shall continue for thirty (30) days after written notice thereof, from Lessor to Lessee, Lessor shall have the right and privilege, at Lessor's option, of paying the same or any portion thereof without inquiry as to the validity thereof, and any amounts so paid including expenses and interest, shall be so much additional indebtedness hereunder due from Lessee to Lessor and shall be repaid to Lessor immediately on rendition of bill therefore. Lessee covenants and agrees to pay and indemnify, defend and save Lessor and Property free and harmless from all legal costs and charges, including attorneys fees lawfully and reasonably incurred in the defense of any suit arising out of the occupancy of the Premises in question by the Lessee, in discharging the Premises or any part thereof from any liens judgments or encumbrances suffered or incurred by said Lessee. Notwithstanding the foregoing, if Lessee desires to contest any such lien filed or recorded against the Property, Lessee shall provide Lessor with a bond, cash, title indemnity or other security reasonably acceptable to Lessor in an amount equal to not less than one and one half (1 1/2) times the full amount of the charge under contest plus, all interest, costs, expenses and penalties.

Upon completion of the aforesaid alterations, additions, repairs or changes by Lessee's contractor, Lessee shall deliver to Lessor Contractor's sworn affidavits and full and final waivers of lien covering all labor and materials expended and used.

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R-13 DEFAULT. (A) Bankruptcy of Lessee. In the event that Lessee shall make an assignment for the benefit of creditors, or shall file a voluntary petition under any state or federal bankruptcy or insolvency law, or if an involuntary petition alleging an act of bankruptcy or insolvency shall be filed against Lessee under any state or federal bankruptcy or insolvency law, or whenever a petition shall be filed by or against Lessee under the reorganization provisions of the United

States Bankruptcy Act or under the provisions of any law of like import, or whenever a petition shall be filed by Lessee under the arrangement provisions of the United States Bankruptcy Act or similar law, or whenever a receiver of Lessee, or of, or for, the property of Lessee shall be appointed, or Lessee admits it is insolvent or is not able to pay its debts as they mature, and such proceeding or petition is not dismissed within sixty (60) days of the date it is filed, then such event shall constitute a default by Lessee under this Lease, whereupon Lessor may exercise its remedies as provided in Paragraph R-14 below.

(B) Default Provisions. Each of the following items shall constitute a default under this Lease by Lessee: (a) if Lessee fails to pay Base Rent or Additional Rent when due hereunder, and such failure continues for more than ten (10) days after Lessor delivers written notice to Lessee advising Lessee of such failure; (b) if Lessee fails to timely satisfy any monetary obligation imposed under this Lease, other than the payment of Base Rent and Additional Rent, and such failure continues for more than fifteen (15) days after Lessor delivers written notice to Lessee advising Lessee of such failure; (c) if Lessee fails to cure any non-monetary default under this Lease within thirty (30) days after Lessor delivers written notice advising Lessee of such default, or in the case of a non-monetary default which cannot, by its nature, be cured within a period of thirty (30) days and the continuance of which for the period required for cure will not (i) subject Lessor to any litigation; or (ii) subject the Premises, or any part thereof, to condemnation; (iii) subject the Premises, or any part thereof, to any lien or encumbrance; or (iv) result in the termination of the Lease or foreclosure of any superior mortgage, and if Lessee shall not have (x) within said thirty (30) day period, advised Lessor of Lessee's intention to take all steps necessary to remedy such default; (y) duly commenced, within said thirty (30) day period, and thereafter diligently pursue to completion, all steps necessary to remedy the default; and (z) completed such remedy within a reasonable time; (d) if any event shall occur, or any contingency shall arise, whereby this Lease or the estate hereby granted, or the unexpired balance of the Term, would, by operation of law or otherwise, devolve upon or pass to any person, firm or corporation other than Lessee, except for a sub-let or assignment consented to by Lessor; or (e) if Lessee abandons the Premises.

(C) Lessor's Rights Upon Default of Lessee. If Lessee defaults in the performance of any of its obligations under this Lease, Lessor, without thereby waiving such default, may (but shall not be obligated to) perform the same for the account, and at the expense of, Lessee, without notice in a case of emergency, and in any other case only if such default continues after the expiration of fifteen (15) days from the date Lessor gives Lessee written notice of the default. Any reasonable expenses incurred by Lessor in connection with any such performance, and all costs, expenses, and disbursements of every kind and nature whatsoever, including reasonable attorneys' fees (through all appellate proceedings) involved in collecting or endeavoring to collect the Base Rent or Additional Rent or any part thereof or enforcing or endeavoring to enforce any rights against Lessee or Lessee's obligations hereunder, shall be due and payable upon Lessor's submission of an invoice therefore. All sums advanced by Lessor on account of Lessee under this Paragraph 13, or pursuant to any other

provision of this Lease, and all Base Rent and Additional Rent, if delinquent or not paid by Lessee and received by Lessor when due hereunder, shall bear interest at the rate of three percent (3%) per annum above the "base" or "prime" or similar rate of interest publicly announced, from time to time by The First National Bank of Chicago, from the date such payment is due until paid in full, and such interest shall be and constitute Additional Rent and be due and payable upon Lessor's submission of an invoice therefor.

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R-14 REMEDIES (A) Lessor's Remedies. In the event of any default under or breach of this Lease by Lessee, Lessor, at its option, and after the proper written notice, if any (as required in Paragraph R-13) has been given and any applicable cure period has expired, may, in addition to all other rights and remedies provided in this Lease, at law or in equity, and without further notice to Lessee: (a) terminate this Lease and Lessee's right of possession of the Premises, and recover all reasonable damages to which Lessor is entitled under law, specifically including, without limitation, the difference between the present value of Base rent and Additional Rent for the balance of the Term and the fair rental value of the Premises for said Term, all Lessor's expenses of reletting allocable to Lessee's unexpired term (including repairs, alterations, improvements, additions, decorations, reasonable legal fees and brokerage commissions), and Lessor and Lessee agree that Lessee shall also be liable to Lessor for broker's fees allocable to Lessee's unexpired term and unamortized improvement costs and legal fees or (b) terminate Lessee's right of possession of the Premises without terminating this Lease; provided, however, that Lessor shall use its reasonable efforts, whether Lessor elects to proceed under Subparagraphs (a) or (b) above, to relet the Premises, or any part thereof for the account of Lessee, for such rent and term and upon such terms and conditions as are commercially reasonable and acceptable to Lessor. If Lessor shall elect to pursue its rights and remedies under Subparagraph (b), then Lessor shall have the further right and remedy to rescind such election and pursue its rights and remedies under Subparagraph (a), if Lessor has obtained a lessee to relet the Premises, which, in Lessor's reasonable judgment, is a suitable lessee. For purposes of such reletting, Lessor is authorized to decorate, repair, alter and improve the Premises to the extent deemed necessary by Lessor, in its reasonable judgment. If Lessor fails to relet the Premises or if the Premises are relet and a sufficient sum is not realized therefrom, after payment of all Lessor's expenses of reletting properly allocable to the unexpired term of this Lease (including repairs, alterations, improvements, additions, decorations, reasonable legal fees and brokerage commissions), to satisfy the payment, when due, of Base Rent and Additional Rent reserved under this Lease for any monthly period, then Lessee shall pay to Lessor a sum equal to the amount of Base Rent and Additional Rent due under this Lease for each such monthly period, or if the Premises have been relet, Lessee shall pay any such deficiency monthly. Lessee agrees that Lessor may file suit to recover any sums due to Lessor hereunder from time to time and that such suit or recovery of any amount due Lessor hereunder shall not be any defense to any subsequent action brought for any amount not therefore reduced to judgment in favor of Lessor. In the event Lessor elects, pursuant to this Paragraph R-14(A), to terminate Lessee's right of possession only,

without terminating this Lease, Lessor may, at Lessor's option, enter into the Premises, with process of law, remove Lessee's property, Lessee's signs and other evidences of tenancy, and take and hold possession thereof, provided, however, that such entry and possession shall not terminate this Lease or release Lessee, in whole or in part, from Lessee's obligation to pay the Base Rent and Additional Rent reserved hereunder for the full Term, or from any other obligation of Lessee under this Lease. Any and all property that may be removed from the Premises by the Lessor pursuant to the authority of this Lease or of law, to which the Lessee is or may be entitled, may be handled, removed or stored by the Lessor at the risk, cost and expense of the Lessee, and the Lessor shall in no event be responsible for the value, preservation or safekeeping thereof. The Lessee shall pay to the Lessor, upon demand, any and all reasonable expenses incurred in such removal and all storage charges against such property so long as the same shall be in the Lessor's possession or under the Lessor's control. Any such property of the Lessee not retaken from storage by the Lessee within thirty (30) days after the end of the Term, however terminated, shall be conclusively presumed to have been conveyed by the Lessee to the Lessor under this Lease as a bill of sale, without further payment or credit by the Lessor to the Lessee. Lessee hereby grants to Lessor a first lien upon the interest of Lessee under this Lease to secure the payment of monies due under this Lease, which lien may be enforced in equity; and Lessor shall be entitled as a matter of right to have a receiver appointed to take possession of the Premises and relet the same under order of court.

(B) Rights of Lessor. Suit or suits for the recovery of such damages, or any installments thereof, may be brought by Lessor from time to time at its election, and nothing contained in this Lease shall be deemed to require Lessor to postpone suit until the Expiration Date, not limit or preclude recovery by Lessor against Lessee of any sums or damages which, in addition to the damages particularly provided above, Lessor may lawfully be entitled by reason of any default hereunder on the part of Lessee. The various rights, remedies and elections of Lessor reserved expressed or contained herein are cumulative and no one of them shall be deemed to be exclusive of the others or of such other rights, remedies, options or elections as are now or may hereafter be conferred upon lessor by law.

(C) Remedies of Lessee. In the event of any breach by Lessor of its obligations hereunder, not cured within sixty (60) days of written notice from Lessee (or shorter period if an emergency is involved) Lessee shall be entitled to all remedies available at law or equity. Without limiting the foregoing, in the event Lessor has not paid Lessor's agreed contribution to improvements as provided for in Paragraph R-20 below, Lessee may offset the amount of such contribution together with interest at the same rate payable by Lessee to Lessor in the event of default against Rent otherwise payable by Lessee hereunder.

R-15 Lessee agrees to pay to Lessor, as additional rent hereunder, for each applicable year of the lease Lessee's proportionate share (10.7%) of any increase in the real estate taxes, against the building and the land underlying the building and improvements thereon, which is taxed together therewith during the lease term ("taxes") and paid by Landlord, over taxes paid by Landlord for the base year 1996 which is payable in

1997 - such amount being called the "additional rent." Said real estate taxes shall include all real estate taxes and installments of assessments that are levied upon and/or assessed against the Premises. The Lessee or Lessor shall have the right to contest in good faith any real estate taxes imposed upon the Premises in the manner provided by law for contesting same, provided that Lessee shall give notice thereof to Lessor prior to contesting and that such contest shall not jeopardize Lessor's interests in the Premises. In the event Lessor contests the real estate taxes herein and such real estate taxes are reduced, Lessee shall pay Lessor Lessee's pro-rata share of all reasonable legal fees incurred in connection with obtaining any such reduction of real estate taxes. Notwithstanding the forgoing, if payment of any such real estate taxes upon the demised Premises shall be deferred in whole or in part pending the contest, Lessee shall deposit with Lessor such security as Lessor may reasonably require to assure payment or compliance and payment of any fines or penalties that may be payable in connection therewith.

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- R-16 Lessee agrees to indemnify and hold lessor harmless against and from any and all claims, damages, costs and expenses, including reasonable attorney's fees, arising from the conduct or management of the business conducted by Lessee in the leased premises, or from any breach or default on the part of Lessee in the performance of any covenant or agreement on the part of Lessee to be performed pursuant to the terms of this Lease, or from any act or negligence of Lessee, its agents, contractors, servants, employees, sublessees, concessionaires or licensees in or about the Leased Premises. In case any action or proceeding be brought against Lessor by reason of any such claim, Lessee, upon notice from Lessor, covenants to defend at Lessee's cost such action or proceedings. Lessor agrees to indemnify and hold Lessee harmless against and from any and all claims, damages, costs and expenses, including reasonable attorney's fees, arising from any breach or default on the part of Lessor in the performance of any covenant or agreement on the part of Lessor to be performed pursuant to the terms of this Lease or from any intentional wrongful act or negligence of Lessor, its agents, contractors, or employees. In case any action or proceeding be brought against Lessee by reason of any such claim, Lessor, upon notice from Lessee, covenants to defend at Lessor's cost such action or proceedings.
- R-17 All property belonging to Lessee or any occupant of the Premises that is in, on or about the Premises shall be there at the risk of Lessee or other person only, and Lessor shall not be liable for damage thereto or theft or misappropriation thereof. Any and all property which may be removed from the Premises by Lessor pursuant to the authority of this Lease or of law, to which Lessee is or may be entitled, shall be handled or removed by Lessor at the risk, cost and expense of Lessee and Lessor shall in no event be responsible as warehouseman, bailee or otherwise for any property left in or about the Premises or the building by Lessee, or for the value, preservation or safekeeping thereof.
- R-18 Lessee shall not store, use or dispose of hazardous substances in, on or about the Premises agreeing at all times to cause the Premises to be operated in compliance with all federal, state, local or municipal

environmental protection agency health and safety laws, statutes, ordinances, and rules and regulations, so that no clean-up claim or other obligation or responsibility arises from a violation of any of the foregoing by Lessee, and Lessee further agrees to promptly cure any such violation at its own expense, and shall furthermore defend and indemnify Lessor, beneficiaries, mortgagees, and officers, agents and employees thereof respectively from any and all liability, loss, costs (including attorneys' fees and expenses), damages, responsibilities or obligations incurred as a result of any violation of any of the foregoing by Lessee. Lessee shall upon request of Lessor certify in writing that to its knowledge it is in compliance with applicable local, state and federal environmental rules, regulations, statutes and laws for the preceding year. At the request of the Lessor, Lessee shall submit to the Lessor, or shall make available for inspection and copying upon reasonable notice and at reasonable times, any or all of the documents and materials prepared by or for Lessee pursuant to any environmental law or regulation or submitted to any governmental regulatory agency in conjunction therewith. Except in emergency cases, upon reasonable notice to Lessee (not less than 24 hours) Lessor shall have reasonable access to the Premises to inspect the same to confirm that the Lessee is using the Premises in accordance with local, state and federal environmental rules, regulations, statutes and laws. Lessee shall, at the request of the Lessor and at the Lessee's expense, conduct such testing and analysis as is necessary to ascertain whether the Lessee is using the Premises in compliance with all local, state and federal environmental rules, regulations, statutes, and laws, provided however, Lessor shall not request that Lessee conduct such tests unless Lessor has a reasonable basis to believe that Lessee may be in violation of the foregoing rules, regulations, statutes or laws. Said tests shall be conducted by qualified independent "pens chosen by the Lessee and subject to Lessor's reasonable approval. Copies of reports of any such tests shall be provided to the Lessor. The provisions within which this paragraph shall survive termination of this lease and shall be binding upon and shall inure to the benefit of the parties hereto, their respective successors and assigns, and mortgages thereof.

R-19 If Lessee does not exercise its first option to extend the original term of this Lease, Lessee shall pay Lessor the lesser of (i) the unamortized portion of Landlord's contribution to Tenant's build-out expenses, as set forth in Section R-20, based on an original amortization period of ten (10) years, at an interest rate equal to Lessor's actual cost to borrow such funds, or (ii) \$81,165

R-20 Lessor has approved Tenant's plans, specs, and full working drawings, which were made by Partners by Design and delivered to Landlord on February 28, 1997 ("Build-out"). Lessor will contribute a cap of \$120,000.00 towards the Build-out pursuant to the approved plans. Any cost or expense over \$120,000.00 will be borne entirely by Lessee at Lessee's sole cost and expense. Lessee shall obtain any necessary permits needed to accomplish the Build-out and shall obtain bids for performance of the work and contract for its performance. Lessee's general contractor shall obtain liability insurance in a commercially reasonable amount and shall provide Lessor with a certificate of insurance naming Lessor as an additional insured and insuring against liability for the acts of the general contractors and all subcontractors and others performing work on the Premises on behalf of the general contractor. Lessee's general contractor, its subcontractors and others

performing work on their behalf shall cooperate with Lessor so as to minimize any interference with Lessor's other tenants, and any damage to the Premises or to Lessor's building caused by any of them shall be repaired at no expense to Lessor. Lessee shall not enter into any change order without first obtaining Lessor's written approval of the same, such approval not to be unreasonably withheld or delayed. Lessee shall present Lessor with an itemized statement of the costs incurred in accomplishing the Build-out within thirty (30) days after completion, and Lessor shall contribute the lesser of (i) the costs incurred by Lessee, or (ii) the sum of \$120,000.00 towards the cost of the Build-out, which amount shall be payable within thirty (30) days after receipt of a statement of costs incurred from Lessee with a list of all contractors, major suppliers, and second and third-tier subcontractors, which shall be certified by Lessee to be complete and accurate, as well as copies of supporting invoices and supporting final waivers and evidence that all costs have been paid by Lessee.

Lessor at its sole cost and expense shall (i) accomplish all interior demolition work, including but not limited to removal of boiler and (ii) perform any repairs needed to the parking area and fencing and provide security remote control access to the parking area.

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R-21 Lessor shall provide Lessee with seventeen (17) parking spaces for automobiles and vans in the common area parking lot, which shall be secured with a fence and remote controlled entrance gate. Lessee shall have twenty-four (24) hour access to the parking lot and Leased Premises, seven (7) days a week. Lessee hereby releases Lessor from and shall save and keep Lessor forever harmless and indemnified against any and all liabilities, claims causes of action, suits, damages, cost, losses or expenses, without limiting the generality of the foregoing, in any way or nature arising from or in connection with, but not limited to Lessee's or Lessee's employees or invitees use of the Lessee's parking spaces or the parking lot in which they are located, including but not limited to vandalism of vehicles of Lessee and/or Lessee's employees and/or invitees parked on such parking lot.

R-22 Lessee shall not erect or install any sign or other type of display whatsoever, either upon the exterior of the Building, upon or in any window, or in any lobby, hallway or door therein located, without the prior express written consent of Lessor, which consent shall not be unreasonably withheld or delayed. In the event Lessor provides uniform signage for the building Lessee agrees to remove any and all signs pertaining to Lessee's presence and business within said building and agrees to Lessee's company name being included in the uniform signage.

R-23 In addition to paying Base Rent, Lessee agrees to pay Lessor, annually, as Additional Rent, 10.7%, Lessee's pro-rata share, of common expenses. Lessor shall provide a detail of such actual costs on the anniversary date of each year of the Lease. "Expenses" shall include, but shall not be limited to, the following costs and expenses paid or incurred by or on behalf of Lessor for operating, maintaining and repairing the Building and the Real Estate and the

personal property used in conjunction therewith (provided that with respect to any capital improvement as distinguished from an expense, only the annual amortized portion of such cost is to be included); the costs of common area utilities, common area sprinklers, common area security, common area staging, landscaping, grounds maintenance, snow removal, common lobbies, common halls, common stairs, common area doors, common truck docks and garage doors.

R-24 It is hereby understood that Lessee shall have the non-exclusive right to use the common area truck loading dock and corridors, as outlined on Exhibit "A" hereto, daily from 6:00 a.m. to 7:00 p.m. Access at other times shall be optional with Lessor and, if provided, shall never be deemed a continuing obligation of Lessor. Lessee shall maintain free of debris the common areas. The loading dock and adjacent common area (as indicated on Exhibit A) shall be used exclusively for docking and related purposes. Vehicles shall be removed when not actively involved in docking or related purposes. Lessor will use its best efforts in keeping clear the aisles leading to the common area dock and in securing compliance with this provision from all tenants of the building where the Leased Premises are located.

R-25 Throughout the Initial Lease term or any extension hereof, Lessee agrees to:

(a) maintain a contract with an exterminating company acceptable to Lessor (it being understood and agreed that Lessor must act reasonably in approving or disapproving such company) for service to the Leased Premises not less than once per month;

(b) maintain a contract with a scavenger company reasonably acceptable to Lessor (it being understood and agreed that Lessor must act reasonably in approving or disapproving such company) for service for daily refuse pick-up;

(c) other than odors generated by the operation of the Leased Premises as a commissary, not cause or create any noxious odors in the Leased Premises or common areas;

(d) operate the commissary with reasonably and customary degree of cleanliness typically associated with comparable quality commissaries.

(e) store all garbage, trash, rubbish and other refuse from its operation in secured and sealed rat-resistant and insect-proof containers, or such other containers required by the City of Chicago located around the Leased Premises in such reasonable area or areas reasonably designated by Lessor; and

(f) remove all garbage containers at least once each day and deposit same in a dumpster to be provided by Lessee and placed in reasonable area designated by Lessor.

In the event Lessee fails to fulfill its obligations under this paragraph within ten (10) days after notice from Lessor (except that no notice shall be required in the case of emergency), Lessor shall have the right to perform or correct same and the actual and direct

costs thereof shall become additional rent to be paid by Lessee to Lessor with the next due installment of rent.

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R-26 Provided this Lease shall be in full force and effect~ and Lessee shall not be in default hereunder at the time, as a part of the consideration of Lessee's entering into this Lease, Lessor does hereby give and grant unto Lessee, during the initial Lease term or any extension hereof, a right of first refusal to Lease any adjacent space, should any potential tenant make an offer acceptable to Lessor, upon the same terms and conditions as are contained in the offer. It is hereby understood that Lessee's right of first refusal is subordinate to any and all other tenants with a similar right which was created prior to commencement date of this Lease. Lessor will provide Lessee with a list of the holders of such rights within ten (10) days after mutual execution of this Lease. Upon Lessor's decision to accept an offer to Lease, Lessor shall provide notice to Lessee of the terms of the offer. Lessee shall have seven (7) business days from the notification of the offer to exercise its right of first refusal by providing written notice to Lessor of Lessee's intent to Lease said space upon the same terms and conditions contained in said offer. Failure to provide said written notice to Lessor shall constitute Lessee's rejection and waiver of its Right of First Refusal to Lease the adjacent space as provided above. Lessor shall have sole and absolute discretion to determine whether an offer to Lease is acceptable, In addition to and not in substitution for Lessee's rights under the preceding paragraph, provided this Lease shall be in full force and effect, and Lessee shall not be in default hereunder, as a part of the consideration of Lessee's entering into this Lease, Lessor does hereby give and grant unto Lessee, during the first nine (9) months of the Lease Term after the Occupancy Date, the right to expand the Leased Premises to include any other space in the Building then available for lease, such additional space to be included on the same terms and conditions contained in this Lease with the exception that there shall be no tenant improvement allowance or Lessor-funded improvements, and rent shall be at prevailing market rates, all of which shall be as reasonably determined by Lessor. At Lessee's request, Lessor will advise Lessee of other space available or likely to become available in the Building and Lessee shall designate in writing any additional space Lessee elects to add to this Lease.

12

R-27 Provided this Lease shall be in full force and effect, and Lessee shall not be in default hereunder, as a part of the consideration of Lessee's entering into this Lease, Lessor does hereby give and grant unto Lessee the option to extend this Lease for a period of five (5) years, from the date of expiration of the initial rental term hereof upon the same terms and conditions as herein contained, except for the rental, provided Lessee gives Lessor written notice by Certified Mail, Return Receipt Requested, of its exercise of the option to extend the term of the Lease not less than six (6) months prior to the expiration of the initial rental term of the within Lease. If Lessee fails to give the notice provided for herein,

then its option to extend shall be automatically terminated. However, in the event that Lessee shall have exercised said option to extend the term of this Lease, Lessor does hereby grant to Lessee the right, privilege and option again to extend this Lease for a period of five (5) more years, upon the same terms and conditions as herein contained, except rent upon written notice by Certified Mail, Return Receipt Requested to Lessor of Lessee's intent to exercise said option, given at least six (6) months prior to the expiration of the preceding extension of the term hereof. If Lessee fails to give, the notice provided for herein, then its second option to extend shall be automatically terminated. However, in the event that Lessee shall have exercised said second option to extend the term of this Lease, Lessor does hereby grant to Lessee the right, privilege and option again to extend this Lease for a period of five (5) more years, upon the same terms and conditions as herein contained, except rent upon written notice by Certified Mail, Return Receipt Requested to Lessor of Lessee's intent to exercise said option, given at least six (6) months prior to the expiration of the preceding extension of the term thereof. If Lessee fails to give the notice provided for herein, then its third option to extend shall be automatically terminated.

Rental during the three five (5) year renewal option periods shall be:

Year 1	\$6,183.19 per month
Year 2	\$6,365.98 per month
Year 3	\$6,558.60 per month
Year 4	\$6,751.21 per month
Year 5	\$6,953.46 per month
Year 6	\$7,162.06 per month
Year 7	\$7,376.93 per month
Year 8	\$7,598.23 per month
Year 9	\$7,826.18 per month
Year 10	\$8,060.97 per month

Year 11 - 15 Prevailing Market Rates

At any time during year ten of the extended term, Lessee may request that Lessor notify Lessee of the Prevailing Market Rate which Lessor proposes for the third option term. Within thirty (30) days of the receipt of such request, Lessor shall notify Lessee in writing of the Prevailing Market Rate proposed by Lessor. In the event Lessee does not agree with the same, the parties shall negotiate in good faith for a period not to exceed thirty (30) days after Lessor's notice to Lessee and in the event during said period the parties have not agreed upon the Prevailing Market Rate applicable to the third option term, each party shall designate a real estate broker having familiarity with prevailing market rates for leases of similar properties, each of whom shall state his or her opinion as to the Prevailing Market Rate. If the difference in Prevailing Market Rate between the two brokers designated is less than ten percent (10%), the average of the two rates shall be the Prevailing Market Rate. If the difference is greater than ten percent (10%), the two brokers designated shall designate a third broker who shall state his or her opinion as to the Prevailing Market Rate. The average of the three opinions shall be the Prevailing Market Rate unless any broker's opinion is more than ten percent (10%) different than the average in which event such broker's or brokers' opinions shall be disregarded and the average of the remaining brokers' opinions shall be the Prevailing Market Rate applicable to the third option term. In the event Lessee exercises its option to extend

before the Prevailing Market Rate has been determined, Lessee shall be entitled to withdraw its exercise within twenty (20) days after the broker's determination by giving notice of withdrawal to Lessor within such period.

R-28 Any charge to be paid by Lessee pursuant to the terms hereof can be classified "Additional Rent" entitling Lessor to enforcement of the remedies to which it is entitled under the terms and under this lease for the nonpayment of rent.

R-29 Whenever Lessor or Lessee desires to give any notice to the other, it shall be sufficient for all purposes if such notice is personally delivered or sent by registered or certified United States Mail, postage prepaid, addressed to the intended recipient at the address specified on the first page of this Lease or theretofore specified by the addressee in a written notice given to the sender. Any notice given in the manner specified herein shall be deemed to have been given on the day it is personally delivered or three (3) business days after it is deposited in the United States Mail.

13

R-30 This Lease contains all of the agreements of the parties hereto with respect to any matter covered or mentioned in this Lease, and no prior agreements or understandings pertaining to any such matters shall be effective for any purpose. No provision of this Lease may be amended or added to except by an agreement in writing signed by the parties hereto or their respective successors in interest. This Lease shall not be effective or binding on any party until fully executed by both parties hereto.

14

R-31 Each party represents and warrants to the other party that, as of the date of this Lease, it has full power and authority to enter into this Lease that execution and delivery of this Lease and performance of the terms hereof will not violate any agreements to which it is a party or by which it is bound and if it is a corporation, that it is a corporation duly incorporated, validly existing, in good standing and is authorized to enter into this Lease pursuant to a duly adopted Resolution of the Board of Directors of the Corporation.

IN WITNESS WHERE OF, the parties hereto have executed the foregoing Rider as of the date and year first above written.

Dated as of the 7th day of April, 1997

LESSEE: BRIAZZ, INC.

LESSOR: WALNUT STREET PROPERTIES, INC.

By: /s/James McDermet

By: _____

JIM MCDERMET
Title: President

JAMES BOLDUC
Title

EXHIBIT "B"

WORKLETTER

INDUSTRIAL BUILDING LEASE
 BY AND BETWEEN BRIAZZ, INC. ("LESSEE")
 AND WALNUT STREET PROPERTIES, INC. ("LESSOR")

This is the Work Letter referred to and specifically made a part of the Lease to which this Exhibit B is attached, for the Premises commonly known as 1642 Lake Street, Chicago, Illinois.

Lessor and Lessee agree as set forth below:

1. Lessee's Plans.

Lessor has approved Lessee's Build-Out Plans, as set forth in the Lease. Approval by Lessor of the Build-Out and Lessee's Plans shall not constitute any warranty by Lessor to Lessee of the adequacy of the design for Lessee's intended use of the Leased Premises,

2. Performance of Lessee's Work.

A. Lessee shall promptly obtain bids for construction. Lessee shall cause such contractor to do the work covered by the Working Plans or such revised Working Plans.

B. No work shall commence in the Leased Promises until Lessee's approved Plans are filed with the municipal agencies having jurisdiction thereof, and all requisite building permits have been obtained by Lessee and Lessee's architect has certified that the Plans were prepared by him personally and to the best of his knowledge the Plans prepared by him comply with the building codes and ordinances of the City of Chicago, and the State of Illinois.

C. The Lessee's Work shall be done in a workmanlike manner using only good grades of materials as specified by Lessee's architect and shall comply with all governmental laws, ordinances, codes, rules and regulations applicable at the time of the performance of the Lessee's Work.

D. Lessee shall be responsible for the acts and omissions of an its employees and all of its Contractors, subcontractors, their agents and employees and all other persons performing any work in the Leased Premises under a contract with Lessee.

3. Payment for Lessee's Work.

A. Lessee at Lessee's sole cost and expense will engage a licensed architect to provide plans, specs, and full working drawings needed to adapt the Leased Premises to Lessee's use. Lessor shall contribute an amount not to

exceed \$120,000.00 towards the build-out pursuant to the approved plans. Any cost or expense over \$120,000.00 will be borne entirely by Lessee, at Lessee's sole cost and expense. All work other than Lessee's initial Build-Out, if any, which Leme may elect to do in order to make the Premises ready for Lessee's occupancy shall be borne entirely by Lessee at Lessee's sole cost and expense, Lessee shall pay the cost of the build-out or any other work performed directly to the persons or entities performing such work in a timely manner.

4. Indemnity and Warranty,

A. Lessee hereby agrees, to the extent permitted by law, to indemnify, defend and hold the Lessor and/or Lessor's respective agents and employees, harmless from and against any and all liabilities, loss, costs, damages, expenses (including reasonable attorneys fees and expenses), claims, causes of action or judgment of any nature whatsoever arising from, caused by or resulting directly or indirectly out of the acts, omissions, or negligence of Lessee or its employees, agents or contractors and any and all other parties performing work, providing any services or supplying any material equipment by or on behalf of the Lessee including but not limited to the Lessee, any contractor or subcontractor, material supplier or any other party in connection with the construction and completion of Lessee's Work, the Build-Out. Lessee agrees to protect, defend, indemnify and hold harmless the Lessor against any and all penalties, fines and liabilities asserted by an public authority in connection with construction or completion of Lessee's Work, the Build-Out, including, but not limited to, any building, health, fire or environmental

protection law, ordinance, order or rule which is in effect at the time of completion of Lessee's Work, the Build-Out, as to all matters and work. The obligations of the Lessee hereunder shall be deemed to include, as an additional liability, any injury or damage arising from the failure to use or from the misuse by the Lessee or its agents or employees, any scaffold, hoist, crane, ladder, support, or any other mechanical contrivancer erected or constructed by any person or for any other kind of equipment owned, furnished or rented.

B. Lessee warrants to the Lessor all materials and equipment furnished under this Work Letter will be now, and that all Lessee's Work will be of good quality, free from faults and defects, mechanic lien claims and in conformance with the approved Working Plans or such revised Working Plans. All Lessee's work not conforming to these requirements, including substitutions not properly approved an authorized, may be considered defective. If required by Lessor, Lessee shall furnish satisfactory evidence as to the kind and quality of materials and equipment.

5. Miscellaneous

A. Except as expressly set forth herein, Lessor has no other agreement with Lessee and has no other obligation to do any other work or pay any amounts with respect the Leased Premises. Any other work in the Leased Premises which may be permitted by Lessor pursuant to the terms and conditions of this Lease shall be done at Lessee's sole cost and expense and in accordance with the terms and conditions of this Lease.

B. This Workletter shall not be deemed applicable to any additional space added to the original Leased Premises at any time or from time to time, whether by any option under this Lease or otherwise, or to any portion of the original Leased Premises or any additions thereto in the event of a renewal or extension of the initial term of this Lease, whether by any option under this Lease or otherwise, unless expressly so provided in this Usse or any amendment or supplement thereto.

C. This Workletter is expressly made a part of this Lease and is subject to each and every term and condition thereof, including without limitation, the limitations of liability set forth therein.

D. [The Lessor's contribution to] the Build-Out may be depreciated by Lessor[, not to exceed \$120,000.] [initials]

E. Time is of the essence under this Agreement.

ACCEPTED AND AGREED

LESSEE:

LESSOR:

BRIAZZ, INC.

WALNUT STREET PROPERTIES, INC.

BY:

BY:

/s/ James McDermet
President

ALTERNATIVE RATE OPTIONS
PROMISSORY NOTE
(PRIME RATE, LIBOR)

\$2,000,000.00

Dated as of: DECEMBER 30, 1999

BRIAZZ, INC. & VICTOR ALHADEFF

("Borrower")

U.S. BANK NATIONAL ASSOCIATION

("Lender")

1. TYPE OF CREDIT. This Note is given to evidence Borrower's obligation to repay all sums which Lender may from time to time advance to Borrower ("Advances") under a:

single disbursement loan. Amounts loaned to Borrower hereunder will be disbursed in a single Advance in the amount shown in Section 2.

revolving line of credit. No Advances shall be made which create a maximum amount outstanding at any one time which exceeds the maximum amount shown in Section 2. However, Advances hereunder may be borrowed, repaid and reborrowed, and the aggregate Advances loaned hereunder from time to time may exceed such maximum amount.

non-revolving line of credit. Each Advance made from time to time hereunder shall reduce the maximum amount available shown in Section 2. Advances loaned hereunder which are repaid may not be reborrowed.

2. PRINCIPAL BALANCE. The unpaid principal balance of all Advances outstanding under this note ("Principal Balance") at one time shall not exceed \$2,000,000.00.

3. PROMISE TO PAY. For value received Borrower promises to pay to Lender on order at 555 SW OAK, PL-7, PORTLAND, OR 97204, the Principal Balance of this

note, with interest thereon at the rate(s) specified in Sections 4 and 11 below.

4. INTEREST RATE. The interest rate on the Principal Balance outstanding may vary from time to time pursuant to the provisions of this note. Subject to the provisions of this note, Borrower shall have the option from time to time of choosing to pay interest at the rate or rates and for the applicable periods of time based on the rate options provided herein; provided, however, that once

Borrower notifies Lender of the rate option chosen in accordance with the provisions of this note, such notice shall be irrevocable. The rate options are the Prime Borrowing Rate and the LIBOR Borrowing Rate, each as defined herein.

(a) Definitions. The following terms shall have the following meanings:

"Business Day" means any day other than a Saturday, Sunday, or other day that commercial banks in Portland, Oregon, Minneapolis, Minnesota, New York City or Seattle, Washington are authorized or required by law to close; provided, however that when, used in connection with a LIBOR Rate, LIBOR Amount or LIBOR Interest Period such term shall also exclude any day on which dealings in U.S. dollar deposits are not carried on in the London interbank market.

"Dow Jones Page 3750" means the display designated as such on the Dow Jones Markets Service (formerly known as Telerate) (or such other page as may replace page 3750 on that service for the purpose of displaying London interbank offered rates of major banks for United States Dollar deposits).

"LIBOR Amount" means each principal amount for which Borrower chooses to have the LIBOR Borrowing Rate apply for any specified LIBOR Interest Period.

"LIBOR Interest Period" means as to any LIBOR Amount, a period of 1, 2

OR 3 months commencing on the date the LIBOR Borrowing Rate becomes applicable

thereto; provided, however, that: (i) the first day of each LIBOR Interest

Period must be a Business Day; (ii) no LIBOR Interest Period shall commence on
or after OCTOBER 31, 2000; (iii) no LIBOR Interest Period shall be selected

which would extend beyond NOVEMBER 30, 2000; (iv) no LIBOR Interest Period

shall extend beyond the date of any principal payment required under Section 6
of this note, unless the sum of the Prime Rate Amount, plus LIBOR Amounts with
LIBOR Interest Periods ending on or before the scheduled date of such principal
payment, plus principal amounts remaining unborrowed under a line of credit,
equals or exceeds the amount of such principal payment; (v) any LIBOR Interest
Period which would otherwise expire on a day which is not a Business Day, shall
be extended to the next succeeding Business Day, unless the result of such
extension would be to extend such LIBOR Interest Period into another calendar
month, in which event the LIBOR Interest Period shall end on the immediately
preceding Business Day, and (vi) any LIBOR Interest Period that begins on the
last Business Day of a calendar month (or on a day for which there is no
numerically corresponding day in the calendar month at the end of such LIBOR
Interest Period) shall end on the last Business Day of a calendar month.

"LIBOR Rate" means, for any LIBOR Interest Period, the average offered
rate for deposits in United States Dollars (rounded upwards, if necessary, to
the nearest 1/16 of 1%) for delivery of such deposits on the first day of such
LIBOR Interest Period, for the number of months therein, which appears on Dow
Jones Page 3750 as of 11:00 a.m., London time (or such other time as of which

such rate appears) on the day that is two Business Days preceding the first day of such LIBOR Interest Period; or on the rate for such deposits determined by Lender at such time based on such other published service of general application as shall be selected by Lender for such purpose; provided, that in lieu of determining the rate in the foregoing manner, Lender may determine the rate based on the rates offered to Lender for deposits in United States Dollars (rounded upwards, if necessary to the nearest 1/16 of 1% in the interbank eurodollar market at such time for delivery on the first day of such LIBOR Interest Period for the number of months therein; and provided, further, that in any case the LIBOR Rate shall be adjusted to take into account the maximum reserves required to be maintained for Eurocurrency liabilities by banks during each such LIBOR Interest Period as specified in Regulation D of the Board of Governors of the Federal Reserve System or any successor regulation.

"Prime Rate" means the rate of interest which Lender from time to time establishes as its prime or reference rate and is not, for example, the lowest rate of interest which Lender collects from any borrower or class of borrowers. When the Prime Rate is applicable under Section 4(b) or 11(b), the interest rate hereunder shall be adjusted without notice effective on the day the Prime Rate changes, but in no event shall the rate of interest be higher than allowed by law.

"Prime Rate Amount" means any portion of the Principal Balance bearing interest at the Prime Borrowing Rate.

(b) The Prime Borrowing Rate.

(i) The Prime Borrowing Rate is a variable per annum rate equal to the Prime Rate plus 0.750%.

(ii) Whenever Borrower desires to use the Prime Borrowing Rate option, Borrower shall give Lender notice orally or in writing in accordance with Section 15 of this note, which notice shall specify the requested effective date (which must be a Business Day) and principal amount of the Advance or increase in the Prime Rate Amount, and whether Borrower is requesting a new Advance under a line of credit or conversion of a LIBOR Amount to the Prime Borrowing Rate.

(iii) Subject to Section 11 of this note, interest shall accrue on the unpaid Principal Balance at the Prime Borrowing Rate unless and except to the extent that the LIBOR Borrowing Rate is in effect.

(c) The LIBOR Borrower Rate.

(i) The LIBOR Borrowing Rate is the LIBOR Rate plus 3.500% per annum.

(ii) Borrower may obtain LIBOR Borrowing Rate quotes from Lender before 10:00 a.m. (Portland, Oregon time) on any Business Day. Borrower may request an Advance, conversion of any portion of the Prime Rate Amount to a LIBOR Amount or a new LIBOR Interest Period for an existing LIBOR Amount, at such rate only by

giving Lender notice in accordance with Section 4(c)(iii) before 10:00 a.m. (Portland, Oregon time) on such day.

(iii) Whenever Borrower desires to use the LIBOR Borrowing Rate option, Borrower shall give Lender irrevocable notice (either in writing or orally and promptly confirmed in writing) no later than 10:00 a.m. (Portland, Oregon time) two (2) Business Days prior to the desired effective date of such rate. Any oral notice shall be given by, and any written notice or confirmation of an oral notice shall be signed by, the person(s) authorized in Section 15 of this note, and shall specify the requested effective date of the rate, LIBOR Interest Period and LIBOR Amount, and whether Borrower is requesting a new Advance at

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the LIBOR Borrowing Rate under a line of credit, conversion of all or any portion of the Prime Rate Amount to a LIBOR Amount, or a new LIBOR Interest Period for an outstanding LIBOR Amount. Notwithstanding any other term of this note, Borrower may elect the LIBOR Borrowing Rate in the minimum principal amount of \$500,000.00 and in multiples of \$100,000.00 above such amount;

provided, however, that no more than FOUR _____ separate LIBOR Interest Periods

may be in effect at any one time.

(iv) If at any time the LIBOR Rate is unascertainable or unavailable to Lender or if LIBOR Rate loans become unlawful, the option to select the LIBOR Borrowing Rate shall terminate immediately. If the LIBOR Borrowing Rate is then in effect, (A) it shall terminate automatically with respect to all LIBOR Amounts (i) on the last day of each then applicable LIBOR Interest Period, if Lender may lawfully continue to maintain such loans, or (ii) immediately if Lender may not lawfully continue to maintain such loans through such day, and (B) subject to Section 11, the Prime Borrowing Rate automatically shall become effective as to such amounts upon such termination.

(v) If at any time after the date hereof (A) any revision in or adoption of any applicable law, rule, or regulation or in the interpretation or administration thereof (i) shall subject Lender or its Eurodollar lending office to any tax, duty, or other charge, or change the basis of taxation of payments to Lender with respect to any loans bearing interest based on the LIBOR Rate, or (ii) shall impose or modify any reserve, insurance, special deposit, or similar requirements against assets of, deposits with or for the account of, or credit extended by Lender or its Eurodollar lending office, or impose on Lender or its Eurodollar lending office any other condition affecting any such loans, and (B) the result of any of the foregoing is (i) to increase the cost to Lender of making or maintaining any such loans or (ii) to reduce the amount of any sum receivable under this note by Lender or its Eurodollar lending office, Borrower shall pay Lender within 15 days after demand by Lender such additional amount as will compensate Lender for such increased cost or reduction. The determination hereunder by Lender of such additional amount shall be conclusive in the absence of manifest error. If Lender demands compensation under this Section 4(c)(v),

Borrower may upon three (3) Business Days' notice to Lender pay the accrued interest on all LIBOR Amounts, together with any additional amounts payable under Section 4(c)(vi). Subject to Section 11, upon Borrowers paying such accrued interest and additional costs, the Prime Borrowing Rate immediately shall be effective with respect to the unpaid principal balance of such LIBOR Amounts.

(vi) Borrower will indemnify Lender upon demand against any loss or expense which Lender may sustain or incur (including, without limitation, any loss or expense sustained or incurred in obtaining, liquidating or employing deposits or other funds acquired to effect, fund or maintain any portion of the loan or any Advance) as a consequence of (A) any failure of Borrower to make any payment when due of any amount due hereunder, (B) any failure of Borrower to borrow, if permitted by the terms of this note, continue or convert any portion of the Prime Rate Amount to a LIBOR Amount, on a date specified therefore in a notice thereof, or (C) any payment, voluntary or mandatory prepayment or payment on default or conversion of any LIBOR Amount to the Prime Borrowing Rate, on a date other than the last day of the applicable LIBOR Interest Period. Determinations by Lender of the amount required to indemnify Lender shall be conclusive in the absence of manifest error.

(vii) Notwithstanding any provision of this note to the contrary, Lender shall be entitled to fund and maintain its funding of all or any part of the loan evidenced by this note in any manner it elects; it being understood, however, that with respect to any LIBOR amount, all determinations hereunder shall be made as if Lender had actually funded and maintained each LIBOR amount during the LIBOR Interest Period applicable to it through the purchase of deposits having a term corresponding to such LIBOR Interest Period and bearing an interest rate equal to the LIBOR Rate for such LIBOR Interest Period (whether or not Lender shall have granted any participations in such LIBOR Amounts).

(viii) Notwithstanding any other term of this note, Borrower may not select the LIBOR Borrowing Rate if an event of default hereunder has occurred and is continuing.

(ix) Nothing contained in this note, including without limitation the determination of any LIBOR Interest Period or Lenders quotation of any LIBOR Borrowing Rate, shall be construed to prejudice Lenders right, if any, to decline to make any requested Advance or to require payment on demand.

5. COMPUTATION OF INTEREST. All interest under Section 4 and Section 11 will be computed at the applicable rate based on a 360-day year and applied to the actual number of days elapsed.

6. PAYMENT SCHEDULE.

(a) Principal. Principal shall be paid:

on demand.

on demand, or if no demand, on NOVEMBER 30, 2000.

on _____.
 subject to Section 8, in installments of _____ each, plus accrued interest,
 beginning on _____ and on the same day of each _____ thereafter until _____ when the entire Principal Balance plus interest thereon shall be due and payable. _____ each, including
 accrued interest, beginning on _____ and on the same day of each thereafter until when the entire Principal Balance plus interest thereon shall be due and payable.

_____.

(b) Interest.

(i) Interest on the Prime Rate Amount shall be paid:

on the LAST day of JANUARY, 2000. and on the same day of each
---- -----
MONTH thereafter prior to maturity and at maturity.

 at maturity.
 at the time each principal installment is due and at maturity.

(ii) Interest on all LIBOR Amounts shall be paid:

on the last day of the applicable LIBOR interest Period, and if such LIBOR Interest Period is longer than three months, on the last day of each three month period occurring during such LIBOR Interest Period, and at maturity.
 on the LAST day of JANUARY, 2000. and on the same day of each
---- -----
MONTH thereafter prior to maturity and at maturity.

 at maturity.
 at the time each principal installment is due and at maturity.
 _____.

7. PREPAYMENT.

- (a) Prepayments of all or any part of the Prime Rate Amount may be made at any time without penalty.
- (b) Except as otherwise specifically set forth herein, Borrower may not prepay all or any part of any LIBOR Amount or terminate any LIBOR Amount or terminate any LIBOR Borrowing Rate, except on the last day of the applicable LIBOR Interest Period.

(c) Principal prepayments will not postpone the date of or change the amount of any regularly scheduled payment. At the time of any principal prepayment, all accrued interest, fees, costs and expenses shall also be paid.

8. CHANGE IN PAYMENT AMOUNT. Each time the interest rate on this note changes the holder of this note may, from time to time, in holder's sole discretion, increase or decrease the amount of each of the installments remaining unpaid at the time of such change in rate to an amount holder in its sole discretion deems necessary to continue amortizing the Principal Balance at the same rate established by the installment amounts specified in Section 6(a), or not the installment amount is increased under this Section 8, Borrower understands that, as a result of increases in the rate of interest the final payment due, whether or not a "balloon" payment, shall include the entire Principal Balance and interest thereon then outstanding, and may be substantially more than the installment specified in Section 6.

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9. ALTERNATE PAYMENT DATE. Notwithstanding any other term of this note, if in any month there is no day on which a scheduled payment would otherwise be due (e.g. February 31), such payment shall be paid on the last banking day of that month.

10. PAYMENT BY AUTOMATIC DEBIT.

Borrower hereby authorizes Lender to automatically deduct the amount of all principal and interest payments from account number 153500076036

with Lender. If there are insufficient funds in the account to pay the automatic deduction in full, Lender may allow the account to become overdrawn, or Lender may reverse the automatic deduction. Borrower will pay all the fees on the account which result from the automatic deductions, including any overdraft and non-sufficient funds charges, if for any reason Lender does not charge the account for a payment, or if an automatic payment is reversed, the payment is still due according to this note. If the account is a Money Market Account, the number of withdrawals from that account is limited as set out in the account agreement. Lender may cancel the automatic deduction at any time in its discretion.

Provided, however, if no account number is entered above, Borrower does not want to make payments by automatic debit.

11. DEFAULT.

(a) Without prejudice to any right of Lender to require payment on demand or to decline to make any requested Advance, each of the following shall be an event of default: (i) Borrower falls to make any payment when due, (ii) Borrower falls to perform or comply with any term, covenant or obligation in this note or

any agreement related to this note, or in any other agreement or loan Borrower has with Lender or any affiliate of Lender, (iii) Borrower defaults under any loan, extension of credit, security agreement, purchase or sales agreement, or any other agreement, in favor of any other creditor or person that may materially affect any of Borrower's property or Borrowers ability to repay this note or perform Borrowers obligations under this note or any related documents, (iv) Any representation or statement made or furnished to Lender by Borrower or on Borrowers behalf is false or misleading in any material respect either now or at the time made or furnished, (v) Borrower dies, becomes insolvent, liquidates or dissolves, a receiver is appointed for any part of Borrower's property, Borrower makes an assignment for the benefit of creditors, or any proceeding is commenced either by Borrower or against Borrower under any bankruptcy or insolvency laws, (vi) Any creditor tries to take any of Borrower's property on or in which Lender has a lien or security interest. This includes a garnishment of any of Borrower's accounts with Lender, (vii) Any of the events described in this default section occurs with respect to any general partner in Borrower or any guarantor of this note, or any guaranty of Borrowers indebtedness to Lender ceases to be, or is asserted not to be, in full force and effect., (viii) There is any material adverse change in the financial condition or management of Borrower or Lender in good faith deems itself insecure with respect to the payment or performance of Borrowers obligations to Lender. If this note is payable on demand, the inclusion of specific events of default shall not prejudice Lenders right to require payment on demand or to decline to make any requested Advance.

(b) Without prejudice to any right of Lender to require payment on demand, upon the occurrence of an event of default, Lender may declare the entire unpaid Principal Balance on this note and all accrued unpaid interest immediately due and payable, without notice; provided, however, that if any proceeding under any bankruptcy or insolvency law is commenced by or against Borrower, the availability of Advances shall be immediately terminated without notice and the entire Principal Balance and all accrued interest shall, without notice, become immediately due and payable, upon default, including failure to pay upon final maturity, Lender, at its option, may also, if permitted under applicable law, increase the interest rate on this note to a rate equal to the Prime Borrowing Rate plus 5%. The interest rate will not exceed the maximum rate permitted by applicable law. In addition, if any payment of principal or interest is 15 or more days past due, Borrower will be charged a late charge of 5% of the delinquent payment.

12. EVIDENCE OF PRINCIPAL BALANCE; PAYMENT ON DEMAND. Holder's records shall, at any time, be conclusive evidence of the unpaid Principal Balance and interest owing on this note: Notwithstanding any other provisions of this note, in the event holder makes Advances hereunder which result in an unpaid Principal Balance on this note which at any time exceeds the maximum amount specified in Section 2, Borrower agrees that all such Advances, with interest, shall be payable on demand.

13. LINE OF CREDIT PROVISIONS. If the type of credit indicated in Section 1 is a revolving line of credit or a non-revolving line of credit, Borrower agrees that Lender is under no obligation and has not committed to make any Advances

hereunder. Each Advance hereunder shall be made at the sole option of Lender.

14. DEMAND NOTE. If this note is payable on demand, Borrower acknowledges and agrees that (a) Lender is entitled to demand Borrowers immediate payment in full of all amounts owing hereunder and (b) neither anything to the contrary contained herein or in any other loan documents (including but not limited to, provisions relating to defaults, rights of cure, default rate of interest, installment payments, late charges, periodic review of Borrowers financial condition, and covenants) nor any act of Lender pursuant to any such provisions shall limit or impair Lenders right or ability to require Borrower's payment in full of all amounts owing hereunder immediately upon Lender's demand.

15. REQUESTS FOR ADVANCES.

(a) Any Advance may be made or interest rate option selected upon the request of Borrower (if an individual), any of the undersigned (if Borrower consists of more than one individual), any person or persons authorized in subsection (b) of this Section 15, and any person or persons otherwise authorized to execute and deliver promissory notes to Lender on behalf of Borrower.

(b) Borrower hereby authorizes any one of the following individuals to request Advances and to select interest rate options:

unless Lender is otherwise instructed in writing.

(c) All Advances shall be disbursed by deposit directly to Borrowers account number with Lender, or by cashiers check issued to Borrower.

(d) Borrower agrees that Lender shall have no obligation to verify the identity of any person making any request pursuant to this Section 15, and Borrower assumes all risks of the validity and authorization of such requests. In consideration of Lender agreeing, at its sole discretion, to make Advances upon such requests, Borrower promises to pay holder, in accordance with the provisions of this note, the Principal Balance together with interest thereon and other sums due hereunder, although any Advances may have been requested by a person or persons not authorized to do so.

16. PERIODIC REVIEW. Lender will review Borrower's credit accommodations periodically. At the time of the review, Borrower will furnish Lender with any additional information regarding Borrower's financial condition and business operations that Lender requests. This information may include but is not limited to, financial statements, tax returns, lists of assets and liabilities, agings of receivables and payables, inventory schedules, budgets and forecasts. If upon review, Lender, in its sole discretion, determines that there has been a material adverse change in Borrower's financial condition, Borrower will be in

default. Upon default, Lender shall have all rights specified herein.

17. NOTICES. Any notice hereunder may be given by ordinary mail, postage paid and addressed to Borrower at the last known address of Borrower as shown on holder's records. If Borrower consists of more than one person, notification of any of said persons shall be complete notification of all.

18. ATTORNEY FEES. Whether or not litigation or arbitration is commenced, Borrower promises to pay all costs of collecting overdue amounts. Without limiting the foregoing, in the event that holder consults an attorney regarding the enforcement of any of its rights under this note or any document securing the same, or if this note is placed in the hands of an attorney for collection or if suit or litigation is brought to enforce this note or any document securing the same, Borrower promises to pay all costs thereof including such additional sums as the court or arbitrator(s) may adjudge reasonable as attorney fees, including without limitation, costs and attorney fees incurred in any appellate court, in any proceeding under the bankruptcy code, or in any receivership and post-judgment attorney fees incurred in enforcing any judgment.

19. WAIVERS; CONSENT. Each party hereto, whether maker, co-maker, guarantor or otherwise, waives diligence, demand, presentment for payment, notice of non-payment, protest and notice of protest and waives all defenses based on suretyship or impairment of collateral. Without notice to Borrower and without diminishing or affecting Lender's rights or Borrower's obligations hereunder, Lender may deal in any manner with any person who at any time is liable for, or provides any real or personal property collateral for, any indebtedness of Borrower to Lender, including the indebtedness of Borrower to Lender, including the indebtedness evidenced by this note. Without the foregoing, Lender may, in its sole discretion: (a) make secured or unsecured loans to Borrower and agree to any number of waivers, modifications, extensions and renewals of any length of such loans, including the loan evidenced by this note; (b) impair, release (with or without substitution of new collateral), fail to perfect a security interest in, fail to preserve the value of, fail to dispose of in accordance with applicable law, any collateral provided by any person; (c) sue, fail to sue, agree to sue, release, and settle or compromise with, any person.

20. JOINT AND SEVERAL LIABILITY. All undertakings of the undersigned Borrowers are joint and several and are binding upon any marital community of which any of the undersigned are members. Holder's rights and remedies under this note shall be cumulative.

Page 3 of 4

21. SEVERABILITY. If any term or provision of this note is declared by a court of competent jurisdiction to be illegal, invalid or unenforceable for any reason whatsoever, such illegality, invalidity or unenforceability shall not affect the balance of the terms and provisions hereof, which terms and provisions shall remain binding and enforceable, and this note shall be construed as if such illegal, invalid or unenforceable provision had not been

contained herein.

22. ARBITRATION.

(a) Either Lender or Borrower may require that all disputes, claims, counterclaims and defenses, including those based on or arising from any alleged tort ("Claims") relating in any way to this note or any transaction of which this note is a part (the "Loan"), be settled by binding arbitration in accordance with the Commercial Arbitration Rules of the American Arbitration Association and Title 9 of the U.S. Code. All Claims will be subject to the statutes of limitation applicable if they were litigated. This provision is void if the Loan, at the time of the proposed submission to arbitration, is secured by real property located outside of Oregon or Washington, or if the effect of the arbitration procedure (as opposed to any Claims of Borrower) would be to materially impair Lenders ability to realize on any collateral securing the Loan.

(b) If arbitration occurs and each party's Claim is less than \$100,000, one neutral arbitrator will decide all issues; if any party's Claim is \$100,000 or more, three neutral arbitrators will decide all issues. All arbitrators will be active Washington State Bar members in good standing. All arbitration hearings will be held in Seattle, Washington. In addition to all other powers, the arbitrator(s) shall have the exclusive right to determine all issues of arbitrability. Judgment on any arbitration award may be entered in any court with jurisdiction.

(c) If either party Institutes any judicial proceeding relating to the Loan, such action shall not be a waiver of the right to submit any Claim to arbitration. In addition, each has the right before, during and after any arbitration to exercise any number of the following remedies, in any order or concurrently: (i) setoff, (ii) self-help repossession; (iii) judicial or non-judicial foreclosure against real or personal property collateral; and (iv) provisional remedies, including injunction, appointment of receiver, attachment, claim and delivery and replevin.

23. GOVERNING LAW. This note shall be governed by and construed and enforced in accordance with the laws of the State of Washington without regard to conflicts of law principles; provided, however, that to the extent that

Lender has greater rights or remedies under Federal law, this provision shall not be deemed to deprive Lender of such rights and remedies as may be available under Federal law.

24. YEAR 2000. Borrower has reviewed and assessed its business operations and computer systems and applications to address the "year 2000 problem" (that is, that computer applications and equipment used by Borrower, directly or indirectly through third parties, may be unable to properly perform date-sensitive functions before, during and after January 1, 2000). Borrower reasonably believes that the year 2000 problem will not result in a material adverse change in Borrower's business condition (financial or otherwise), operations, properties or prospects or ability to repay Lender. Borrower agrees

that this representation will be true and correct on and shall be deemed made by Borrower on each date Borrower requests any advance under this Agreement or Note or delivers any information to Lender. Borrower will promptly deliver to Lender such information relating to this representation as Lender requests from time to time.

25. RENEWAL AND EXTENSION. This Note is given in renewal and extension and not in novation of the following described indebtedness: That certain Promissory Note dated March 5, 1998, in the amount of \$2,000,000.00, executed by Borrower payable to Lender. It is further agreed that all liens and security interest securing said indebtedness are hereby renewed and extended to secure the Note and all renewals, extensions and modifications thereof.

26. DISCLOSURE.

Oral agreements or oral commitments to loan money, extend credit, or to

forbear from enforcing repayment of a debt are not enforceable under Washington

law.

EACH OF THE UNDERSIGNED HEREBY ACKNOWLEDGES RECEIPT OF A COMPLETED COPY OF THIS DOCUMENT.

BRIAZZ. INC.

/s/ VICTOR ALHADEFF

Borrower Name

Victor Alhadeff

/s/ VICTOR ALHADEFF

By: Victor Alhadeff

Title: CEO

For valuable consideration, Lender agrees to the terms of the arbitration provision set forth in this note.

U.S. BANK NATIONAL ASSOCIATION

By: /s/ MARYANN CUSSEY

Title: Vice President

Date: 1/7/00

USbank

COMMERCIAL SECURITY AGREEMENT

<TABLE>
<CAPTION>

Principal	Loan Date	Maturity	Loan No	Call	Collateral	Account	Officer	Initials
\$2,000,000.00	12-30-1999	11-30-2000	733/26		070	1072972161	M C61	

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References in the shaded area are for Lender's use only and do not limit the applicability of this document to any particular loan or item.

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Borrower: BRIAZZ, INC.; ET. AL. 1011 SW KLUICKITAT WAY, SUITE 202 SEATTLE, WA 98134	Lender: U.S. Bank National Association South Seattle Corporate Banking 1420 Fifth Avenue Seattle, WA 98101
Grantor: BRIAZZ, INC.; ET. AL. 1011 SW KLUICKITAT WAY, SUITE 202 SEATTLE, WA 98134	

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THIS COMMERCIAL SECURITY AGREEMENT is entered into among BRIAZZ, INC. and VICTOR ALHADEFF (referred to below individually and collectively as "Borrower"); BRIAZZ, INC. (referred to below as "Grantor"); and U.S. Bank National Association (referred to below as "Lender"). For valuable consideration, Grantor grants to Lender a security interest in the Collateral to secure the indebtedness and agrees that Lender shall have the rights stated in this Agreement with respect to the Collateral, in addition to all other rights which Lender may have by law.

DEFINITIONS. The following words shall have the following meanings when used in this Agreement. Terms not otherwise defined in this Agreement shall have the meanings attributed to such terms in the Uniform Commercial Code. All references to dollar amounts shall mean amounts in lawful money of the United States of America.

Agreement. The word "Agreement" means this Commercial Security Agreement, as this Commercial Security Agreement may be amended or modified from time to time, together with all exhibits and schedules attached to this Commercial Security Agreement from time to time.

Borrower. The word "Borrower" means each and every person or entity signing the Note, including without limitation BRIAZZ, INC. and VICTOR ALHADEFF.

Collateral. The word "Collateral" means the following described property of Grantor, whether now owned or hereafter acquired, whether now existing or hereafter arising, and wherever located:

All inventory, chattel paper, accounts, equipment and general intangibles in addition, the word "Collateral" includes all the following, whether now owned or hereafter acquired, whether now existing or hereafter arising, and wherever located:

(a) All attachments, accessions, accessories, tools, parts, supplies, increases, and additions to and all replacements of and substitutions for any property described above.

(b) All products and produce of any of the property described in this Collateral section.

(c) All accounts, general intangibles, instruments, rents, monies, payments, and all other rights, arising out of a sale, lease, or other disposition of any of the property described in this Collateral section.

(d) All proceeds (including insurance proceeds) from the sale, destruction, loss, or other disposition of any of the property described in this Collateral section.

(e) All records and data relating to any of the property described in this Collateral section, whether in the form of a writing, photograph, microfilm, microfiche, or electronic media, together with all of Grantors right, title, and interest in and to all computer software required to utilize, create, maintain, and process any such records or

data on electronic media.

Event of Default. The words "Event of Default" mean and include without limitation any of the Events of Default set forth below in the section titled "Events of Default."

Grantor. The word "Grantor" means BRIAZZ, INC. Any Grantor who signs this Agreement, but does not sign the Note, is signing this Agreement only to grant a security interest in Grantors interest in the Collateral to Lender and is not personally liable under the Note except as otherwise provided by contract or law (e.g., personal liability under a guaranty or as a surety).

Guarantor. The word "Guarantor" means and includes without limitation each and all of the guarantors, sureties, and accommodation parties in connection with the indebtedness.

Indebtedness. The word "indebtedness" means the indebtedness evidenced by the Note, including all principal and interest, together with all other indebtedness and costs and expenses for which Grantor or Borrower is responsible under this Agreement or under any of the Related Documents. In addition, the word "indebtedness" includes all other obligations, debts and liabilities, plus interest thereon, of Borrower, or any one or more of them, to Lender, as well as all claims by Lender against Borrower, or any one or more of them, whether existing now or later; whether they are voluntary or involuntary, due or not due, direct or indirect, absolute or contingent, liquidated or unliquidated; whether Borrower may be liable individually or jointly with others; whether Borrower may be obligated as guarantor, surety, accommodation party or otherwise; whether recovery upon such indebtedness may be or hereafter may become barred by any statute of limitations; and whether such indebtedness may be or hereafter may become otherwise unenforceable.

Lender. The word "Lender" means U.S. Bank National Association, its successors and assigns.

Note. The word "Note" means the note or credit agreement dated December 30, 1999, in the principal amount of \$2,000,000.00 from Borrower to Lender, together with all renewals of, extensions of, modifications of, refinancings of, consolidations of and substitutions for the note or credit agreement.

Related Documents. The words "Related Documents" mean and include without limitation all promissory notes, credit agreements, loan agreements, environmental agreements, guaranties, security agreements, mortgages, deeds of trust, and all other instruments, agreements and documents, whether now or hereafter existing, executed in connection with the indebtedness.

BORROWER'S WAIVERS AND RESPONSIBILITIES. Except as otherwise required under this Agreement or by applicable law, (a) Borrower agrees that Lender need not tell Borrower about any action or inaction Lender takes in connection with this Agreement; (b) Borrower assumes the responsibility of being and keeping informed about the Collateral; and (c) Borrower waives any defenses that may arise because of any action or inaction of Lender, including without limitation any failure of Lender to realize upon the Collateral or any delay by Lender in realizing upon the Collateral; and Borrower agrees to remain liable under the Note no matter what action Lender takes or fails to take under this Agreement.

GRANTOR'S REPRESENTATIONS AND WARRANTIES. Grantor warrants that: (a) this Agreement is executed at Borrower's request and not at the request of Lender; (b) Grantor has the full right, power and authority to enter into this Agreement and to pledge the Collateral to Lender; (c) Grantor has established adequate means of obtaining from Borrower on a continuing basis information about Borrower's financial condition; and (d) Lender has made no representation to Grantor about Borrower or Borrower's creditworthiness.

GRANTOR'S WAIVERS. Grantor waives all requirements of presentment, protest, demand, and notice of dishonor or non-payment to Grantor, Borrower, or any other party to the indebtedness or the Collateral. Lender may do any of the following with respect to any obligation of any Borrower, without first obtaining the consent of Grantor: (a) grant any extension of the time for any payment, (b) grant any renewal, (c) permit any modification of payment terms or other terms, or (d) exchange or release any Collateral or other security. No such act or failure to act shall affect Lender's rights against Grantor or the Collateral.

If now or hereafter (a) Borrower shall be or become insolvent, and (b) the Indebtedness shall not at all times until paid be fully secured by collateral pledged by Borrower, Grantor hereby forever waives and relinquishes in favor of Lender and Borrower, and their respective successors, any claim or right to payment Grantor may not have or hereafter have or acquire against Borrower, by subrogation or otherwise, so that at no time shall Grantor be or become a "creditor" of Borrower within the meaning of 11 U.S.C. section 547(b), or any successor provision of the Federal bankruptcy laws.

RIGHT TO SETOFF. Grantor hereby grants Lender a contractual security interest in and hereby assigns, conveys, delivers, pledges, and transfers all of

Grantor's right, title and interest in and to Grantor's accounts with Lender (whether checking, savings, or some other account), including all accounts held jointly with someone else and all accounts Grantor may open in the future, excluding, however, all IRA and Keogh accounts, and all trust accounts for which the grant of a security interest would be prohibited by law. Grantor authorizes Lender, to the extent permitted by applicable law, to charge or setoff all indebtedness against any and all such accounts, and at Lender's option, to administratively freeze all such accounts to allow Lender to protect Lender's charge and setoff rights provided in this paragraph.

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OBLIGATIONS OF GRANTOR. Grantor warrants and covenants to Lender as follows:

Organization. Grantor is a corporation which is duly organized, validly existing, and in good standing under the laws of the State of Washington. Grantor has its chief executive office at 1011 SW KLUCKITAT WAY, SUITE 202 SEATTLE, WA 98134. Grantor will notify Lender of any change in the location of Grantor's chief executive office.

Authorization. The execution, delivery, and performance of this Agreement by Grantor have been duly authorized by all necessary action by Grantor and do not conflict with, result in a violation of, or constitute a default under (a) any provision of its articles of incorporation or organization, or bylaws, or any agreement or other instrument binding upon Grantor or (b) any law, governmental regulation, court decree, or order applicable to Grantor.

Perfection of Security interest. Grantor agrees to execute such financing statements and to take whatever other actions are requested by Lender to perfect and continue Lenders security interest in the Collateral. Upon request of Lender, Grantor will deliver to Lender any and all of the documents evidencing or constituting the Collateral, and Grantor will note. Lender's interest upon any and all chattel paper if not delivered to Lender for possession by Lender. Grantor hereby appoints Lender as its irrevocable attorney-in-fact for the purpose of executing any documents necessary to perfect or to continue the security interest granted in this Agreement. Lender may at any time, and without further authorization from Grantor, file a carbon, photographic or other reproduction of any financing statement or of this Agreement for use as a financing statement. Grantor will reimburse Lender for all expenses for the perfection and the continuation of the perfection of Lenders security interest in the Collateral. Grantor promptly will notify Lender before any change in Grantor's name including any change to the assumed business names of Grantor. This is a continuing Security Agreement and will continue in effect even though all or any part of the indebtedness is paid in full and even though for a period of time Borrower may not be indebted to Lender.

No Violation. The execution and delivery of this Agreement will not violate any law or agreement governing Grantor or to which Grantor is a party, and its certificate or articles of Incorporation and bylaws do not prohibit any term or condition of this Agreement.

Enforceability of Collateral. To the extent the Collateral consists of accounts, chattel paper, or general intangibles, the Collateral is enforceable in accordance with its terms, is genuine, and complies with applicable laws concerning form, content and manner of preparation and execution, and all persons appearing to be obligated on the Collateral have authority and capacity to contract and are in fact obligated as they appear to be on the Collateral. At the time any account becomes subject to a security interest in favor of Lender, the account shall be a good and valid account representing an undisputed, bona fide indebtedness incurred by the account debtor, for merchandise hold subject to delivery instructions or theretofore shipped or delivered pursuant to a contract of sale, or for services theretofore performed by Grantor with or for the account debtor, there shall be no setoffs or counterclaims against any such account; and no agreement under which any deductions or discounts may be claimed shall have been made with the account debtor except those disclosed to Lender in writing.

Location of the Collateral. Grantor, upon request of Lender, will deliver to Lender in form satisfactory to Lender a schedule of real properties and Collateral locations relating to Grantor's operations, including without limitation the following: (a) all real property owned or being purchased by Grantor; (b) all real property being rented or leased by Grantor; (c) all storage facilities owned, rented, leased, or being used by Grantor; and (d) all other properties where Collateral is or may be located. Except in the ordinary course of its business, Grantor shall not remove the Collateral from its existing locations without the prior written consent of Lender.

Removal of Collateral. Grantor shall keep the Collateral (or to the extent

the Collateral consists of intangible property such as accounts, the records concerning the Collateral) at Grantor's address shown above, or at such other locations as are acceptable to Lender. Except in the ordinary course of its business, including the sales of inventory, Grantor shall not remove the Collateral from its existing locations without the prior written consent of Lender. To the extent that the Collateral consists of vehicles, or other titled property, Grantor shall not take or permit any action which would require application for certificates of title for the vehicles outside the State of Washington, without the prior written consent of Lender.

Transactions Involving Collateral. Except for inventory sold or accounts collected in the ordinary course of Grantors business, Grantor shall not sell, offer to sell, or otherwise transfer or dispose of the Collateral. While Grantor is not in default under this Agreement, Grantor may sell inventory, but only in the ordinary course of its business and only to buyers who qualify as a buyer in the ordinary course of business. A sale in the ordinary course of Grantors business does not include a transfer in partial or total satisfaction of a debt or any bulk sale. Grantor shall not pledge, mortgage, encumber or otherwise permit the Collateral to be subject to any lien, security interest, encumbrance, or charge, other than the security interest provided for in this Agreement, without the prior written consent of Lender. This includes security interests even if junior in right to the security interests granted under this Agreement. Unless waived by Lender, all proceeds from any disposition of the Collateral (for whatever reason) shall be held in trust for Lender and shall not be commingled with any other funds; provided however, this requirement shall not constitute consent by Lender to any sale or other disposition. Upon receipt, Grantor shall immediately deliver any such proceeds to Lender.

Title. Grantor represents and warrants to Lender that it holds good and marketable title to the Collateral, free and clear of all liens and encumbrances except for the lien of this Agreement. No financing statement covering any of the Collateral is on file in any public office other than those which reflect the security interest created by this Agreement or to which Lender has specifically consented. Grantor shall defend Lenders rights in the Collateral against the claims and demands of all other persons.

Collateral Schedules and Locations. As often as Lender shall require, and insofar as the Collateral consists of accounts and general intangibles, Grantor shall deliver to Lender schedules of such Collateral, including such information as Lender may require, including without limitation names and addresses of account debtors and agings of accounts and general intangibles. Insofar as the Collateral consists of inventory and equipment, Grantor shall deliver to Lender, as often as Lender shall require, such lists, descriptions, and designations of such Collateral as Lender may require to identify the nature, extent, and location of such Collateral. Such information shall be submitted for Grantor and each of its subsidiaries or related companies.

Maintenance and inspection of Collateral. Grantor shall maintain all tangible Collateral in good condition and repair. Grantor will not commit or permit damage to or destruction of the Collateral or any part of the Collateral. Lender and its designated representatives and agents shall have the right at all reasonable times to examine, inspect, and audit the Collateral wherever located. Grantor shall immediately notify Lender of all cases involving the return, rejection, repossession, loss or damage of or to any Collateral; of any request for credit or adjustment or of any other dispute arising with respect to the Collateral; and generally of all happenings and events affecting the Collateral or the value or the amount of the Collateral.

Taxes, Assessments and Liens. Grantor will pay when due all taxes, assessments and liens upon the Collateral, its use or operation, upon this Agreement, upon any promissory note or notes evidencing the indebtedness, or upon any of the other Related Documents. Grantor may withhold any such payment or may elect to contest any lien if Grantor is in good faith conducting an appropriate proceeding to contest the obligation to pay and so long as Lender's interest in the Collateral is not jeopardized in Lenders sole opinion. If the Collateral is subjected to a lien which is not discharged within fifteen (15) days, Grantor shall deposit with Lender cash, a sufficient corporate surety bond or other security satisfactory to Lender in an amount adequate to provide for the discharge of the lien plus any interest, costs, attorneys' fees or other charges that could accrue as a result of foreclosure or sale of the Collateral. In any contest Grantor shall defend itself and Lender and shall satisfy any final adverse judgment before enforcement against the Collateral. Grantor shall name Lender as an additional obligee under any surety bond furnished in the contest proceedings.

Compliance With Governmental Requirements. Grantor shall comply promptly with all laws, ordinances, rules and regulations of all governmental authorities, now or hereafter in effect, applicable to the ownership, production, disposition, or use of the Collateral. Grantor may contest in

good faith any such law, ordinance or regulation and withhold compliance during any proceeding, including appropriate appeals, so long as Lender's interest in the Collateral, in Lender's opinion, is not jeopardized.

Hazardous Substances. Grantor represents and warrants that the collateral never has been, and never will be so long as this Agreement remains a lien on the Collateral, used for the generation, manufacture, storage, transportation, treatment, disposal, release or threatened release of any hazardous waste or substances, as those terms are defined in the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended, 42 U.S.C. Section 9601, et seq. ("CERCLA"), the Superfund Amendments and Reauthorization Act of 1986 Pub. L. No. 99-499 ("SARA"), the Hazardous Materials Transportation Act, 49 U.S.C. Section 1801, et seq., the Resource Conservation and Recovery Act, 42 U.S.C. Section 6901, et seq., or other applicable state or Federal laws, rules, or regulations adopted pursuant to any of the foregoing. The terms "hazardous waste" and "hazardous substance" shall also include, without limitation, petroleum and petroleum by-products or any fraction thereof and asbestos. The representations and warranties contained herein are based on Grantor's due diligence in investigating the Collateral for hazardous wastes and substances. Grantor hereby (a) releases and waives any future claims against Lender for indemnity or contribution in the event Grantor becomes liable for cleanup or other costs under any such laws, and (b) agrees to indemnify and hold harmless Lender against any and all claims and losses resulting from a breach of this provision of this Agreement. This obligation to indemnify shall survive the payment of the Indebtedness and the satisfaction of this Agreement.

Maintenance of Casualty Insurance. Grantor shall procure and maintain all risks insurance, including without limitation fire, theft and liability coverage together with such other insurance as Lender may require with respect to the Collateral, in form, amounts, coverages and basis reasonably acceptable to Lender and issued by a company or companies reasonably acceptable to Lender. Grantor, upon request of Lender, will deliver to Lender from time to time the policies or certificates of insurance in form satisfactory to Lender, including stipulations that coverages will not be cancelled or diminished without at least ten (10) days' prior written notice to Lender and not including any disclaimer of the insurer's liability, for failure to give such a notice. Each insurance policy also shall include an endorsement providing

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that coverage in favor of Lender will not be impaired in any way by any act, omission or default of Grantor or any other person. In connection with all policies covering assets in which Lender holds or is offered a security interest, Grantor will provide Lender with such loss payable or other endorsements as Lender may require. If Grantor at any time fails to obtain or maintain any insurance as required under this Agreement, Lender may (but shall not be obligated to) obtain such insurance as Lender deems appropriate, including if it so chooses "single interest Insurance," which will cover only Lender's interest in the Collateral.

Application of Insurance Proceeds. Grantor shall promptly notify Lender of any loss or damage to the Collateral. Lender may make proof of loss if Grantor fails to do so within fifteen (15) days of the casualty. All proceeds of any insurance on the Collateral, including accrued proceeds thereon, shall be held by Lender as part of the Collateral. If Lender consents to repair or replacement of the damaged or destroyed Collateral, Lender shall, upon satisfactory proof of expenditure, pay or reimburse Grantor from the proceeds for the reasonable cost of repair or restoration. If Lender does not consent to repair or replacement of the Collateral, Lender shall retain a sufficient amount of the proceeds to pay all of the indebtedness, and shall pay the balance to Grantor. Any proceeds which have not been disbursed within six (6) months after their receipt and which Grantor has not committed to the repair or restoration of the Collateral shall be used to prepay the indebtedness.

Insurance Reserves. Lender may require Grantor to maintain with Lender reserves for payment of insurance premiums, which reserves shall be created by monthly payments from Grantor of a sum estimated by Lender to be sufficient to produce, at least fifteen (15) days before the premium due date, amounts at least equal to the insurance premiums to be paid. If fifteen (15) days before payment is due, the reserve funds are insufficient, Grantor shall upon demand pay any deficiency to Lender. The reserve funds shall be held by Lender as a general deposit and shall constitute a non-interest-bearing account which Lender may satisfy by payment of the insurance premiums required to be paid by Grantor as they become due. Lender does not hold the reserve funds in trust for Grantor, and Lender is not the agent of Grantor for payment of the insurance premiums required to be paid by Grantor. The responsibility for the payment

of premiums shall remain Grantor's sole responsibility.

Insurance Reports. Grantor, upon request of Lender, shall furnish to Lender reports on each existing policy of insurance showing such information as Lender may reasonably request including the following: (a) the name of the insurer; (b) the risks insured; (c) the amount of the policy; (d) the property insured; (e) the then current value on the basis of which insurance has been obtained and the manner of determining that value; and (f) the expiration date of the policy. In addition, Grantor shall upon request by Lender (however not more often than annually) have an independent appraiser satisfactory to Lender determine, as applicable, the cash value or replacement cost of the Collateral.

GRANTOR'S RIGHT TO POSSESSION AND TO COLLECT ACCOUNTS. Until default and except as otherwise provided below with respect to accounts, Grantor may have possession of the tangible personal property and beneficial use of all the Collateral and may use it in any lawful manner not inconsistent with this Agreement or the Related Documents, provided that Grantor's right to possession and beneficial use shall not apply to any Collateral where possession of the Collateral by Lender is required by law to perfect Lender's security interest in such Collateral. Until otherwise notified by Lender, Grantor may collect any of the Collateral consisting of accounts. At any time and even though no Event of Default exists, Lender may exercise its rights to collect the accounts and to notify account debtors to make payments directly to Lender for application to the indebtedness. If Lender at any time has possession of any Collateral, whether before or after an Event of Default, Lender shall be deemed to have exercised reasonable care in the custody and preservation of the Collateral if Lender takes such action for that purpose as Grantor shall request or as Lender, in Lender's sole discretion, shall deem appropriate under the circumstances, but failure to honor any request by Grantor shall not of itself be deemed to be a failure to exercise reasonable care. Lender shall not be required to take any steps necessary to preserve any rights in the Collateral against prior parties, nor to protect, preserve or maintain any security interest given to secure the indebtedness.

EXPENDITURES BY LENDER. If not discharged or paid when due, Lender may (but shall not be obligated to) discharge or pay any amounts required to be discharged or paid by Grantor under this Agreement, including without limitation all taxes, liens, security interests, encumbrances, and other claims, at any time levied or placed on the Collateral. Lender also may (but shall not be obligated to) pay all costs for insuring, maintaining and preserving the Collateral. All such expenditures incurred or paid by Lender for such purposes will then bear interest at the rate charged under the Note from the date incurred or paid by Lender to the date of repayment by Grantor. All such expenses shall become a part of the indebtedness and, at Lender's option, will (a) be payable on demand, (b) be added to the balance of the Note and be apportioned among and be payable with any installment payments to become due during either (i) the term of any applicable insurance policy or (ii) the remaining term of the Note, or (c) be treated as a balloon payment which will be due and payable at the Note's maturity. This Agreement also will secure payment of these amounts. Such right shall be in addition to all other rights and remedies to which Lender may be entitled upon the occurrence of an Event of Default.

EVENTS OF DEFAULT. Each of the following shall constitute an Event of Default under this Agreement:

Default on Indebtedness. Failure of Borrower to make any payment when due on the indebtedness.

Other Defaults. Failure of Grantor to comply with or to perform any other term, obligation, covenant or condition contained in this Agreement or in any of the Related Documents or in any other note, security agreement, lease agreement or lease schedule, loan agreement or other agreement, whether now existing or hereafter made, between Grantor and U.S. Bancorp or any direct or indirect subsidiary of U.S. Bancorp.

False Statements. Any warranty, representation or statement made or furnished to Lender by or on behalf of Grantor or Borrower under this Agreement, the Note or the Related Documents is false or misleading in any material respect, either now or at the time made or furnished.

Defective Collateralization. This Agreement or any of the Related Documents ceases to be in full force and effect (including failure of any collateral documents to create a valid and perfected security interest or lien) at any time and for any reason.

Insolvency. The dissolution or termination of Grantor or Borrowers existence as a going business, the Insolvency of Grantor or Borrower, the appointment of a receiver for any part of Grantor or Borrower's property, any assignment for the benefit of creditors, any type of creditor workout, or the commencement of any proceeding under any bankruptcy or insolvency laws by or against Grantor or Borrower.

Creditor or Forfeiture Proceedings. Commencement of foreclosure or

forfeiture proceedings, whether by judicial proceeding, self-help, repossession or any other method, by any creditor of Grantor or Borrower or by any governmental agency against the Collateral or any other collateral securing the indebtedness. This includes a garnishment of any of Grantor or Borrowers deposit accounts with Lender.

Events Affecting Guarantor. Any of the preceding events occurs with respect to any Guarantor of any of the indebtedness or such Guarantor dies or becomes incompetent.

Insecurity. Lender, in good faith, deems itself insecure.

RIGHTS AND REMEDIES ON DEFAULT. If an Event of Default occurs under this Agreement, at any time thereafter, Lender shall have all the rights of a secured party under the Washington Uniform Commercial Code. In addition and without limitation, Lender may exercise any one or more of the following rights and remedies:

Accelerate Indebtedness. Lender may declare the entire indebtedness, including any prepayment penalty which Borrower would be required to pay, immediately due and payable, without notice.

Assemble Collateral. Lender may require Grantor to deliver to Lender all or any portion of the Collateral and any and all certificates of title and other documents relating to the Collateral. Lender may require Grantor to assemble the Collateral and make it available to Lender at a place to be designated by Lender. Lender also shall have full power to enter upon the property of Grantor to take possession of and remove the Collateral. If the Collateral contains other goods not covered by this Agreement at the time of repossession, Grantor agrees Lender may take such other goods, provided that Lender makes reasonable efforts to return them to Grantor after repossession.

Sell the Collateral. Lender shall have full power to sell, lease, transfer, or otherwise deal with the Collateral or proceeds thereof in its own name or that of Grantor. Lender may sell the Collateral at public auction or private sale. Unless the Collateral threatens to decline speedily in value or is of a type customarily sold on a recognized market, Lender will give Grantor reasonable notice of the time after which any private sale or any other intended disposition of the Collateral is to be made. The requirements of reasonable notice shall be met if such notice is given at least ten (10) days before the time of the sale or disposition. All expenses relating to the disposition of the Collateral, including without limitation the expenses of retaking, holding, insuring, preparing for sale and selling the Collateral, shall become a part of the indebtedness secured by this Agreement and shall be payable on demand, with interest at the Note rate from date of expenditure until repaid.

Appoint Receiver. To the extent permitted by applicable law, Lender shall have the following rights and remedies regarding the appointment of a receiver: (a) Lender may have a receiver appointed as a matter of right, (b) the receiver may be an employee of Lender and may serve without bond, and (c) all fees of the receiver and his or her attorney shall become part of the indebtedness secured by this Agreement and shall be payable on demand, with interest at the Note rate from date of expenditure until repaid.

Collect Revenues, Apply Accounts. Lender, either itself or through a receiver, may collect the payments, rents, income, and revenues from the Collateral. Lender may at any time in its discretion transfer any Collateral into its own name or that of its nominee and receive the payments, rents, income, and revenues therefrom and hold the same as security for the indebtedness or apply it to payment of the indebtedness in such order of preference as Lender may determine. Insofar as the Collateral consists of accounts, general intangibles, insurance policies, instruments, chattel paper, choses in action, or similar property, Lender may demand, collect, receipt for, settle, compromise, adjust, sue for, foreclose, or realize on the Collateral as Lender may determine, whether or not indebtedness or Collateral is then due. For these purposes, Lender may, on behalf of and in the name of Grantor, receive, open and dispose of mail addressed to Grantor; change any address to which mail and payments are to be sent; and endorse notes, checks, drafts, money orders, documents of title, instruments and items pertaining to payment, shipment or [ILLEGIBLE]

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Lender.

Obtain Deficiency. If Lender chooses to sell any or all of the Collateral, Lender may obtain a judgment against Borrower for any deficiency remaining on the indebtedness due to Lender after application of all amounts received

from the exercise of the rights provided in this Agreement. Borrower shall be liable for a deficiency even if the transaction described in this subsection is a sale of accounts or chattel paper.

Other Rights and Remedies. Lender shall have all the rights and remedies of a secured creditor under the provisions of the Uniform Commercial Code, as may be amended from time to time. In addition, Lender shall have and may exercise any or all other rights and remedies it may have available at law, in equity, or otherwise.

Cumulative Remedies. All of Lenders rights and remedies, whether evidenced by this Agreement or the Related Documents or by any other writing, shall be cumulative and may be exercised singularly or concurrently. Election by Lender to pursue any remedy shall not exclude pursuit of any other remedy, and an election to make expenditures or to take action to perform an obligation of Grantor or Borrower under this Agreement, after Grantor or Borrowers failure to perform, shall not affect Lenders right to declare a default and to exercise its remedies.

MISCELLANEOUS PROVISIONS. The following miscellaneous provisions are a part of this Agreement:

Amendments. This Agreement, together with any Related Documents, constitutes the entire understanding and agreement of the parties as to the matters set forth in this Agreement. No alteration of or amendment to this Agreement shall be effective unless given in writing and signed by the party or parties sought to be charged or bound by the alteration or amendment.

Applicable Law. This Agreement has been delivered to Lender and accepted by Lender in the State of Washington. If there is a lawsuit, Grantor and Borrower agree upon Lender's request to submit to the jurisdiction of the courts of King County, the State of Washington. Subject to the provisions on arbitration, this Agreement shall be governed by and construed in accordance with the laws of the State of Washington.

Arbitration. Lender and Grantor and Borrower agree that all disputes, claims and controversies between them, whether Individual, joint, or class in nature, arising from this Agreement or otherwise, including without limitation contract and tort disputes, shall be arbitrated pursuant to the Rules of the American Arbitration Association, upon request of either party. No act to take or dispose of any Collateral shall constitute a waiver of this arbitration agreement or be prohibited by this arbitration agreement. This includes, without irritation, obtaining injunctive relief or a temporary restraining order; invoking a power of sale under any deed of trust or mortgage; obtaining a writ of attachment or imposition of a receiver; or exercising any rights relating to personal property, including taking or disposing of such property with or without judicial process pursuant to Article 9 of the Uniform Commercial Code. Any disputes, claims, or controversies concerning the lawfulness or reasonableness of any act, or exercise of any right, concerning any Collateral, including any claim to rescind, reform, or otherwise modify any agreement relating to the Collateral, shall also be arbitrated, provided however that no arbitrator shall have the right or the power to enjoin or restrain any act of any party. Judgment upon any award rendered by any arbitrator may be entered in any court having jurisdiction. Nothing in this Agreement shall preclude any party from seeking equitable relief from a court of competent jurisdiction. The statute of limitations, estoppel, waiver, laches, and similar doctrines which would otherwise be applicable in an action brought by a party shall be applicable in any arbitration proceeding, and the commencement of an arbitration proceeding shall be deemed the commencement of an action for these purposes. The Federal Arbitration Act shall apply to the construction, interpretation, and enforcement of this arbitration provision.

Attorneys' Fees; Expenses. Grantor and Borrower agree to pay upon demand all of Lenders costs and expenses, including attorneys' fees and Lenders legal expenses, incurred in connection with the enforcement of this Agreement. Lender may pay someone else to help enforce this Agreement, and Grantor and Borrower shall pay the costs and expenses of such enforcement. Costs and expenses include Lenders attorneys' fees and legal expenses whether or not there is a lawsuit, including attorneys' fees and legal expenses for bankruptcy proceedings (and including efforts to modify or vacate any automatic stay or Injunction), appeals, and any anticipated post-judgment collection services. Grantor and Borrower also shall pay all court costs and such additional fees as may be directed by the court.

Caption Headings. Caption headings in this Agreement are for convenience purposes only and are not to be used to interpret or define the provisions of this Agreement.

Notices. All notices required to be given under this Agreement shall be given in writing, may be sent by telefacsimile (unless otherwise required by law), and shall be effective when actually delivered or when deposited with a nationally recognized overnight courier or deposited in the United

States mail, first class, postage prepaid, addressed to the party to whom the notice is to be given at the address shown above. Any party may change its address for notices under this Agreement by giving formal written notice to the other parties, specifying that the purpose of the notice is to change the party's address. To the extent permitted by applicable law, if there is more than one Grantor or Borrower, notice to any Grantor or Borrower will constitute notice to all Grantor and Borrowers. For notice purposes, Grantor and Borrower will keep Lender informed at all times of Grantor and Borrowers current address(es).

Power of Attorney. Grantor hereby appoints Lender as its true and lawful attorney-in-fact, irrevocably, with full power of substitution to do the following: (a) to demand, collect, receive, receipt for, sue and recover all sums of money or other property which may now or hereafter become due, owing or payable from the Collateral; (b) to execute, sign and endorse any and all claims, instruments, receipts, checks, drafts or warrants issued in payment for the Collateral; (c) to settle or compromise any and all claims arising under the Collateral, and, in the place and stead of Grantor, to execute and deliver its release and settlement for the claim; and (d) to file any claim or claims or to take any action or institute or take part in any proceedings, either in its own name or in the name of Grantor, or otherwise, which in the discretion of Lender may seem to be necessary or advisable. This power is given as security for the indebtedness, and the authority hereby conferred is and shall be irrevocable and shall remain in full force and effect until renounced by Lender.

Preference Payments. Any monies Lender pays because of an asserted preference claim in Borrowers bankruptcy will become a part of the indebtedness and, at Lenders option, shall be payable by Borrower as provided above in the "EXPENDITURES BY LENDER" paragraph.

Severability. If a court of competent jurisdiction finds any provision of this Agreement to be invalid or unenforceable as to any person or circumstance, such finding shall not render that provision invalid or unenforceable as to any other persons or circumstances. If feasible, any such offending provision shall be deemed to be modified to be within the limits of enforceability or validity; however, if the offending provision cannot be so modified, it shall be stricken and all other provisions of this Agreement in all other respects shall remain valid and enforceable.

Successor Interests. Subject to the limitations set forth above on transfer of the Collateral, this Agreement shall be binding upon and inure to the benefit of the parties, their successors and assigns.

Waiver. Lender shall not be deemed to have waived any rights under this Agreement unless such waiver is given in writing and signed by Lender. No delay or omission on the part of Lender in exercising any right shall operate as a waiver of such right or any other right. A waiver by Lender of a provision of this Agreement shall not prejudice or constitute a waiver of Lender's right otherwise to demand strict compliance with that provision or any other provision of this Agreement. No prior waiver by Lender, nor any course of dealing between Lender and Grantor, shall constitute a waiver of any of Lendees rights or of any of Grantors obligations as to any future transactions. Whenever the consent of Lender is required under this Agreement, the granting of such consent by Lender in any Instance shall not constitute continuing consent to subsequent instances where such consent is required and in all cases such consent may be granted or withheld in the sole discretion of Lender.

Waiver of Co-obligor's Rights. If more than one person is obligated for the indebtedness, Borrower irrevocably waives, disclaims and relinquishes all claims against such other person which Borrower has or would otherwise have by virtue of payment of the indebtedness or any part thereof, specifically including but not limited to all rights of Indemnity, contribution or exoneration.

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BORROWER AND GRANTOR ACKNOWLEDGE HAVING READ ALL THE PROVISIONS OF THIS COMMERCIAL SECURITY AGREEMENT, AND BORROWER AND GRANTOR AGREE TO ITS TERMS. THIS AGREEMENT IS DATED DECEMBER 30,1999.

BORROWER:
BRIAZZ, INC.

By:/s/ VICTOR ALHADEFF

VICTOR ALHADEFF, CEO

By: /s/ VICTOR ALHADEFF

VICTOR ALHADEFF, Co-borrower

GRANTOR:

BRIAZZ, INC.

By: /s/ VICTOR ALHADEFF

VICTOR ALHADEFF, CEO

LENDER:

U.S. Bank National Association

By: /s/ MARYANN CUSSEY, Vice President

Authorized Officer

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CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the use in this Registration Statement on Form S-1 of our reports dated April 17, 2000 relating to the financial statements and financial statement schedule of Briazz, Inc., which appears in such Registration Statement. We also consent to the reference to us under the heading "Experts," in such Registration Statement.

PricewaterhouseCoopers LLP

Seattle, Washington

February 2, 2001