

SECURITIES AND EXCHANGE COMMISSION

FORM 10-12G

Initial general form for registration of a class of securities pursuant to Section 12(g)

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FILER

TULLYS COFFEE CORP

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Mailing Address

*TULLYS COFFEE CORP
2010 AIRPORT WAY SOUTH
SEATTLE WA 98134*

Business Address

*2010 APRPORT WAY SOUTH
SEATTLE WA 98134*

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10

GENERAL FORM FOR REGISTRATION OF SECURITIES
PURSUANT TO SECTION 12(b) OR (g) OF
THE SECURITIES EXCHANGE ACT OF 1934

TULLY'S COFFEE CORPORATION
(Exact name of issuer as specified in its charter)

WASHINGTON 91-1557436
(State or other jurisdiction (I.R.S. Employer Identification No.)
of incorporation or organization)

2010 AIRPORT WAY SOUTH, SEATTLE, WASHINGTON 98134
(Address of registrant's principal executive's offices) (Zip Code)

Registrant's telephone number, including area code (206) 233-2070

Securities to be registered pursuant to Section 12(b) of the Act:

Title of each class to be so registered	Name of each exchange on which each class is to be registered
--	--

NONE

NOT APPLICABLE

Securities to be registered pursuant to Section 12 (g) of the Act:

COMMON STOCK, NO PAR VALUE
(Title of Class)

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ITEM 1. BUSINESS

GENERAL

Tully's Coffee Corporation and its subsidiary (collectively "Tully's" or the "Company") have 59 Company-operated retail stores in the Seattle/Western Washington, San Francisco/Northern California, and Sun Valley, Idaho markets. The Company sells high quality, premium roasted whole bean coffees, rich brewed coffees, Italian-style espresso and cold beverages, baked goods and pastries along with coffee-related hardware and supplies. In addition to its Company-operated stores, Tully's has 15 licensed stores in Asia and 3 licensed stores in the San Francisco International airport. Tully's also sells its products to wholesale accounts and provides office coffee service. The Company's philosophy is straightforward - provide an upscale atmosphere, with quick, friendly service where customers can relax and enjoy some of the finest coffee and espresso drinks available. It is management's goal to make each location warm and inviting with employees who go out of their way to make customers feel special. The Company believes that developing customer loyalty and brand recognition is of the utmost importance in its business and expansion strategy.

COMPANY BACKGROUND

Tully's was incorporated in July of 1992, after its founder and Chairman of the Board, Tom T. O'Keefe, determined an opportunity to develop, own and operate a chain of specialty coffee stores existed in the greater Puget Sound area. Mr. O'Keefe is the owner of a company, which owns and manages several commercial and retail properties in the area that was approached by numerous companies, including Starbucks Corporation, inquiring about locating specialty coffee stores in the properties owned and managed by his company. As a result, Mr. O'Keefe began researching the specialty coffee industry and determined an opportunity existed for development of an organization focused on the sale of high-quality coffee beans, coffee drinks and coffee related products in an upscale atmosphere which emphasized customer service. On September 16, 1992 Tully's opened its first store in Kent, Washington. In January 1995 Tully's moved into the former Starbucks Coffee roasting plant and headquarters where it maintains its executive offices, warehouse and coffee roasting facilities. Tully's opened 12 stores in fiscal year 1999 (ending March 28, 1999), and acquired 11 Company-operated and 11 licensed stores through the purchase of Spinelli Coffee Company. Tully's address is 2010 Airport Way South, Seattle, Washington 98134. Its telephone number is (206) 233-2070 or 1-800-96Tully.

THE BUSINESS OF TULLY'S COFFEE

The Company wants each Tully's location to be a warm and inviting atmosphere that will attract customers and encourage those customers to stay and enjoy its coffee, espresso and other beverages and food products. Tully's seeks to employ people who contribute to the "Coffee experience" of its customers.

Tully's strives to develop customer loyalty and brand recognition by providing superior service and offering quality coffee products that are competitively priced. Management believes that the Company's staff is well trained and knowledgeable about the coffee products offered for sale. It is the Company's belief that customer service, along with product freshness, consistency and variety, have become its trademark.

Another important element of the Company's strategy is to become an integral part of the local communities it serves. This is accomplished in a variety of ways such as becoming involved with fundraisers and charitable organizations, participating in primary and secondary school programs and by providing jobs to area high school students. Community involvement not only helps the Company by building goodwill, but also strengthens its market position.

The Company's objective is to establish Tully's as the most respected brand of coffee in the world. As part of this brand building strategy, the Company has carried a management infrastructure larger than required for a comparable sized company that is not growing and has spent significant amounts marketing and building its brand. This decision was made consciously and in anticipation of continuing growth. Tully's combination of strong comparable store sales growth, new store openings and a growing wholesale business are a result of this brand building effort.

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MARKETING, SALES AND CUSTOMER SERVICE

STORES

Tully's focus on consistency and quality in both its products and customer service is the basis for its marketing program as the Company strives for increased exposure in the community. Stores and kiosks are intended to be billboards themselves as the Company opens new locations. Point of sale signage, custom bags, boxes, cups, gift sets, products and literature with the Company's distinctive name and logo are intended to increase name awareness and to portray the Company's image in terms of color, layout, typeface, wording, graphics and display.

WHOLESALE

Tully's uses its wholesale and office coffee service accounts to provide additional opportunities for coffee consumers to experience the Company's coffee and reinforce its branded logo and name. The Company's product is delivered to its wholesale and coffee service accounts in branded packaging. Tully's also provides logoed coffee cups, banners and point of use signage to these accounts. This type of secondary brand marketing reinforces the Company's brand awareness and exposes the Company's coffee products to coffee consumers who may not have previously sampled the products in one of its stores. The Company believes that the quality of its products sells them to these coffee consumers and that by identifying the product as Tully's, a potential new customer for its retail stores and wholesale division is created.

COMMUNITY

Tully's commitment to local community involvement is another key element of its marketing strategy. The Company has provided and is planning on continuing to provide monetary, service and/or product donations to a host of local non-profit organizations, including schools, sports teams, churches, food banks, charity and service organizations. The Company also provides product and resource donations to national organizations including the Cystic Fibrosis Foundation, the Juvenile Diabetes Foundation, Childhaven and Big Brothers and Sisters. Such community involvement often times results in the Company's name and logo being displayed in promotional materials for organizations and events, at events themselves and in media coverage of the organization or event.

SEATTLE MARINERS BASEBALL TEAM AND SAFECO FIELD

Tully's strives to establish brand name and product recognition by making its products available in high volume consumer areas. An example of this strategy is the Company's agreement with the Seattle Mariners Baseball Organization.

In 1999, Tully's entered into a five-year agreement with the Seattle Mariners Baseball Organization under which the Company operates a store in

Safeco Field, the team's home field. As the "Official Coffee of the Seattle Mariners", Tully's sells its coffee and cups to the food concessionaire and all coffee sold in at Safeco Field is Tully's coffee in Tully's logo cups. Tully's receives prominent exposure during each game through a variety of signage arrangements in Safeco Field, including a large permanent sign with its name and logo on the left field wall. The Company may associate its logo with the Mariners logo in promotions. The partnership provides the Company exposure to millions of people annually through local and national television broadcasts.

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MEDIA

In media, Tully's strives for a fun and lively, yet professional feel to its promotions. Newspaper ads and radio and television spots are designed to portray the warm, friendly, sophisticated feel of the stores as grand openings, hiring, product specials, community involvement and special events are announced. Management believes that the various forms of planned and spontaneous media coverage the Company has experienced have given it positive, repeat exposure to potential as well as existing customers.

EXPANSION

The Company's principal strategy for expansion is new store development. Depending upon the amount of capital resources available to it, during the next 12 months the Company anticipates opening a number of additional retail locations in the Seattle and San Francisco Bay areas.

The Company's development plans also include expansion into other major North American cities. In executing this strategy the Company believes it will be most successful if it develops a nucleus of stores in each new location with emphasis on high-density metropolitan locations. Management believes that once it has established a strong identity in these metropolitan locations, the surrounding suburban retail areas will provide adequate growth capability within these market areas.

The Company may also expand operations through strategic acquisitions. It used the acquisition of Spinelli Coffee Company to establish store operations in the San Francisco Bay area. This type of acquisition strategy allows the Company to move into a new geographic area with a base of operating stores in locations which fit the Company's store profile. This provides the Company with an established infra-structure for operations in the new area from which the Company can further expand. It also gives the Company an established customer base for its store operations. At the present time the Company has not extended into any agreements for future acquisitions.

The Company's overseas operations are currently conducted through licensing arrangements. It expects that for the foreseeable future its overseas operations will continue to be conducted through its existing licensing arrangements, and possibly new agreements, none of which are imminent. The Company believes that its licensees intend to aggressively pursue expansion in their respective territories.

COMPETITION

The specialty coffee market is highly competitive. Some of Tully's competitors have greater financial and marketing resources and brand name recognition combined with a larger customer base than Tully's. Tully's competes with a number of specialty coffee retailers including Starbuck's Coffee, SBC and Peet's Coffee & Tea as well as other lesser know companies. Nationally, coffee manufacturers such as Kraft, General Foods, Proctor and Gamble, and Nestle distribute coffee products in supermarkets and convenience stores, which may serve as substitutes for Tully's coffees and coffee drinks. Tully's coffee beverages compete directly against all restaurant and beverage outlets that serve coffee and a growing number of espresso stands, carts, and stores. Tully's whole bean coffees and its coffee beverages compete indirectly against all other coffees on the market. Tully's believes that its customers choose among retailers primarily on the basis of product quality, service and convenience, and, to a lesser extent, on price.

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The development of the specialty coffee industry has shown that there is room for a variety of retailers, each seeking its own niche. Management acknowledges that there is a high concentration of specialty coffee outlets (stores, carts, kiosks, and drive throughs) in both Seattle and San Francisco, but believes these markets are highly fragmented. There are many single location operators. Tully's believes that it has developed significant brand identity and customer loyalty which gives it a competitive advantage over the numerous single

location operators.

Management believes there are certain areas within each city which are important to Tully's development and marketing due to their demographics, visibility and/or population density. These areas are primary Company targets for new retail stores. Industry competitors often target the same areas for similar reasons. Tully's has and will continue to open new retail stores in these areas, even if it means being across the street or in the same office building as a competitor.

Tully's faces intense competition for suitable new store sites and for qualified personnel to operate both new and existing stores. There can be no assurance that Tully's will be able to continue to secure sites at acceptable rent levels or that Tully's will be able to attract a sufficient number of qualified workers. Tully's wholesale and office coffee service businesses also face significant competition from established wholesale and mail order suppliers, many of whom have greater financial and marketing resources than Tully's.

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STORE OPERATIONS AND MANAGEMENT / EMPLOYEES

As of July 1, 1999, Tully's employed 545 people, of which approximately 500 are in retail stores or regional personnel, with the remainder in the Company's administrative, wholesale, roasting and warehouse operations. All employees are non-union and management anticipates this will continue to be the case. Approximately 220 of its employees are full-time.

Tully's knows that its employees are an integral part of its business, and has structured its benefit program accordingly. Employees who consistently work 20 hours or more per week are considered full time employees, who are eligible for vacation, holidays, medical and dental insurance, childbirth and sick leave. To promote product loyalty and enhance expertise, all employees receive discounts on beverages and resale items. Each employee also becomes a shareholder. Upon successfully completing barista skills testing, the employee is granted 100 shares of stock. Tully's believes that its current relations with the employees are excellent.

To maintain Tully's high standards of quality products and customer service, all employees complete a 3 day training course prior to working in a Company store, plus 16 hours committed to on-site training while working in a store. Training hours are devoted to orientation, which includes Company history and philosophy, as well as cash register and paperwork procedures, store equipment use, cash handling, retail product knowledge, sales techniques, customer service and thorough familiarization with Tully's Employee Handbook. Training also includes Coffee 101, an intensive course which examines coffee history, roasting, decaffeination processes, and tastings, or cuppings, of Tully's proprietary blends. Barista testing concludes the training program, with extensive, hands on drink preparation.

Tully's is committed to attracting and retaining the best people in the coffee business. It has developed a sense of partnership with its employees through its corporate culture, employee ownership and quality employee benefits. As continued evidence of this, Tully's has adopted a Stock Option Plan, a Stock Purchase Plan and a 401k plan to help attract and retain employees. The 401k plan will be offered to participating employees to enable them to accumulate wealth for retirement on a tax-deferred basis. Participation in the plan will be voluntary. Employee's electing to participate will make pre-tax contributions from their salary. Tully's may make discretionary matching contributions for employees that participate, adding to employee account balances. Any Company contribution will be vested over several years and will be designed to reward employee loyalty.

SUPPLIERS AND EQUIPMENT VENDORS

COFFEE MARKETS. Coffee is the world's second largest agricultural product and is grown commercially in over fifty countries in tropical regions of the world. The price and supply of coffee are subject to significant volatility. While most coffee trades in the commodity market, coffee of the quality sought by the Company tends to trade on a negotiated basis at a substantial premium above commodity coffee prices, depending upon the supply and demand at the time of purchase. There are many varieties of coffee and a range of quality grades within each variety. Tully's purchases only premium grade arabica coffee beans and believes these beans are the best available from each producing region. We seek to purchase the finest qualities and varieties of coffee by identifying the unique characteristics and flavor of the varieties available from each region of the world. The background and experience of our personnel allows us to maintain our commitment to serve and sell only the highest quality coffee.

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The supply and price of coffee can be affected by multiple factors in the producing countries, including weather and economic and political conditions. In addition, green coffee prices have been affected in the past, and may be affected in the future, by the actions of certain organizations and associations that have historically attempted to influence commodity prices of green coffee through agreements establishing export quotas or restricting coffee supplies worldwide.

During the buying season, we may enter into forward commitments for the purchase of green coffee that may only be available in small quantities. Rotating our coffee selection enables us to provide our customers with a wider variety of coffees, as well as certain coffees that are available only on a seasonal basis. We contract for future delivery of green coffee to help ensure adequacy of supply. As of July 20, 1999, the Company had approximately \$1,200,000 in fixed-price purchase commitments which, together with existing inventory, is expected to provide an adequate supply of green coffee well into fiscal year 2000. Tully's believes, based on relationships established with its suppliers in the past, that the risk of non-delivery on such purchase commitments is remote.

ROASTING. Tully's procures and roasts green coffee beans to its exacting specifications at its roasting plants in Seattle and San Francisco. We employ a roasting process that varies based upon the variety, quality, origin and physical characteristics of the coffee beans being roasted. Each batch is craft roasted to maximize the flavor characteristics of each batch.

FRESHNESS. The Company is able to roast to order for its retail and wholesale and office coffee service accounts. All of the Company's retail stores and wholesale customers receive fresh roasted coffee shipped promptly after roasting.

EQUIPMENT AND STORE SUPPLIES. Tully's purchases the equipment, fixtures and supplies for its retail store locations from a number of different vendors. We do not have agreements with any of these vendors. The materials are purchased through purchase orders on an as needed basis. In the past we have used different vendors for the same type of equipment and supplies as we searched for the best sources and best vendors to meet our requirements. As Tully's has expanded, we have attempted to standardize our purchasing systems and begun to use particular vendors and suppliers for particular products on a more regular basis. We believe that this means that Tully's relationships with its vendors will develop into reliable, long-term relationships that will benefit Tully's. However, if for some reason a particular supplier or vendor is unable to meet our needs, begins to deliver unsatisfactory materials or is not price competitive, Tully's believes that there are a number of alternative sources to meet all of its equipment, store supplies and other materials needs.

GOVERNMENTAL REGULATION

Tully's is subject to the general laws and regulations relating to the food service industry. There are no specific laws or regulations that govern the coffee industry as a whole, or coffee retailers specifically, that are materially different than other retail or wholesale food businesses.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Tully's is subject to foreign currency exchange rate exposure, primarily related to its retail operations in Asia. At the present time, Tully's does not hedge foreign currency risk, but may hedge known transaction exposure in the future.

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PATENTS AND TRADEMARKS

Tully's does not hold any patents. The Company owns several trademarks that are registered with the United States Patent and Trademark Office, including Swirkle-Registered Trademark- and Tullini-Registered Trademark. In addition, it has applied for federal trademark registration in the United States for, Tully's-TM-. Since Tully's filed the federal trademark registration it has received notice that two other companies are claiming rights to the trademark Tully's. Tully's believes that the claim of one of these companies is not likely to impact Tully's because that company filed its application after Tully's and apparently cannot demonstrate use of the trademark prior to Tully's. The second company also filed its own trademark application after the Company. This Company has filed an objection to the issuance of a trademark to the Company. It is claiming use of a Tully's trademark prior to the Company. If it can successfully support its claim, then it may be granted an exclusive right to use of the trademark in certain geographic areas in connection with its current and possibly future operations. It currently operates a chain of 4 restaurants in up-state New York. At the present time Tully's and the second company are conducting discovery related to the relative rights that each party has in the Tully's

tradename.

Tully's has also filed for various trademark registrations in several countries outside the United States. These filings are in various stages of the registration process.

SEASONALITY

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

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ITEM 2. FINANCIAL INFORMATION.

SELECTED TULLY'S COFFEE FINANCIAL DATA

The following selected consolidated financial data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations," our Consolidated Financial Statements and Notes thereto and other financial information included elsewhere in this registration statement. The selected consolidated statements of operations data for each of the three fiscal years ended on the Sunday closest to March 31, and the selected consolidated balance sheet data at fiscal year end are derived from our audited consolidated financial statements which are included elsewhere in this registration statement. The selected consolidated statements of operations data for the fiscal year ends March 31, 1996 and April 2, 1995 and the consolidated balance sheet data at March 31, 1996 and April 2, 1995 have been derived from audited consolidated financial statements that have not been included herein.

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	YEAR ENDED					
	PRO FORMA YEAR ENDED MARCH 29, 1999 (1)	MARCH 28, 1999 (2)	MARCH 29, 1998	MARCH 30, 1997	MARCH 31, 1996	APRIL 2, 1995
	(UNAUDITED)		(IN THOUSANDS, EXCEPT PER SHARE DATA)			
<S>	<C>	<C>	<C>	<C>	<C>	<C>
CONSOLIDATED STATEMENTS OF OPERATIONS DATA:						
Net Sales	\$ 22,180	\$ 20,210	\$ 9,020	\$ 5,430	\$ 2,710	\$ 1,520
Operating Expenses						
Cost of goods sold and related occupancy costs	11,370	10,710	5,010	2,850	1,530	865
Selling, general and administrative costs	13,290	12,090	6,100	3,620	2,330	1,395
Stock option expense	830	830	565	630	410	40
Depreciation and amortization	1,784	1,670	615	450	230	115
	27,274	25,300	12,290	7,550	4,500	2,415
Operating loss	5,094	5,090	3,270	2,120	1,790	895
Other expense (income):						
Interest expense	889	830	260	170	30	10
Loan guarantee fee expense	730	730	290	180	-	-
Miscellaneous, net	(50)	(70)	-	10	-	-
Net loss	6,663	6,580	3,820	2,480	1,820	905
Preferred stock dividend/accretion	5,970	5,970	-	-	-	-
Net loss applicable to common stockholders	\$ 12,633	\$ 12,550	\$ 3,820	\$ 2,480	\$ 1,820	\$ 905
Basic and diluted loss per share	\$ 0.88	\$ 0.88	\$ 0.29	\$ 0.20	\$ 0.19	\$ 0.92
Shares used in calculating net loss per share	14,298,754	14,298,754	13,366,176	12,687,569	9,409,162	982,854
CONSOLIDATED BALANCE SHEET DATA:						
Working capital (deficit)		(5,800)	(1,620)	(100)	50	(770)

Total assets	20,720	8,080	3,980	3,110	1,430
Long-term debt and bank lines of credit, including current portion	130	4,260	2,520	930	70
Stockholders' equity (3)	9,980	430	430	1,230	360

(1) Gives effect to the acquisition of Spinelli Coffee Company ("Spinelli") as if it had occurred on March 30, 1998. See "Unaudited Combined Pro Forma Financial Information."

(2) Includes nine months of operations data as a result of Tully's acquisition of Spinelli Coffee Company. See "Unaudited Combined Pro Forma Financial Information."

(3) Reflects the issuance of additional preferred stock. See "Item 10--Recent Sales of Unregistered Securities."

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

SAFE HARBOR STATEMENT UNDER THE PRIVATE
SECURITIES LITIGATION REFORM ACT OF 1995

Certain statements herein, including anticipated store openings, planned capital expenditures, projected goodwill amortization and trends in or expectations regarding Tully's operations, specifically including the effect of problems associated with the Year 2000, constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are based on currently available operating, financial and competitive information, and are subject to risks and uncertainties. Actual future results and trends may differ materially depending on a variety of factors, including, but not limited to, coffee and other raw materials prices and availability, successful execution of internal performance and expansion plans, the impact of competition, the effect of legal proceedings, and other risks detailed herein.

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The following is a discussion and analysis of the financial condition and results of operations of Tully's Coffee and should be read in conjunction with Tully's Coffee financial statements and notes thereto.

OVERVIEW

As of March 28, 1999, Tully's had 59 Company-operated stores and 18 licensed stores operating in 3 states and 3 foreign countries. Tully's operates coffee roasting facilities in Seattle, Washington and San Francisco, California. Tully's acquired 22 stores in fiscal 1999 through its acquisition of Spinelli Coffee Company in June, 1998. Tully's sells high quality, premium roasted whole bean coffees, rich brewed coffees, Italian-style espresso and cold beverages, baked goods and pastries along with coffee-related hardware and supplies.

GENERAL

Tully's derives approximately 87% of net sales from its Company-operated retail stores. Domestic and international wholesale, office coffee service and mail order account for the remaining 13% net sales.

The Company's fiscal year ends on the Sunday Closest to March 31. Fiscal years 1999, 1998 and 1997 all included 52 weeks. The fiscal year ending April 2, 2000 will include 53 weeks.

Net sales increased to \$20,207,000 in fiscal 1999 from \$9,020,000 in fiscal 1998 due primarily to the Company's acquisition of Spinelli, its store expansion program and comparable store sales increases. Comparable store sales increased by 14% for fiscal 1999 and fiscal 1998.

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	FISCAL YEAR ENDED:		
	MARCH 28, 1999	MARCH 29, 1998	MARCH 30, 1997
	-----	-----	-----
<S>	<C>	<C>	<C>
STATEMENT OF EARNINGS DATA:			
Net Sales	100.0%	100.0%	100.0%
-----	-----	-----	-----
Cost of goods sold and related			
occupancy costs	53.0%	55.5%	52.5%
Selling, general and administrative	59.8%	67.6%	66.7%
Stock option expense	4.1%	6.2%	11.6%
Depreciation and amortization	8.3%	6.8%	8.3%
-----	-----	-----	-----

Operating loss	-25.2%	-36.3%	-39.0%
Interest income (expense)	-4.1%	-2.9%	-3.1%
Loan guarantee fee expense	-3.6%	-3.2%	-3.3%
Miscellaneous, net	0.3%	0.0%	-0.2%

Net loss	-32.6%	-42.4%	-45.7%

</TABLE>

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FISCAL YEAR ENDED MARCH 28, 1999, COMPARED TO FISCAL YEAR ENDED
MARCH 29, 1998

REVENUES

Net sales for fiscal year 1999 (ended March 28, 1999), increased 124% to \$20,207,000 from \$9,020,000 for fiscal 1998. The Spinelli acquisition accounted for approximately \$5,800,000 of their increase. Retail sales increased 108% to \$17,537,000 from \$8,451,000, due to the addition of new Company-operated stores combined with an increase in comparable store sales of 14%. Comparable store sales increases resulted from an increase in the number of transactions combined with an increase in the average dollar value per transaction. During fiscal 1999, the Company opened 12 new stores and acquired 11 Company-operated stores and 11 licensed stores with the Spinelli purchase. At fiscal year end, there were 59 Company-operated stores and 3 licensed stores in North America and 15 licensed stores in Singapore, Taiwan and Japan.

Domestic and international wholesale, office coffee service and mail order sales increased 369% to \$2,670,000 for fiscal 1999 compared with \$569,000 for fiscal 1998 due to new accounts and the Spinelli purchase.

OPERATING EXPENSES

Cost of goods sold and related occupancy costs as a percent of net sales decreased to 53.0% for fiscal 1999 from 55.5% for fiscal year 1998. This decrease was due primarily to lower green coffee cost.

Selling, general and administrative costs as a percentage of net sales decreased to 59.8% in fiscal 1999 from 67.6% in fiscal 1998. This decrease was due primarily to lower store labor, general and administrative and marketing costs as a percentage of net sales.

As a percent of net sales, stock option expense decreased to 4.1% for fiscal 1999 from 6.2% for fiscal year 1998. The expense is a noncash charge representing the difference between the exercise price and fair market value of the stock at the date of grant. Stock option expense is comprised primarily of options to purchase common stock granted to officers and key employees by Tully's majority stockholder. The options were issued from the majority stockholder's shares rather than newly issued shares of Tully's to avoid diluting the other stockholders.

Depreciation and amortization as a percentage of net sales increased to 8.3% for fiscal 1999 from 6.8% for fiscal 1998 due primarily to the purchase of Spinelli and the amortization of goodwill associated with that transaction.

INTEREST AND OTHER EXPENSES (INCOME)

Interest expense for fiscal 1999 was \$834,000 compared to \$258,000 for fiscal 1998. The increase was due to higher average borrowings on the Company's bank line of credit, the issuance of convertible debt and the assumption of debt with the Spinelli purchase.

Miscellaneous income is primarily royalties and fee income from the Company's Asian licensees acquired with Spinelli.

Loan guarantee fee expense for fiscal 1999 was \$729,000 compared with \$295,000 for fiscal

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1998. This non-cash expense is for options granted to the CEO and a Board member to purchase common stock of the Company, issued in exchange for the guarantees of the bank line of credit.

Management believes the combination of strong comparable store sales growth, new store openings and a growing wholesale business together with slower growth in selling, general and administrative expenses and stock option expenses will allow the Company to achieve profitable operations. While the Company has experienced increased losses while it has been

expanding, net losses as a percentage of net sales have decreased by 9.8% comparing FY '99 with FY '98. Management expects this trend to continue. Throughout fiscal 1999, 1998 and 1997, the Company has carried a management infrastructure larger than required for a comparable sized company that is not growing and has spent significant amounts marketing and building its brand. This decision was made consciously and in anticipation of continuing growth. The Company believes that selling, general and administrative expenses and stock offering expenses, both of which are a function of this infrastructure, are expected to grow much slower than net sales.

FISCAL YEAR ENDED MARCH 29, 1998, COMPARED TO FISCAL YEAR ENDED MARCH 30, 1997

REVENUES

Net sales for fiscal year 1998 increased 66% to \$9,020,000 from \$5,430,000 for fiscal 1997. Retail sales increased 65% to \$8,450,000 from \$5,132,000, due to the addition of new Company-operated stores combined with an increase in comparable store sales of 14%. Comparable store sales increases resulted from an increase in the number of transactions combined with an increase in the average dollar value per transaction. During fiscal 1998, the Company opened 11 new stores. At fiscal year end, there were 33 Company-operated stores and 3 licensed stores in Asia.

Domestic and international wholesale, office coffee service and mail order sales increased 91% to \$569,000 for fiscal 1998 compared with \$298,000 for fiscal 1997.

OPERATING EXPENSES

Cost of goods sold and related occupancy costs as a percent of net sales increased to 55.5% for fiscal 1998 from 52.5% for fiscal year 1997. This increase was due primarily to higher green coffee cost.

Selling, general and administrative costs as a percentage of net sales increased to 67.6% in fiscal 1998 from 66.7% in fiscal 1997. This increase was due primarily to increased marketing costs as a percentage of net sales.

As a percent of net sales, stock option expense decreased to 6.2% for fiscal 1998 from 11.6% for fiscal year 1997. The expense is a noncash charge representing the difference between the exercise price and fair market value of the stock at the date of grant. Stock option expense is comprised primarily of options to purchase common stock granted to officers and key employees by Tully's majority stockholder. The options were issued from the majority stockholder's shares rather than newly issued shares of Tully's to avoid diluting the other stockholders.

Depreciation and amortization as a percentage of net sales increased to 6.8% for fiscal 1998 from 8.3% for fiscal 1997.

INTEREST AND OTHER EXPENSES (INCOME)

Interest expense for fiscal 1998 was \$258,000 compared to \$175,000 for fiscal 1997. The increase was due to higher average borrowings on the Company's bank line of credit.

Loan guarantee fee expense for fiscal 1998 was \$295,000 compared with \$179,000 for fiscal 1997. This non-cash expense is for options granted to the CEO and a Board member to purchase common stock of the Company, issued in exchange for the guarantees of the bank line of credit.

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LIQUIDITY AND CAPITAL RESOURCES

Tully's ended the period with \$1.1 million in total cash and working capital of negative \$5.8 million. Cash and cash equivalents increased by \$1.1 million for the fiscal year ended March 28, 1999 to \$1.1 million.

Cash used in operating activities totaled \$3.8 million for the fiscal year ended 1999, resulting primarily from net loss before non-cash charges of \$2.7 million, a \$.6 million increase in current assets offset by a \$.3 million increase in current liabilities .

Cash used by investing activities for the fiscal year ended 1999 totaled \$11.1 million. This included capital additions to property, plant and equipment of \$4.2 million related to opening 12 new Company-operated stores and remodeling certain existing stores. The acquisition of Spinelli used \$6.9 million.

Cash provided from financing activities for the fiscal year ended 1999 \$15.9 million and included cash generated from the issuance of Investment Units consisting of Preferred Stock and warrants in the amount of \$11.9 million, net of offering costs. Since the end of the fiscal year ended

1999, the Company generated an additional \$10.8 million in cash, net of operating costs, from the sale of additional Investment Units.

Cash requirements for fiscal 2000, other than normal operating expenses, are expected to consist primarily of capital expenditures related to the addition of new Company-operated retail stores. Tully's also anticipates making additional expenditures to enhance its production capacity and information systems and remodel certain existing stores. While there can be no assurance that amounts and timing of the expenditures will occur as planned, management believes that cash proceeds from the sale of the Investment Units will be sufficient for our capital needs for the next twelve months.

YEAR 2000 ISSUES

The Year 2000 issue results from computer programs being written using two digits rather than four to define the applicable year. Computer programs, at the Company and elsewhere, with time-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in a system failure or miscalculation causing disruptions of operations, including, among other things, a temporary inability to produce and distribute products, process transactions or engage in similar normal business activities.

The Company has investigated the impact of the year 2000 problem on our business, including our operational, information and financial systems. We have tested certain systems for compliance. Although we are not presently aware of any material operational issues or costs associated with preparing our internal systems for the year 2000, there can be no assurance that there will not be a delay in, or increased costs associated with, the implementation of the necessary systems and changes to address all year 2000 issues. The Company estimates the cost of making systems compliant is approximately \$40,000. As of July 20, 1999, Tully's had expended approximately \$5,000.

We are in the process of identifying and working with our significant suppliers, customers and financial institutions to ensure that those parties have appropriate plans to remedy year 2000 issues when their systems may affect our systems or otherwise impact operations. Although we have no reason to conclude that any specific supplier represents a risk, the most reasonably likely worst-case scenario would entail disruption to our business due to the inability of a number of our suppliers to provide product. We are unable to quantify such a scenario, but it could potentially materially harm our results of our operations, liquidity or financial position.

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Tully's expects that its review of non-information technology systems (including voice communications and security) will be completed before the end of the current fiscal year. The estimated cost to remedy non-information technology systems is not expected to be material. Tully's expects that the source of funds for evaluation and remediation of year 2000 compliance issues will be cash flows from operations.

The third parties whose year 2000 problems could have the greatest effect on Tully's are believed by Tully's to be banks that maintain Tully's depository accounts and credit card processing systems, the company that processes Tully's payroll and companies that supply or distribute coffee beans and other goods.

Tully's is in the process of confirming the state of year 2000 readiness of these parties. It is anticipated Tully's will complete this process prior to the end of the fiscal year. Tully's is in the process of developing a contingency plan to address potential year 2000 problems. The contingency plan is anticipated to be completed mid-third quarter.

NEW ACCOUNTING STANDARDS

In June 1998, the Financial Accounting Standards Board issued SFAS 133, "Accounting for Derivative Instruments and Hedging Activities." This pronouncement will require Tully's to recognize certain derivatives on its balance sheet at fair value. Changes in the fair values of derivatives that qualify as cash flow hedges will be recognized in comprehensive income until the hedged item is recognized in earnings. Tully's expects that this new standard will not have a significant effect on its results of operations. SFAS 133 as amended by SFAS 137 is effective for fiscal years beginning after June 15, 2000.

UNAUDITED COMBINED PRO FORMA FINANCIAL INFORMATION

The Pro Forma Consolidated Financial Information has been prepared from, and should be read in conjunction with, the historical consolidated

financial statements and notes thereto of each of Tully's. Spinelli Coffee Company's financial information has been prepared from internal financial statements for period March 30, 1998 to June 25, 1998.

On June 26, 1998, the Company acquired all the outstanding shares of Spinelli Coffee Company for a total purchase price of \$8.4 million. Spinelli Coffee Company had 11 Company-operated stores and 3 licensed stores in the San Francisco Bay area as well as 8 licensed stores in Asia and a roasting and warehouse facility. The acquisition has been accounted for under the purchase method of accounting in fiscal 1999. The purchase price has been allocated to the assets acquired and liabilities assumed based on management's estimates, arms-length negotiations with the sellers and in certain cases, independent appraisals of asset fair values. The residual of approximately \$5.1 million was recorded as "Goodwill" and is being amortized on a straight-line basis over 15 years. The results of operations of the acquired companies have been included in consolidated results of operations of the Company from the date of the acquisition.

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UNAUDITED PROFORMA COMBINED STATEMENT OF OPERATIONS

<TABLE>
<CAPTION>

	TULLY'S COFFEE MARCH 30, 1998- MARCH 28, 1999	SPINELLI COFFEE MARCH 30, 1998- JUNE 25, 1998	PRO FORMA ADJUSTMENTS	PRO FORMA COMBINED
	(IN THOUSANDS, EXCEPT PER SHARE DATA)			
<S>	<C>	<C>	<C>	<C>
Net sales	\$ 20,210	\$1,970	\$ -	\$ 22,180
Cost of goods sold and related occupancy costs	10,710	660	-	11,370
Selling, general and administrative costs	12,090	1,200	-	13,290
Stock option expense	830	-	-	830
Depreciation and amortization	1,670	-	(A) 114	1,784
Operating loss (income)	5,090	(110)	114	5,094
Interest expense (income)	830	(10)	(B) 69	889
Loan guarantee fee expense	730	-	-	730
Miscellaneous, net	(70)	20	-	(50)
	1,490	10	69	1,569
Net loss (income)	6,580	\$ (100)	\$ 183	6,663
Preferred stock dividend/accretion	5,970			5,970
Net loss used in calculating net loss per share	\$ 12,550			\$ 12,633
Basic and diluted net loss per common share	\$ 0.88			\$ 0.88
Shares used in computing basic and diluted net loss per share calculations	14,298,754			14,298,754

</TABLE>

See accompanying notes to the unaudited combined financial statements.

1. THE PERIODS, COMBINED

The Tully's Coffee Corporation consolidated statement of operations for the year ended March 29, 1999 has been combined with the Spinelli Coffee Company statements of operations for the period March 30, 1998 to June 25, 1998 as if the merger had occurred as of the beginning of the period. The results of Spinelli Coffee Company for the period June 26, 1998 to March 28, 1999 have already been consolidated into the Tully's Coffee Corporation consolidated statement of operations for the year ended March 28, 1999 as the merger was effected June 26, 1998.

2. PRO FORMA BASIS OF PRESENTATION

These Unaudited Pro Forma Combined Statements of Operations have been made for the purposes of presenting such pro forma information as necessary to

comply with the disclosure requirements of the Securities Exchange Commission. The Unaudited Pro Forma Combined Statements of Operations does not purport to be indicative of the combined Statements of Operations of future periods or indicative of

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the results of operations of future periods or indicative of the results that actually would have been realized had the entities been a single entity during these periods.

3. PRO FORMA EARNINGS PER SHARE

The unaudited Pro Forma Combined Statement of Operations for Tully's Coffee Corporation have been prepared as if the merger was completed at the beginning of the periods presented. The pro forma basic net loss per share is based upon the combined weighted average number of shares of Tully's Coffee Corporation Common Stock outstanding during the period.

The Pro Forma diluted net loss per share is computed using the weighted average number of Tully's Coffee Corporation Common Stock and dilutive common equivalent shares outstanding during the period. Common Stock equivalent shares consist of incremental common shares issuable upon conversion of the exercise of stock options and warrants using the treasury stock method. Common equivalent shares are excluded from the computation if the effect is antidilutive. The combined Company had a pro forma net loss for the year ended March 28, 1999; therefore, none of the options and warrants outstanding during the period presented were included in the computation of pro forma dilutive earnings per share as they were antidilutive.

4. PRO FORMA STATEMENTS OF OPERATIONS ADJUSTMENTS

The objective of pro forma information is to show what the significant effects on the historical financial information might have been had the companies been merged for the period presented.

The purchase price of \$8.4 million consists of \$6.7 million paid to the seller, \$221,243 of acquisition costs and the assumption of \$1,446,356 in liabilities of the seller.

The categories of assets acquired and obligations assumed, at the date of the acquisition is as follows:

<S>	<C>
Assets acquired	
Cash	\$ 5,059
Accounts receivable	163,595
Inventories	965,415
Prepaid and other current assets	41,172
Goodwill and other intangible assets	5,522,928
Property and equipment	1,538,027
Other assets	131,403

Total assets	\$ 8,367,599

Liabilities assumed	
Current liabilities	\$ (520,478)
Other liabilities	(925,878)

	\$ (1,446,356)

</TABLE>

The company incurred costs associated with the acquisition during 1999 of \$221,243. Costs were primarily for professional fees and expenditures to facilitate integration of business systems of the acquired business with the Company following the merger. Such costs were capitalized as part of the purchase price.

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Goodwill represents the excess of the purchase price over the fair value of the net assets acquired. The goodwill will be capitalized and amortized over a period of fifteen years. The property plant and equipment will be depreciated over the remaining estimated lives of such assets. The

Unaudited Pro Forma Combined Statement of Operation reflects adjustments for such amortization and depreciation.

Detail of the specific pro forma adjustments for all of the period March 30, 1998 to June 24, 1998, are as follows:

<TABLE>

<S>	(in thousands)
(A)	<C>
AMORTIZATION AND DEPRECIATION	
Amortization of goodwill	\$ 84
Amortization of leasehold interests	5
Depreciation of property plant and equipment and leasehold improvements	25

Total pro forma adjustment	\$114

</TABLE>

(B) INTEREST EXPENSE

In connection with this acquisition Tully's issued a \$2,500,000 convertible note to a director of the Company. Had the Company issued the note on March 30, 1998, the Company would have recorded an additional \$69,000 in interest expense. The note was converted into 1,000,000 shares of preferred stock on March 28, 1999.

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ITEM 3. PROPERTIES.

RETAIL LOCATIONS

Tully's currently leases space for all of its Company-operated store locations. All of these locations are secured by long term leases with options to extend beyond the initial lease term. Base lease terms are typically ten years with two to four five year options to extend. Tully's firmly believes that its current locations are situated in suburban and urban areas that have high levels of pedestrian or vehicular traffic, or both.

Tully's has spent considerable time designing the look and feel of the interior of its retail stores. Of utmost importance was creating a sophisticated, yet warm and inviting environment. The materials used for the interior improvements, including cherry wood cabinets, real slate tile flooring, an eclectic furniture package and a distinctive paint pattern for the walls, were all carefully and strategically selected to enhance the image projected for Tully's by its stores. It is intended that all stores project and maintain a consistent look and feel regardless of the square footage or dimensional variations. The design and materials used were also selected to not be regional specific so as to allow for consistent usage in other parts of the country.

STORE DESIGN AND CONSTRUCTION COSTS

Tully's has designed a store look and feel that it believes will best meet its needs as they relate to the image, atmosphere and high level of customer service that Tully's wants to present to its customers. The package is tailored to be flexible enough to meet the different requirements presented by various types of locations, e.g., Central Business District office buildings and neighborhood center locations. The Company's expansion plans in the Puget Sound and San Francisco Bay Areas, as well as in other U.S. markets, were a major factor in the selection of materials, colors, fixtures and equipment. Management feels it is critical to have a store design that is similar from one store to another in order to strengthen its brand and instill a feeling of consistency with its customers. While meeting these goals Tully's also believes the stores are not only cost effective to build in all markets, but are enduring from a design perspective.

EXECUTIVE OFFICE, WAREHOUSE AND ROASTING FACILITIES

Tully's currently occupies 8,400 square feet of space at 2010 Airport Way South in Seattle, Washington where its executive offices, roasting plant and warehouse facilities are located. While this space is currently serviceable for Tully's needs, it has commenced a search to locate larger premises that will meet its needs in the future. Tully's does not anticipate any problems in securing the new premises. It also believes that the rent for its current offices is substantially below market and therefore it will be able to sublet the existing premises without difficulty for the remaining 5

year term of the lease. Tully's also maintains a 14,000 square foot office and roasting facility in San Francisco. Tully's currently anticipates maintaining this facility as a regional office and additional roasting facility to meet its growth needs in that area. The lease for 5,700 square feet of the San Francisco premises expires in July, 2000. While Tully's has the right to extend the lease for additional periods, it is possible that it will not renew the lease for this portion of the property. Both facilities have adequate lease terms, with options to extend. Tully's believes that the present facilities satisfy the immediate growth plans of Tully's and that there are adequate additional spaces available to Tully's at competitive lease rates into which it can relocate to meet

its facilities needs as it continues to expand. The Seattle plant was previously occupied by Starbuck's Coffee, which maintained its executive offices, warehouse and roasting facility at this location.

ITEM 4. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information concerning the beneficial ownership of Common Stock and Series A Preferred Stock of (i) those persons known by management of Tully's to own beneficially more than 5% of Tully's outstanding Common Stock, (ii) the directors and director nominees of Tully's, (iii) the executive officers named in the Summary Compensation Table set forth in the "Executive Compensation" section of this registration statement and (iv) all current directors and officers of Tully's as a group. Such information is provided as of July 1, 1999. According to the rules adopted by the SEC, a person is a "beneficial owner" of securities if he or she has the right to acquire beneficial ownership of such securities within 60 days through the exercise of an option, warrant, right of conversion of a security or otherwise. Except as noted otherwise, the indicated owners have sole voting and investment power with respect to shares beneficially owned. An asterisk in the percent of class column indicates beneficial ownership of less than 1%.

<TABLE>
<CAPTION>

NAME AND ADDRESS OF BENEFICIAL OWNER (2)	SHARES OF COMMON STOCK BENEFICIALLY OWNED (1)	PERCENT OF CLASS	SHARES OF SERIES A PREFERRED STOCK BENEFICIALLY OWNED (1)	PERCENT OF CLASS
<S>	<C>	<C>	<C>	<C>
Tom T. O'Keefe (3)	5,145,431	23.6%	40,000	1.7%
George Hubman (4)	1,271,510	5.8%	200,000	2.0%
Keith McCaw (5)	1,046,835	4.8%	2,000,000	20.0%
Graham S. Anderson (6)	466,751	2.1%	40,000	*
Stephen R. Griffin (7)	377,703	1.7%	-	-
Marc Evanger (8)	254,000	1.2%	-	-
Richard J. Padden (9)	130,667	*	20,000	*
Lawrence L. Hood (10)	120,251	*	10,000	*
Larry A. Culver (11)	30,500	*	40,000	*
James Cameron Towne (12)	20,000	*	20,000	*
Robert J. Holmes (13)	14,250	*	10,000	*
All Directors and Executive Officers as a Group (11 Persons)	8,877,898	40.7%	2,380,000	23.8%

</TABLE>

NOTES TO BENEFICIAL OWNERSHIP TABLE

- (1) Computed in accordance with Rule 13d-3(d) (1) of the Exchange Act.
- (2) The address for all persons listed unless otherwise noted 2010 Airport Way South, Seattle, WA 98134

- (3) Assumes certain officers and employees exercise options for the purchase of 1,479,999 shares from Mr. O'Keefe at an exercise price of \$0.33 - \$0.01 and includes options to purchase 376,324 shares of common stock which are immediately exercisable at a price of \$0.01 - \$2.25 per share under the Company's stock option plan.
- (4) Assumes the exercise of options for the purchase of 288,279 shares of common stock at an exercise price of \$0.01 and the exercise of Series A Preferred Stock warrants for the purchase of 100,000 shares of common stock at an exercise price of \$0.33.
- (5) Assumes the exercise of options for the purchase of 3,500 shares of common stock at an exercise price of \$0.01 and the exercise of Series A Preferred Stock warrants for the purchase of 1,000,000 shares of common stock at an exercise price of \$0.33.
- (6) Assumes the exercise of options for the purchase of 40,417 shares of common stock at an exercise price of \$0.01 and the exercise of Series A Preferred Stock warrants for the purchase of 20,000 shares of common stock at an exercise price of \$0.33.
- (7) Assumes the exercise of options for the purchase of 341,936 shares of common stock at an exercise price of \$0.01 - \$2.25.
- (8) Assumes the exercise of options for the purchase of 252,500 shares of common stock at an exercise price of \$0.01 - \$1.78.
- (9) Assumes the exercise of options for the purchase of 22,500 shares of common stock at an exercise price of \$0.01 and the exercise of Series A Preferred Stock warrants for the purchase of 10,000 shares of common stock at an exercise price of \$0.33.
- (10) Assumes the exercise of options for the purchase of 26,917 shares of common stock at an exercise price of \$0.01 and the exercise of Series A Preferred Stock warrants for the purchase of 5,000 shares of common stock at an exercise price of \$0.33.
- (11) Assumes the exercise of options for the purchase of 2,500 shares of common stock at an exercise price of \$0.01 and the exercise of Series A Preferred Stock warrants for the purchase of 20,000 shares of common stock at an exercise price of \$0.33.
- (12) Assumes the exercise of options for the purchase of 4,000 shares of common stock at an exercise price of \$0.01 and the exercise of Series A Preferred Stock warrants for the purchase of 10,000 shares of common stock at an exercise price of \$0.33.
- (13) Assumes the exercise of options for the purchase of 4,250 shares of common stock at an exercise price of \$0.01 and the exercise of Series A Preferred Stock warrants for the purchase of 5,000 shares of common stock at an exercise price of \$0.33.

ITEM 5. DIRECTORS AND EXECUTIVE OFFICERS

The names, ages and positions of the executive officers and directors of Tully's Coffee are listed below along with their business experience during the last five years. The business address of all officers of Tully's Coffee is 2010 Airport Way South, Seattle, Washington 98134. The Tully's Coffee Board of Directors consists of ten directors. Directors are elected to serve one year terms. Executive officers of Tully's Coffee are appointed by the Board of Directors. No family relationships exist among any of the directors or executive officers.

<TABLE>
<CAPTION>

NAME	AGE	POSITION
<S>	<C>	<C>
Tom T. O'Keefe	44	Chairman and Chief Executive Officer
Marc Evanger	44	Vice President - Corporate Planning and Development and Director
Stephen R. Griffin	42	Vice President - Finance, Chief Financial Officer & Secretary

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Graham Anderson	66	Director
Larry A. Culver	57	Director
Robert J. Holmes	54	Director
Lawrence L. Hood	40	Director
George Hubman	56	Director
Keith McCaw	44	Director

Richard J. Padden	46	Director
James Cameron Towne	56	Director

</TABLE>

TOM T. O'KEEFE - CHAIRMAN OF THE BOARD AND CHIEF EXECUTIVE OFFICER. Tom T. O'Keefe is the founder of Tully's Coffee. Mr. O'Keefe also serves as President and CEO of O'Keefe Development Corporation (ODC), a real estate firm that has acquired or developed shopping centers, office buildings and warehouses throughout the Puget Sound area. Prior to founding ODC, Mr. O'Keefe was a commercial real estate broker with Coldwell Banker Commercial Real Estate Services. Mr. O'Keefe works with and is a founder of several non-profit organizations, including the Cystic Fibrosis Foundation and the Juvenile Diabetes Guild of Seattle. He has served as president and event chairperson for these organizations. Additionally, he is a Trustee for the Villa Academy, a school his children attend in Seattle. Mr. O'Keefe has served as a Director and Chairman of the Board since the Company's inception.

STEPHEN R. GRIFFIN - VICE PRESIDENT - FINANCE, CHIEF FINANCIAL OFFICER AND SECRETARY. Mr. Griffin joined Tully's in 1994. From 1989 to 1994, Mr. Griffin served in various capacities at Olympic Management Company, including Chief Operating Officer, from 1992 to 1994 and Vice President-Controller and Treasurer for Olympic and its affiliates, a diverse group of real estate entities from 1989 to 1992. He was Director of Acquisitions for Hillhaven Corporation from 1983 to 1989 and with Arthur Andersen & Co prior to that. Mr. Griffin is a graduate of the University of Washington with a BA in Business Administration.

GRAHAM S. ANDERSON - DIRECTOR. Mr. Anderson is former Chairman and President of the Pettit-Morry Company, a Regional Insurance Brokerage. Mr. Anderson is a Director of a variety of companies including Marker International (manufacturer and retailer of ski hardware and apparel), the Commerce Bank, Janss Center and is former Chairman of the National Association of Insurance Brokers and a member of Eldore LLC. Mr. Anderson has served as a Director since February 7, 1994.

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LARRY A. CULVER - DIRECTOR. Mr. Culver has more than 35 years experience in the hospitality industry. In 1982, Larry founded Inn Ventures, Inc. Since then, Mr. Culver and his staff have developed and managed more than \$300,000,000 in hotel product. Mr. Culver has been recognized by numerous organizations for his accomplishments and innovative leadership including being the recipient of the "Inn of the Year Award", "Hotelier of the Year Award" and a finalist for several of Marriott International's highest awards. He actively serves on various Boards of Directors of civic and charity groups such as Big Brothers and Big Sisters of King County (Past President, Board of Directors, and Executive Committee); Northwest Harvest Food Drive; Fred Hutchinson Cancer Research; WSU Board of Trustees; WSU Foundation; WSU Advisory Board for School of HRA. Mr. Culver has served as a Director of the Company since February 5, 1998.

MARC EVANGER - VICE PRESIDENT CORPORATE PLANNING AND DEVELOPMENT AND DIRECTOR. Mr. Evanger joined Tully's in December 1998. From 1984 to 1998 he was with Quality Food Centers (QFC), most recently as Senior Vice President of Finance and Administration and Chief Financial Officer. During his tenure, QFC grew from 20 to 145 stores, completed numerous acquisitions, a leveraged buyout and an IPO. He retired in 1998 following the merger of QFC and Fred Meyer, Inc. From 1978 to 1984, he was with Price Waterhouse & Company. Mr. Evanger is a former member of the Board of Directors of Associated Grocers, is currently a director of the Bellevue Boys & Girls Club and is active in other charitable and community activities. Mr. Evanger is a graduate of the University of Washington and Central Washington University. Mr. Evanger has served as a Director of the Company since March 1999.

ROBERT J. HOLMES - DIRECTOR. Robert J. Holmes is President and CEO of Harbor Properties, Inc., a real estate development and recreation company located in Seattle. Harbor Properties is involved in the development and management of residential, retail and office real estate as well as resort and ski area operations. For the 10 years prior to joining Harbor, Mr. Holmes was President, CEO and then Chairman of Intrawest USA, one the larger real estate developers in the Puget Sound area. He also served in an executive position with the parent company's Resort Development Group where he focused on the acquisition of ski and resort companies throughout North America. Mr. Holmes is a past Chairman and Director of the Seattle Housing Resources Group, Director of the Bellevue Downtown Association and Director of Historic Seattle Preservation and Development Authority. He currently serves on the Executive Committee of the Downtown Seattle Association and sits on its Board of Directors. Mr. Holmes has served as a Director since February 5, 1998.

LAWRENCE L. HOOD - DIRECTOR. Mr. Hood is a Principal and Managing

Partner of Pacific Portfolio Consulting, L.P., an independent, fee only investment advisory firm. Prior to founding Pacific Portfolio, Mr. Hood was a principal in charge of the investment division of Kibble & Prentice, Inc., a regional financial services firm. Mr. Hood has over seventeen years of investment related experience, and has participated in a number of operating companies in various stages of development. Mr. Hood served as a director for A-Sport, Inc. and is a past member of the Charles Schwab Advisory Board. Mr. Hood is a graduate of the University of Puget Sound, where he majored in Economics and Finance. Mr. Hood has served as a Director since February 7, 1994.

GEORGE HUBMAN - DIRECTOR. Mr. Hubman retired as Vice President of Sales and Marketing at WRQ, the sixteenth largest software company in the U.S., in December, 1993. Mr. Hubman was co-founder of WRQ and held the position since the Company's formation in 1981. Prior to WRQ, Mr. Hubman's career included sales positions with Hewlett Packard and IBM. He currently sits on the boards of Precision Digital Images, King County Big Brothers and Big Sisters, Childhaven and served two years on the board of Interex, the International Association of Hewlett-Packard Computer Users. He is a past president of

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Washington State University's College of Business and Economics advisory committee. Mr. Hubman has served as Director since February 7, 1994.

KEITH MCCAW - DIRECTOR. Mr. McCaw retired as a Board Member and Vice President of McCaw Communications Company and Vice President of the Radio Common Carrier Division where his primary focus was on acquisitions and corporate development. He coordinated McCaw Cellular's first five applications to the F.C.C. McCaw Cellular was sold to AT&T in 1994 for \$11.5 billion. Together with other family members, Mr. McCaw is a lead investor in NexTel Communications and several other high tech ventures. He is involved with many cultural and educational organizations and is currently self employed and managing personal investments. Mr. McCaw has served as a Director of the Company since February 5, 1998.

RICHARD J. PADDEN - DIRECTOR. Mr. Padden is of counsel to the law firm of Carney Badley Smith & Spellman, P.S. Mr. Padden has been a practicing attorney in Seattle for over 20 years with Carney Badley Smith & Spellman, P.S. specializing in commercial and corporate law. Mr. Padden is a founder, principal and board member of Grays Harbor Paper, LP and is a principal and board member of Safeworks, L.L.C., S&P Foods, Inc. and Brown's Sugarless Bakery, Inc. Mr. Padden is active in many charitable and volunteer organizations. He is past president of the Washington Chapter of Cystic Fibrosis and is a founder and past president of the Patrons of Cystic Fibrosis Guild. Mr. Padden has served as director since February 7, 1994.

JAMES CAMERON TOWNE - DIRECTOR. Mr. Towne has been Chairman of Greenfield Development Corporation, a remediation and development company since 1995. From 1982 to 1995, he was President, CEO or Chairman of various companies, including Osteo Sciences Corporation, Photon Kinetics, Inc., MCV Corporation, Methus Corporation and Microsoft Corporation. Mr. Towne also serves on the board of directors of Cutter & Buck, a specialty upscale sportswear and outerwear clothing retailer. He has a bachelor's degree in economics and a master's degree in business administration from Stanford University. Mr. Towne has served as a director of the Company since February 5, 1998.

KEY EMPLOYEES

R. J. SELFRIDGE - VICE PRESIDENT - OPERATIONS. Prior to joining Tully's in late 1993, R.J. Selfridge was employed by Nordstrom for ten years. He was a manager of Nordstrom's restaurant division headquarters and commissary in Seattle. At Nordstrom, he coordinated the expansion of espresso bars and cafes into all West Coast stores. More recently, Mr. Selfridge was in charge of cafe and espresso operations in the Northeast, while headquartered in New Jersey. He also helped develop and bring to market the company's signature Nordstrom Blend, a custom whole bean coffee. Mr. Selfridge brings over 20 years of retail food service operations experience to Tully's.

SIOBHAN C. FOODY - VICE PRESIDENT - WHOLESALE. Prior to joining Tully's in 1995 as Director of Wholesale (having served as Vice President - Wholesale since 1998). Ms. Foody worked as a manufacturers' representative in the housewares and gourmet coffee industries for six years. Ms. Foody represented major coffee accessory lines currently marketed by Tully's. A native of Seattle, Ms. Foody graduated from the University of Washington with a Bachelor of Arts degree in economics.

ITEM 6. EXECUTIVE COMPENSATION.

SUMMARY COMPENSATION TABLE

The following table sets forth compensation earned during the last three fiscal years by our Chief Executive Officer and its next four most highly compensated executive officers (collectively referred to herein as the "Named Executive Officers") whose total annual salary and bonus for that year exceeded \$100,000. No executive officer received compensation in excess of \$100,000 during the last fiscal year.

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<TABLE>
<CAPTION>

NAME AND PRINCIPAL POSITION	ANNUAL COMPENSATION			LONG-TERM COMPENSATION AWARDS		
	FISCAL YEAR	SALARY	BONUS	OPTIONS	RESTRICTED STOCK AWARDS	ALL OTHER COMPENSATION
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Tom T. O'Keefe	1999	-	-	179,712	-	-
President, Chairman and	1998	-	-	123,567	-	-
Chief Executive Officer (1)	1997	-	-	54,833	-	-

</TABLE>

- (1) While Mr. O'Keefe has received no cash or other compensation for his services, Tully's has recorded compensation expense for the estimated fair market value of his past services and for fiscal year 1999. The value of these services were recorded at \$120,000 for fiscal year 1999. Mr. O'Keefe has drawn no salary since Tully's inception.

GRANTS OF STOCK OPTIONS

STOCK OPTION GRANTS IN LAST FISCAL YEAR

The following table sets forth information regarding stock options granted to executive officers to purchase Tully's Coffee Common Stock granted during the fiscal year ended March 28, 1999.

<TABLE>
<CAPTION>

NAME	OPTIONS GRANTED (1)	% OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR (3)	EXERCISE OR BASE PRICE (\$/SHARE)	EXPIRATION DATE	POTENTIAL REALIZABLE VALUE OF ASSUMED ANNUAL RATES OF STOCK APPRECIATION FOR OPTION TERM		
					0% (\$)	5% (\$)	10% (\$)
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Tom T. O'Keefe	8,500	0.9%	\$0.0100	2009	\$ -	\$ 53	\$ 75
	9,250	1.0%	\$2.2500	2009	-	13,089	18,344
	161,962 (2)	17.2%	\$0.0100	2009	-	1,019	1,427

</TABLE>

- (1) Options to purchase Tully's common stock and are subject to various vesting terms.
- (2) These options were granted as compensation for Mr. O'Keefe's agreement to personally guarantee a \$6,000,000 line-of-credit which Tully's maintains with a commercial bank.
- (3) A total of 1,132,632 stock options were granted to employees and non-employees during fiscal 1999 of which 283,000 were options issued to key employees of the Company to purchase common stock owned directly by Tom T. O'Keefe while the remaining portion were options issued under the Company's 1994 stock option plan.

AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR-END OPTION VALUES

The following table sets forth information concerning the number and value of unexercisable options held by the following executive officers on March 28, 1999. None of these options to purchase common stock were exercised during fiscal year 1999.

<TABLE>
<CAPTION>

NAME	NUMBER OF UNEXERCISED OPTIONS AT FISCAL YEAR-END		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT FISCAL YEAR-END (1)	
	EXERCISABLE	UNEXERCISABLE	EXERCISABLE	UNEXERCISABLE
<S>	<C>	<C>	<C>	<C>
Tom T. O'Keefe	376,324	9,250	\$752,272	-

</TABLE>

(1) These amounts represent the difference between the exercise price of the in-the money options and the fair market value of Tully's Coffee common stock on March 28, 1999.

TULLY'S COFFEE STOCK OPTION PLAN

In 1994, Tully's adopted its 1994 Stock Option Plan under which the Board of Directors will from time-to-time grant certain rights to eligible employees and directors to purchase common stock. As of July 1, 1999, 1,493,058 options to purchase stock at \$0.33 - \$2.25 per share have been granted. These options vest pro-rata over five years beginning with the date of grant.

The purpose of the Option Plan is to promote Company success by aligning employee financial interests with long-term shareholder value. At the present time Tully's is authorized to issue options for 5% of common and preferred stock outstanding shares under the Plan. The shareholders have been asked to approve an amendment to the Plan which increases the number of shares that may be issued under the Option Plan. Under the proposed amendment the number of shares issuable under the Option Plan would be increased to an amount not to exceed 4,200,000 shares of Tully's Common Stock. However, the total number of shares which may be issued under Tully's Option Plan and the Employee Stock Purchase Plan, if adopted by the shareholders, cannot exceed 4,200,000 shares, in the aggregate.

The Board of Directors has the general authority to grant options under the Option Plan to employees and officers of Tully's and to generally exercise all authority of the Board under the Option Plan. However, the Executive Compensation Committee of the Board of Directors (comprised entirely of non-employee directors) has been delegated the authority to grant options to certain members of senior management.

The Option Plan may be modified, amended, or terminated by the Board except with respect to incentive stock options granted prior to such action. The Board shall have the authority to adopt such modifications, procedures, and subplans as may be necessary or desirable to comply with provisions of the laws of foreign countries in which Tully's or its subsidiaries may operate to assure the viability of the benefits from options granted to employees employed in such countries and to meet the objectives of the Option Plan. Notwithstanding the foregoing, shareholder approval is required for any amendment which increases the number of shares subject to the Option Plan (other than in connection with automatic adjustments due to changes in capitalization or the assumption or substitution of options in connection

with mergers or acquisitions). Shareholder approval may also be required if there are "material changes" to the Option Plan for purposes of Section 162(m) of the Code or to comply with new legislation.

VESTED STOCK OPTIONS

During the fiscal year ended March 28, 1999, Tom T. O'Keefe granted options to purchase 283,000 shares of common stock owned by him to key Tully's employees. These options were fully vested as of the date of the grants and are exercisable indefinitely at the exercise price of \$0.01 per share. The options were granted to the key employees as performance bonuses and to tie their respective interests to those of Tully's. The options were issued for Mr. O'Keefe's shares rather than newly issued shares of Tully's to avoid diluting the other shareholders. Although the options were not granted by Tully's, under generally accepted accounting principles, Tully's was required to record an increase in paid in capital and a noncash charge to compensation expense of \$511,659 in fiscal year 1999 which represented the difference between the

estimated fair market value of the underlying shares on the grant dates and the exercise price.

TULLY'S COFFEE STOCK PURCHASE PLAN

The Company's shareholders have been asked to ratify the 1999 Employee Stock Purchase Plan (the "Purchase Plan"). The Purchase Plan, if approved by the shareholders, will allow all employees who have been with Tully's for 3 months and who are working more than 20 hours a week to authorize payroll deductions at a rate of 2, 4, 6, 8, or 10% of base pay (including overtime or bonuses) to be applied toward the purchase of Tully's common stock. The total number of shares of common stock reserved for issuance under the Purchase Plan cannot exceed 4,200,000. Provided, that the total number of shares which may be issued under Tully's Purchase Plan and its Option Plan cannot exceed 4,200,000 in the aggregate.

As of July 1, 1999, there were approximately 320 employees eligible to participate in the Purchase Plan. The Purchase Plan, which is to be administered by the Board, will terminate on December 31, 2005, or earlier at the discretion of the Board or in the event all shares reserved under the plan have been purchased.

Separate six-month offerings of the Company's shares of Common Stock will commence on January 1 and July 1 of each year. No employee may purchase more than 2,250 shares of stock during any single offering. An employee must authorize a payroll deduction before the start of an offering in order to participate in that offering. On the last business day of the offering, the employee will be deemed to have exercised the option to purchase as many shares as the employee's payroll deduction will allow, at the option price. The option price is 85% of the lesser of (i) the fair market value of the stock on the first business day of the offering, or (ii) the fair market value of the stock on the last business day of the offering. The fair market value of Tully's stock shall initially be determined on a quarterly basis by Tully's Board of Directors. When and if the stock is quoted or traded in an over the counter market or exchange, then the fair market value shall mean the closing bid price as reported on the National Association of Securities Dealers Automated Quotation System or, if the stock is traded on a stock exchange, the closing price for the stock on the principal such exchange.

No employee shall be permitted to purchase any shares under the Purchase Plan if such employee, immediately after such purchase, owns shares possessing five percent or more of the total combined voting power or value of all classes of stock of Tully's or its parent or subsidiary corporations. The fair market value of all shares purchased by an employee under the Purchase Plan during any calendar year

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may not exceed \$25,000.

The Board of Directors may at any time amend or terminate the Purchase Plan, provided that no employee's existing rights under any offering already commenced may be adversely affected thereby. No amendment may be made to the Purchase Plan without prior approval of the shareholders of Tully's if such amendment would increase the number of shares reserved thereunder, materially modify the eligibility requirements, or materially increase the benefits that may accrue to participants.

COMPENSATION OF DIRECTORS

The Directors of Tully's receive no cash compensation for serving on the Board of Directors, but are reimbursed reasonable expenses incurred in attending Board and Committee meetings. They are granted options to purchase 500 shares of stock per attended Board meeting and 250 shares of stock per attended Committee meeting.

EMPLOYMENT AGREEMENTS AND COMPENSATORY ARRANGEMENTS

Tully's generally does not enter into employment agreements or written compensatory arrangements with its employees, including management. It does have an employment agreement with one of its officers pursuant to which that officer receives annual compensation in an amount less than \$100,000.

ITEM 7. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

Until March 11, 1999 when the relationship was terminated, Tully's had engaged the services of O'Keefe Development Corporation ("ODC"), a company owned by Mr. O'Keefe, to oversee tenant improvements for Tully's new locations at a price of \$5,000 per store. The services rendered by ODC

primarily consist of providing a project manager to coordinate and oversee the subcontractors who make the tenant improvements or remodeling work at the locations. During fiscal year 1999 Tully's paid a total of \$70,000 to ODC for its services. Company believes that the terms of this relationship were commercially reasonable and were on terms which were no less favorable to Tully's than could be negotiated in an arms-length transaction with an unrelated third party.

Richard Padden, a director of Tully's, is a principal in the law firm of Carney Badley Smith & Spellman, which provides legal services to Tully's.

Laurence Hood, a director of Tully's, is a principal of Pacific Portfolio Consulting, LLC, a registered investment advisory firm. That firm will render investment advisory services in connection with administration of the Company's 401k employee benefit plan.

Tully's leases the premises for 3 of its stores from Harbor Properties, Inc., whose President and CEO is Robert J. Holmes, a director of the Company. During fiscal year 1999 and 1998 the Company paid rent in the total amount of \$185,131 and \$136,285, respectively, to Harbor Properties.

Tully's has a \$6,000,000 line of credit arrangement with a commercial bank, which expires March 31, 2000. Interest is charged at the prime lending rate plus 0.5%. The line is collateralized by all of the Company's assets and is personally guaranteed by Tom T. O'Keefe and George Hubman, both Company Directors. Messrs. O'Keefe and Hubman receive a guarantee fee of 1.0% of the operating line's monthly average balance. In payment of the guarantee fee, the Company issued options to purchase the Company's Common Stock in total amounts of 113,169, 130,964 and 397,254 for the fiscal years ended March 30, 1997, March 29, 1998 and March 28, 1999, respectively. The value of the options were recorded as compensation expense. All of these options were issued with an exercise price of \$0.01 per share.

Tully's believes that all of these relationships are commercially reasonable and are on terms that are no less favorable to Tully's than could have been negotiated in an arms-length transaction with an unrelated third party. With respect to transactions with affiliated parties in the future, all material

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transactions between Tully's and its officers, directors, principal shareholders and affiliates will be approved by a majority of Tully's Board of Directors who do not have an interest in the transaction, and will be on terms no less favorable to Tully's than those that could be obtained from unaffiliated third parties.

ITEM 8. LEGAL PROCEEDINGS.

The Company is or may from time to time be a party to routine litigation incidental to our business. Management believes the ultimate resolution of these routine matters will not materially harm our business, financial condition, operating results, or cash flow.

ITEM 9. MARKET PRICE OF AND DIVIDENDS ON THE REGISTRANT'S COMMON EQUITY AND RELATED SHAREHOLDER MATTERS.

Currently there is no public market for Tully's Coffee Common Stock and none is expected to develop in the immediate future.

SHARES ELIGIBLE FOR FUTURE SALE

2,880,600 of the Company's issued and outstanding common shares are freely tradeable or "unrestricted securities." However, at the present time there is no public market for any of the Company's securities. The remaining shares of common stock and 24,999,125 shares of its Series A Preferred Stock outstanding as of July 1, 1999 are "restricted securities" under the Securities Act of 1933 and may only be sold in the public market upon the expiration of the holding periods under Rule 144, described below, subject to the volume, manner of sale and other limitations of Rule 144.

In general, under Rule 144 as currently in effect, a person who has beneficially owned shares for at least one year, including an "affiliate," is entitled to sell, within any three-month period, a number of shares that does not exceed the greater of:

- 1% of the then outstanding shares of our common stock (approximately 143,140 shares as of July 1, 1999); or

- the average weekly trading volume during the four calendar weeks preceding filing of notice of the sale of shares of common stock.

Sales under Rule 144 are also subject to certain manner of sale provisions, notice requirements and the availability of current public information about us. A stockholder who is deemed not to have been an "affiliate" of the Company at anytime during the 90 days preceding a sale, and who has beneficially owned restricted shares for at least two years, would be entitled to sell shares under Rule 144(k) without regard to the volume limitations, manner of sale provisions or public information requirements.

In addition, as of July 1, 1999, there were outstanding warrants to purchase 4,999,825 shares of common stock and options to purchase 3,163,471 shares of common stock, of which 2,465,647 options

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were fully vested. The number of shares reserved for issue upon exercise of options under our 1994 Employee Stock Option Plan cannot exceed 5% of the issued and outstanding shares of the Company. We intend to register the shares of common stock issuable or reserved for issuance under the plan as soon as practicable following the date of this registration statement.

Holder of warrants to purchase 4,999,825 shares of common stock issuable upon exercise of such warrant are entitled to registration rights with respect to these shares for resale under the Securities Act of 1933. If these holders, by exercising their registration rights, cause a large number of shares to be registered and sold in the public market, these sales could harm the market price for our common stock. See "Description of Capital Stock--Registration Rights."

ESCROWED SHARES

As a condition to registering two prior offerings by Tully's of its common shares under the Washington State Securities Act, Tully's founders, Tom T. and Cathy O'Keefe, have placed in escrow with Seafirst Bank, certain shares of Common Stock beneficially owned by them.

These shares will be released from escrow to the founders when Tully's satisfies one or more of the following requirements:

- Tully's has demonstrated annual earnings per share for two consecutive fiscal years of at least \$0.075 per share per year.
- Tully's has demonstrated average annual earnings over five years of at least \$0.075 per share.
- Tully's establishes for its Common Stock a bona fide over-the-counter trading market and such stock maintains an average bid price equal to or greater than \$2.625 per share for any period of twenty-six consecutive weeks. In determining whether a bona fide market has been established, all transactions in Tully's stock by any director or officer of Tully's, or any affiliates of such persons, during the period in which the market is claimed to have existed will be excluded. In addition, Tully's will have disseminated to the public during said period, at least two quarterly unaudited financial statements or one annual audited financial statement.

Unless released pursuant to subparagraphs (a), (b), or (c) above, all of the escrowed shares shall remain in escrow until the sixth anniversary of the effective date of the offering. On each of the sixth, seventh, eighth, and ninth anniversary dates, 25% of the escrowed shares shall be released from escrow, such that no shares will remain in escrow as of nine years from the effective date of the offering.

While the shares are escrowed the shares will remain in the ownership of Tom and Cathy O'Keefe. They will have the right to vote the shares and will also be entitled to any dividends, share dividends, stock splits or any other benefit which may inure to them as the result of owning such shares.

Mr. and Mrs. O'Keefe have also agreed under the terms of the escrow agreement that upon a liquidation or dissolution of Tully's and following payment to Tully's creditors, its shares then held in escrow, if any, will be subordinate to all other shares of Tully's Common Stock with respect to any amounts paid to shareholders as a result of such liquidation or dissolution of Tully's. Any such liquidation or payment to

shareholders shall be paid as follows: (1) holders of shares, including Shares purchased in the Offering but excluding shares held in escrow, shall receive \$1.50 per share, (2) the founders shall receive \$1.50 per share on the escrowed shares, (3) thereafter, all shares shall participate in any remaining distributions on a pro rata basis

DIVIDENDS

Shareholders are entitled to receive such dividends, if any, that are declared by Tully's Board of Directors out of funds legally available therefore and, upon the liquidation, dissolution or winding up of Tully's, are entitled to share ratably in all net assets available for distribution to such holders after satisfaction of all obligations of Tully's, including stock preferences. Tully's Board of Directors presently does not intend to pay any dividends, but to retain and use any earnings to finance the growth of its business for an indefinite period. The line of credit arrangement restricts Tully's ability to pay dividends without the bank's permission. Future dividend policies will depend upon Tully's earnings, financial needs and other pertinent factors.

LIMITATIONS ON SHARES AND TRANSFER AGENT

2,880,600 of Tully's shares of Common Stock, were qualified with the United States Securities and Exchange Commission pursuant to the Securities Act of 1933, as amended and Regulation A and are not deemed "restricted securities." The remaining 11,433,400 issued and outstanding shares of Common Stock are deemed "restricted shares." None of its shares of Preferred Stock nor any of the shares of Common Stock which may be issued upon conversion of the Preferred Shares or exercise of the Warrants have been registered or otherwise qualified with the United States Securities and Exchange Commission pursuant to the Securities Act of 1933, as amended. They were offered and sold pursuant to the exemption from registration under Rule 506 of Regulation D promulgated by the United States Securities and Exchange Commission. As "restricted securities" under the Federal securities laws non of these shares are freely transferable. Therefore, neither Units nor any of the Shares may be sold or otherwise transferred unless they are subsequently registered under Federal and applicable state securities laws or there exists an exemption from the applicable registration requirements with respect to such sale or transfer.

TRANSFER AGENT AND REGISTRAR

Tully's intends to act as its own transfer agent and registrar.

ITEM 10. RECENT SALES OF UNREGISTERED SECURITIES.

As of July 1, 1999, the Company has sold a total of \$24,999,125 of "investment units" at a price of \$10.00 per unit, payable in cash. Each of the investment units consists of 4 shares of the Company's

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Class A Preferred Stock together with a Warrant to purchase two shares of the Company's common stock at an exercise price of \$0.33 per share of common stock. The rights, preferences and other features of the preferred shares and the warrants are described in Item 11. The investment units were offered and sold only to accredited investors. The investment units were offered and issued pursuant to Rule 506 of Regulation D. As of July 1, 1999 there were a total of 582 accredited investors that purchased the shares.

In addition to the investment units that have been sold, As of July 1, 1999 the Company has received subscriptions for an additional 681,145 units, with an aggregate purchase price of \$6,811,450. The Company has not yet accepted these subscriptions because as of this date it does not have a sufficient number of authorized shares of Class A Preferred Stock to issue upon acceptance of the subscriptions. The Company's Board of Directors has proposed certain amendments to the Company's Articles of Incorporation, which amendments include an increase in the number of authorized Class A Preferred Shares to 17,500,000 shares. When and if the Shareholders ratify and approve the proposed Articles of Amendment, the Company will accept the subscriptions and issue the Preferred Shares and Warrants.

ITEM 11. DESCRIPTION OF REGISTRANT'S SECURITIES TO BE REGISTERED.

GENERAL

At the present time Tully's is authorized to issue 40,000,000 shares

of common stock, no par value and 10,000,000 shares of preferred stock. All outstanding shares of stock will, when issued, be fully paid and non-assessable. As of July 1, 1999, 14,314,000 shares of common stock were issued and outstanding. As of that same date there were 9,999,650 shares of preferred stock issued and outstanding which were convertible into 9,999,650 shares of Common Stock. There were also 2,499,913 Warrants outstanding to purchase an additional 4,999,825 shares of Common Stock at a price of \$0.33 per share. The Board of Directors has submitted a proposal to the Company's shareholders to amend its Articles of Incorporation to, among other things, increase its authorized capital to 120,000,000 shares of Common Stock and 30,000,000 shares of Preferred Stock.

At the present time shareholders of common stock may have preemptive rights to subscribe for additional shares of stock. Each share of common stock is entitled to one vote on all matters submitted to a vote of shareholders, except in connection with the election of Directors, in which case shareholders may cumulate their votes and cast them all for one or more of the director candidates. Shareholders are entitled to cumulate votes by multiplying the number of votes they are entitled to cast by the number of directors for whom they are entitled to vote, and to cast the product for a single candidate or distribute the product among two or more candidates. The proposed amendments to the Company's Articles of Incorporation, if ratified by the shareholders, would eliminate preemptive rights and cumulative voting in the election of directors. Holders of common stock have no subscription or redemption rights, and shares of preferred stock have no sinking fund provisions. All outstanding shares of common stock are, and those outstanding upon completion of this Offering will be, fully paid and non-assessable.

Under Washington corporate law, shareholders owning two-thirds of the outstanding shares must approve amendments to Tully's Articles of Incorporation and other major corporate actions, such as adopting a plan of merger, consolidation or exchange involving Tully's or its stock, or the sale of substantially all of Tully's assets other than in the regular course of business.

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PREFERRED STOCK

The Series A Preferred Stock has certain limited dividend rights, is convertible into shares of Tully's common stock, has liquidation preferences over Tully's common stock and does have voting rights. In the event of any liquidation or winding up of Tully's, the holders of the Series A Preferred Stock shall be entitled to receive, prior and in preference to the holders of Common Stock and any series of preferred stock ranked junior to the Series A Preferred Stock an amount (the "Liquidation Amount") equal to the original purchase price of the Series A Preferred Stock (aggregating \$24,999,125 as of July 1, 1999 then held by such holders, plus all declared but unpaid dividends, and shall thereafter be entitled to participate on an as converted basis with the holders of Common Stock.

Each share of the Series A Preferred Stock is automatically convertible into one share of Tully's common stock when and if Tully's makes a "Qualified Offering" of its common stock. Qualified Offering is defined as an offering of Tully's common stock in excess of \$15 million made pursuant to a registration statement made effective under the Securities Act of 1933. Each share of Preferred Stock is entitled to cast one vote on all matters submitted to a vote of shareholders, except in connection with the election of Directors, in which case shareholders may cumulate their votes and cast them all for one or more of the director candidates.

REGISTRATION RIGHTS

The holders of the Preferred Shares have certain rights granted to them to require registration of the common shares received upon conversion of the Preferred Shares. These rights generally allow persons holding the converted common shares to require Tully's to use its best efforts to register the shares for resale under the Securities Act of 1933, as amended and under such state securities laws as may be necessary. These rights include the right to demand ("demand registration rights") that Tully's file a registration statement for the converted shares at the shareholders' option no more than one time following Tully's initial public offering, if any and thereafter unlimited rights once Tully's is eligible to use a certain form of Securities and Exchange Commission registration statement that is available to issuers who have been filing periodic reports with the Commission (i.e., quarterly, annual and other reports as required of "reporting companies under the Securities Exchange Act of 1934, as amended).

WARRANTS

The warrants are non-detachable from the Series A Preferred Stock. Each warrant entitles the holder to purchase two shares of Tully's common stock at a price of \$0.33 per share purchased. The warrants may be exercised by the holder,

in whole or in part, at any time after they are issued. Any warrants outstanding, but unexercised, at the time Tully's commences a Qualified Offering will be cancelled immediately prior to the commencement of such Qualified Offering.

The Warrants include provisions for "weighted average anti-dilution protection rights" for both the Preferred Shares and the shares of common stock issuable upon any exercise of the warrants. Under these anti-dilution rights, if Tully's were to issue additional stock at less than the conversion price for the Preferred Shares (i.e. \$2.50 per share), the conversion price for the Preferred Shares and the exercise price under the warrants (\$0.33 per share) would be adjusted so that the new conversion price would be equal to take into account the decreased value of the shares of common stock as represented by the new selling price.

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GOVERNING LAW

Tully's was formed under the Washington Business Corporation Act and its operations are subject to that law and to its Articles of Incorporation and Bylaws. Under Washington law, management of corporate business and affairs is entrusted to a board of directors.

PROPOSED AMENDMENTS TO THE ARTICLES OF INCORPORATION

The Board of Directors has approved, and is proposing that the Shareholders ratify the adoption of Articles of Amendment and Restatement of the Articles of Incorporation of the Company (the "Articles of Amendment"). A shareholders meeting has been set for August 11, 1999 at which the shareholders will vote on the proposed Articles of Amendment. The purpose for the adoption of the Articles of Amendment is twofold: (i) to consolidate the various amendments that have been made to the Company's Articles of Incorporation since its formation into a single document, and (ii) to make certain additional amendments to the Company's Articles of Incorporation which the Board of Directors believes are in the overall best interest of the Company at this time.

The new amendments to the Articles of Incorporation contained in the Articles of Amendment are as follows:

- (i) An increase in the number of authorized shares of common stock from 40,000,000 to 120,000,000 shares;
- (ii) An increase in the number of authorized preferred shares from 10,000,000 to 30,000,000 shares;
- (iii) The elimination of cumulative voting rights in connection with the election of Directors of the Company; and
- (iv) The denial and elimination of existing preemptive rights in connection with the issuance of shares by the Company.

AMENDMENT TO ARTICLES OF INCORPORATION AUTHORIZING ADDITIONAL SHARES OF CAPITAL STOCK

General. In the proposed Articles of Amendment, the Board of Directors is proposing that the Shareholders approve an amendment to the Company's Articles of Incorporation (the "Capital Stock Amendment") which authorizes the Company to issue a combined total of 150,000,000 shares, consisting of 120,000,000 shares of Common Stock without par value and 30,000,000 shares of Preferred Stock without par value.

At the present time, the Company is authorized to issue 50,000,000 shares, consisting of 40,000,000 Common Shares without par value and 10,000,000 Preferred Shares without par value. The Company has issued 14,361,839 of the Common Shares. The Company has issued all 10,000,000 shares of Class A Preferred Stock and has issued 2,500,000 Warrants to purchase 5,000,000 additional shares of common stock. In the aggregate, the Class A Preferred Shares and Warrants are convertible into 15,000,000 shares of Common Stock. As of July 2, 1999, the Company has also received subscriptions, which have not yet been accepted by the Board of Directors, to purchase an additional 2,724,230 shares of Class A Preferred Stock and 1,362,115 Warrants which, when and if issued, would be convertible into a total of 5,448,460 shares of additional Common Stock. The subscriptions for the additional shares of Preferred Stock and Warrants will be accepted by the Board of Directors upon approval of the Articles of

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Amendment authorizing the issuance of additional shares of Preferred Stock.

Common Shares. If the Articles of Amendment are approved by the shareholders, the additional Common Shares will provide authorized and unissued shares of common stock which may be used by the Company for any proper corporate purpose. Such purpose might include, without limitation, issuance as part or all of the consideration required to be paid by the Company in the acquisition of other businesses or properties, or issuance in public or private sales for cash as a means of obtaining additional capital for use in the Company's business and operations, including the use of the additional authorized shares in connection with the Company's Employee Stock Option Plan and its Employee Stock Purchase Plan. There are no transactions presently under review by the Board of Directors which contemplate the issuance of Common Shares, except under the employee benefit plans.

All of the shares of Common Stock that have been or will be issued are of a single class, fully paid and non-assessable, voting shares. All of the Common Stock is subject to the rights and preferences as have been and may in the future be granted to the holders of the Preferred Stock, as such shares of Preferred Stock are issued.

Preferred Shares. If the proposed amendment is approved, the Board of Directors would be empowered, without the necessity of further action or authorization by the Company's shareholders (unless such action or authorization is required in a specific case by applicable laws or regulations or stock exchange rules), to authorize the issuance of the Preferred Shares from time to time in one or more series or classes, and to fix by resolution the designations, preferences, limitations, and relative rights of each such series or class. Each series or class of Preferred Shares could, as determined by the Board of Directors at the time of issuance, rank, with respect to dividends and redemption and liquidation rights, senior to the Company's shares of Common Stock, without par value. 10,000,000 shares of Preferred Stock are presently authorized by the Company's Amended Articles of Incorporation.

The Board of Directors created the "Class A Preferred Shares" on June 24, 1998. The rights, preferences, limitations and liabilities of the Class A Preferred Shares were set by action of the Board of Directors and were filed as an Amendment to the Company's Articles of Incorporation with the Office of the Secretary of State of the State of Washington on October 23, 1998, as required by the Washington Business Corporation Act. That prior amendment has been incorporated in the Articles of Amendment which the Shareholders of the Company are being asked to approve.

If the Articles of Amendment are approved by the shareholders, the Company will be authorized to issue up to 30,000,000 shares of Preferred Stock, 17,500,000 of which will be the Class A Preferred Shares with the rights, preferences, limitations and liabilities as set forth in Section 2.8 of the Articles of Amendment. At the present time, the Company has issued all 10,000,000 of the Preferred Shares which were previously authorized to be issued. As of July 2, 1999, the Company has also received offers to purchase an additional 2,724,230 shares of Class A Preferred Stock. Upon approval of the Articles of Amendment, the Board of Directors of the Company intends to accept such subscriptions and authorize the issuance of the additional Class A Preferred Shares. The Board of Directors will have the authority, without further shareholder approval, to issue up to the 17,500,000 shares of Class A Preferred Stock from time-to-time,

The remaining 12,500,000 Preferred Shares may be issued by the Board of Directors, without the necessity of further action or authorization by the Company's shareholders (unless such action or authorization is required in a specific case by applicable laws or regulations or stock exchange rules). The Board of Directors will have the authority, without further shareholder approval, to issue these

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12,500,000 shares of Preferred Stock from time to time, in one or more series. The Board will have the right to establish the number of shares to be included in each such series and to fix the designation, powers, preferences and rights of the shares of each such series and the price, qualifications, limitations or restrictions thereof, including dividend, redemption, liquidation, conversion and voting rights, some or all of which may be superior to those of the holders of Common Stock. The issuance of the Preferred Stock could decrease the amount of earnings and assets available for distribution to the holders of Common Stock or could otherwise adversely affect the rights of the holders of the Common Stock.

If the Articles of Amendment are approved by the Company's shareholders, the newly approved Preferred Shares will provide authorized and unissued shares of Preferred Stock which may be used by the Company for any proper corporate purpose. Such purpose might include, without limitation, issuance as part or all of the consideration required to be paid by the Company in the acquisition of other businesses or properties, or issuance in public or private sales for cash as a means of obtaining additional capital for use in the

Company's business and operations. There are no transactions presently under review by the Board of Directors which contemplate the issuance of Preferred Shares.

It is not possible to state the precise effects of the authorization of the Preferred Shares upon the rights of the holders of the Company's Common Shares until the Board of Directors determines the respective preferences, limitations, and relative rights of the holders of each class or series of the Preferred Shares. However, such effects might include: (a) reduction of the amount otherwise available for payment of dividends on Common Shares, to the extent dividends are payable on any issued Preferred Shares; (b) restrictions on dividends on the Common Shares; (c) dilution of the voting power of the Common Shares to the extent that the Preferred Shares had voting rights; (d) conversion of the Preferred Shares into Common Shares at such prices as the Board determines, which could include issuance at below the fair market value or original issue price of the Common Shares; and (e) the holders of Common Shares not being entitled to share in the Company's assets upon liquidation until satisfaction of any liquidation preference granted to holders of the Preferred Shares.

Although the Board of Directors would authorize the issuance of additional Preferred Shares based on its judgment as to the best interests of the Company and its shareholders, the issuance of additional authorized Preferred Shares could have the effect of diluting the voting power per share and could have the effect of diluting the book value per share of the outstanding Common Shares. In addition, the Preferred Shares could, in certain instances, render more difficult or discourage a merger, tender offer or proxy contest and thus, potentially have an "anti-takeover" effect, especially if Preferred Shares were issued in response to a potential takeover. In addition, issuances of authorized Preferred Shares can be implemented, and have been implemented by some companies in recent years, with voting or conversion privileges intended to make acquisition of the Company more difficult or more costly. Such an issuance could deter the types of transactions which may be proposed or could discourage or limit the shareholders' participation in certain types of transactions that might be proposed (such as a tender offer), whether or not such transactions were favored by the majority of the shareholders and could enhance the ability of officers and directors to retain their positions.

AMENDMENT OF ARTICLES OF INCORPORATION TO ELIMINATE CUMULATIVE VOTING

In proposing the Articles of Amendment, the Board of Directors of the Company has approved, and is proposing that the Shareholders approve, an amendment to the Company's Articles of Incorporation (the "Cumulative Voting Amendment") to eliminate the cumulative voting rights that currently exist with respect to the election of persons to the Company's Board of Directors.

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At the present time, the Company's Articles of Incorporation allow for cumulative voting by the shareholders in connection with the election of Directors. Cumulative Voting refers to a particular method of voting shares of stock that allows a shareholder to cast all of his or her votes (determined by multiplying the number of his shares by the number of Director positions being filled) for just one Director. With cumulative voting, a minority shareholder can elect a person to a seat on a Company's Board of Directors.

Without cumulative voting, the entire Board of Directors of the Company will be elected by a majority of the shareholders voting at the Company's annual meeting. With cumulative voting, the result is different. Instead of electing each director separately, all the director positions are voted on at once with the top vote-getters taking seats on the Board. If three positions are being filled, each shareholder gets three votes for each of his or her shares, which can be voted in any fashion that the shareholder wants.

With three positions open, a shareholder with 30 shares gets 90 votes (three times 30 votes), while a shareholder with 70 shares gets 210 votes (three times 70 votes). If the 30 percent shareholder votes all of his or her 90 votes for one candidate, that candidate will be one of the top three vote-getters because the remaining 210 votes can only give two other candidates more than 90 votes. Since the three candidates receiving the most votes are elected to the board, the minority shareholder will have the right to control one seat on the Board of Directors.

Without cumulative voting, each Director of the Company is elected by the holders of a majority of the Company's outstanding shares. This permits the Directors to administer the affairs of the Company for the benefit of all shareholders. The Board of Directors believes that cumulative voting is undesirable because it is directed toward the election of one or more Directors by a special group of shareholders. The shareholder or special group electing a Director by cumulative voting may seek to have that Director represent the shareholder's or group's special interest rather than the interests of the shareholders as a whole. Having Directors who owe their positions to special

groups of shareholders could interfere with the effectiveness of the Board and could be contrary to the interests of the Company and its shareholders as a whole.

The majority of state legislatures, including the State of Washington, the state in which the Company is incorporated, do not require cumulative voting. The majority of companies listed on the New York Stock Exchange do not elect Directors by cumulative voting. The Board of Directors believes that adoption of the Articles of Amendment and the Cumulative Voting Amendment is appropriate to ensure that Directors will represent all the shareholders and not a particular group.

AMENDMENT OF ARTICLES OF INCORPORATION TO ELIMINATE PREEMPTIVE RIGHTS

In proposing the Articles of Amendment, the Board of Directors of the Company has approved, and is proposing that the Shareholders approve, an amendment to the Company's Articles of Incorporation (the "Preemptive Rights Amendment") to deny and eliminate preemptive rights for the Company's shareholders in connection with the offer and sale on shares of the Company's capital stock.

Preemptive Rights are entitlements that existing shareholders have to purchase new shares of stock that are to be issued by the Company. In the State of Washington, in which the Company is incorporated, these rights automatically exist unless the Articles of Incorporation specifically waive them.

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At the present time, the Company's Articles of Incorporation do not specifically waive preemptive rights and as a result such rights may exist in the Company's existing shareholders. Nevertheless, virtually all of the Company's existing shareholders acquired their shares with the understanding that there were no preemptive rights. Adoption of the proposed Preemptive Rights Amendment is intended to eliminate existing preemptive rights, if any, with respect to these prior stock offerings and will correct the inconsistency between the Company's Articles of Incorporation and the representations previously made to the Company's shareholders.

The existence of preemptive rights complicates capital fund-raising efforts. By forcing the Company to offer its shares to existing shareholders before it offers them to outside investors, these rights can postpone the sale of Company shares to outsiders. Because preemptive rights require the Company's shares to be offered pro rata among existing shareholders, they can also delay funding from an existing investor by requiring the Company to first offer a percentage of the shares the investor wants to purchase to the other existing shareholders. At best, this requirement will delay funding. At worst, it will prevent it. If any of the existing shareholders exercise their preemptive rights, the investor may decide not to provide funding because there are not enough shares left to purchase.

The existence of preemptive rights can also present problems for the Company when and if it is ready to go public. At that time, the underwriter of the Company's initial public offering will insist on assurances from Company counsel that the Company can sell its stock to the general public. If the Company's shareholders have preemptive rights, Company counsel may be unable to give that opinion without the Company first taking expensive and time consuming steps to honor those rights.

ITEM 12. INDEMNIFICATION OF OFFICERS AND DIRECTORS.

The Articles of Incorporation of Tully's contain a broad indemnification provision intended to permit Tully's to indemnify officers and directors for their acts and omissions arising out of the performance of their duties on behalf of Tully's. However, it is the policy of the United States Securities and Exchange Commission that agreements to provide indemnification for securities law violations by the issuer or controlling persons are contrary to public policy and therefore unenforceable.

Under applicable Washington law, officers and directors of a corporation have certain fiduciary duties to the corporation and its shareholders, violation of which may be actionable and may entitle shareholders to sue for injunctive remedies and damages. Under the Washington Business Corporations Act, certain significant corporate acts, such as dissolution of a corporation or sale of substantially all of its assets, require approval by holders of two-thirds of the shares entitled to vote on such matters

ITEM 13. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The financial statements required as a part of this Registration Statement are included beginning on the index page F-1 of this Registration Statement.

ITEM 14. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND

During Tully's Coffee last two fiscal years there were no changes or disagreements with accountants on accounting and financial disclosure of the type required to be disclosed in this item.

ITEM 15. FINANCIAL STATEMENTS AND EXHIBITS.

The financial statements required as a part of this Registration Statement are included beginning on the index page F-1 of this Registration Statement.

EXHIBITS

The following exhibits required by item 601 of Regulation S-K are attached hereto:

<TABLE>
<CAPTION>

EXHIBIT NUMBER	DESCRIPTION
<S>	<C>
3.1	Articles of Incorporation, as amended*
3.2	Bylaws*
4.1	Tully's Coffee Corporation 1994 Stock Option Plan**
4.2	Lease Agreement between Tully's and Airport Way Rentals*
4.3	Proposed Amendments to the Articles of Incorporation*
4.4	Borrowing Agreement between Tully's and SeaFirst Bank*
4.5	Tom T. O'Keefe Stock Escrow Agreement**
4.6	Form of Registration Rights Agreement**
23.1	Consent of PricewaterhouseCoopers LLP*
27.1	Financial Data Schedule*

* Filed herewith
** To be filed by amendment

TULLY'S COFFEE CORPORATION

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of
Tully's Coffee Corporation

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, changes in stockholders' equity and cash flows present fairly, in all material respects, the financial position of Tully's Coffee Corporation and its subsidiary as of March 28, 1999 and March 29, 1998, and the results of their operations and their cash flows for the years ended March 28, 1999, March 29, 1998 and March 30, 1997 in

conformity with generally accepted accounting principles. 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 generally accepted auditing standards 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.

PricewaterhouseCoopers LLP
July 20, 1999

Seattle, Washington

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TULLY'S COFFEE CORPORATION
CONSOLIDATED BALANCE SHEETS
MARCH 28, 1999 AND MARCH 29, 1998

<TABLE>

<CAPTION>

	1999	1998
	<C>	<C>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,149,160	\$ 21,566
Accounts receivable, net of allowance for doubtful accounts of \$166,236 and \$54,218, respectively	695,037	353,030
Inventories, net	1,808,556	617,301
Prepaid expenses	84,197	6,249
Total current assets	3,736,950	998,146
Property and equipment, net	10,991,722	6,507,135
Goodwill, net	4,973,370	146,706
Other intangible assets, net	760,320	343,079
Other assets	256,657	83,363
Total assets	\$20,719,019	\$ 8,078,429
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Current portion of long-term debt	\$ 27,744	\$ 33,343
Bank line of credit	6,500,000	
Accounts payable	1,808,619	2,092,503
Accrued liabilities	1,199,413	375,385
Checks drawn in excess of bank balances	-	113,893
Total current liabilities	9,535,776	2,615,124
Bank line of credit	-	4,157,000
Long-term debt, net of current portion	128,978	103,072
Capital lease obligation	192,754	133,873
Deferred lease costs	885,232	642,168
Total liabilities	10,742,740	7,651,237
Commitments and contingencies (Note 11)		
Stockholders' equity		
Series A Convertible Preferred stock, no par; 10,000,000 shares authorized 6,217,480 issued and outstanding at March 28, 1999, stated value of \$2.50 and a liquidation preference of \$15,543,700	14,351,934	-
Common stock, no par value; 40,000,000 shares authorized; 14,314,000 and 14,265,200 shares issued and outstanding	7,444,922	7,348,840
Additional paid-in capital	10,489,829	2,839,319
Accumulated deficit	(22,310,406)	(9,760,967)

Total stockholders' equity	9,976,279	427,192
Total liabilities and stockholders' equity	\$20,719,019	\$ 8,078,429

</TABLE>

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

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TULLY'S COFFEE CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
MARCH 28, 1999, MARCH 29, 1998 AND MARCH 30, 1997

	1999	1998	1997
Net sales	\$20,207,183	\$ 9,020,314	\$ 5,430,003
Cost of goods sold and related occupancy expenses	10,705,398	5,012,058	2,850,176
Selling, general and administrative costs	12,087,455	6,096,606	3,617,814
Stock option compensation expense	832,898	564,412	627,017
Depreciation and amortization	1,669,389	613,970	454,784
Operating loss	5,087,957	3,266,732	2,119,788
Other expense (income)			
Interest expense	833,838	258,170	174,827
Miscellaneous expense (income)	(69,968)		7,561
Loan guarantee fee expense	728,831	294,669	179,452
	1,492,701	552,839	361,840
Net loss	\$ 6,580,658	\$ 3,819,571	\$ 2,481,628
Preferred stock dividend/accretion	5,968,781	-	-
Net loss applicable to common stockholders	\$12,549,439	\$ 3,819,571	\$ 2,481,628
Weighted average number of common and common equivalent shares outstanding	14,298,754	13,366,176	12,687,569
Basic and diluted net loss per common share	\$ 0.88	\$ 0.29	\$ 0.20

</TABLE>

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

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TULLY'S COFFEE CORPORATION
STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
MARCH 28, 1999, MARCH 29, 1998 AND MARCH 31, 1997

	CONVERTIBLE PREFERRED STOCK AMOUNT		COMMON STOCK	
	SHARES	SERIES A	SHARES	AMOUNT
BALANCE, APRIL 1, 1996			12,416,174	\$ 3,786,296
Issuance of 113,169 options in exchange for loan guarantees				
Sale of common stock at \$1.75			426,006	745,511

Issuance of common stock in connection with purchases of goods and services		21,152		34,845
Leasehold interests satisfied by majority shareholders				(55,922)
Stock issuance costs				
Issuance of stock options				
Imputed officer compensation				
Net loss				
BALANCE, MARCH 30, 1997		12,863,332		4,510,730
Issuance of 130,964 options in exchange for loan guarantees				
Sale of common stock at \$2.25 per share		1,305,533		2,937,449
Issuance of common stock in connection with purchase agreements		75,000		168,750
Issuance of common stock in connection with purchases of goods and services		21,335		48,004
Stock issuance costs				(316,093)
Issuance of stock options				
Imputed officer compensation				
Net loss				
BALANCE, MARCH 29, 1998		14,265,200		7,348,840
Issuance of 323,924 options in exchange for loan guarantees				
Sale of preferred stock at \$2.50 per share	5,217,480	\$13,043,700		
Conversion of note into preferred stock	1,000,000	2,500,000		
Issuance of common stock warrants		(5,968,781)		
Issuance of common stock in connection with purchase agreements			10,000	22,500
Preferred stock dividend/accretion		5,968,781		
Issuance of common shares in connection with purchases of goods and services			38,800	73,582
Stock issuance costs		(1,191,766)		
Issuance of stock options				
Imputed officer compensation				
Net loss				
BALANCE, MARCH 28, 1999	6,217,480	\$14,351,934	14,314,000	\$ 7,444,922

<CAPTION>

	NOTES RECEIVABLE FROM STOCKHOLDERS	ADDITIONAL PAID-IN CAPITAL	ACCUMULATED DEFICIT	TOTAL
<S>	<C>	<C>	<C>	<C>
BALANCE, APRIL 1, 1996	\$ (54,462)	\$ 960,587	\$ (3,459,768)	\$ 1,232,653
Issuance of 113,169 options in exchange for loan guarantees		179,452		179,452
Sale of common stock at \$1.75				745,511
Issuance of common stock in connection with purchases of goods and services				34,845
Leasehold interests satisfied by majority shareholders	27,644			27,644
Stock issuance costs				(55,922)
Issuance of stock options	26,818	600,199		627,017
Imputed officer compensation		120,000		120,000
Net loss			(2,481,628)	(2,481,628)
BALANCE, MARCH 30, 1997		1,860,238	(5,941,396)	429,572
Issuance of 130,964 options in exchange for loan guarantees		294,669		294,669
Sale of common stock at \$2.25 per share				2,937,449
Issuance of common stock in connection with purchase agreements				168,750
Issuance of common stock in connection with purchases of goods and services				48,004
Stock issuance costs				(316,093)
Issuance of stock options		564,412		564,412
Imputed officer compensation		120,000		120,000
Net loss			(3,819,571)	(3,819,571)
BALANCE, MARCH 29, 1998		2,839,319	(9,760,967)	427,192
Issuance of 323,924 options in exchange for loan guarantees		728,831		728,831
Sale of preferred stock at \$2.50 per share				13,043,700
Conversion of note into preferred stock				2,500,000
Issuance of common stock warrants		5,968,781	-	

Issuance of common stock in connection with purchase agreements				22,500
Preferred stock dividend/accretion		(5,968,781)		-
Issuance common shares in in connection with purchases of goods and services				73,582
Stock issuance costs				(1,191,766)
Issuance of stock options	832,898			832,898
Imputed officer compensation	120,000			120,000
Net loss		(6,580,658)		(6,580,658)
BALANCE, MARCH 28, 1999	\$ -	\$ 10,489,829	\$ (22,310,406)	\$ 9,976,279

</TABLE>

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

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TULLY'S COFFEE CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS
MARCH 28, 1999, MARCH 29, 1998 AND MARCH 30, 1997

	1999	1998	1997
<S>	<C>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss	\$ (6,580,658)	\$ (3,819,571)	\$ (2,481,628)
Adjustments to reconcile net loss to net cash used by operating activities			
Depreciation and amortization	1,669,389	613,970	454,784
Stock option expense	832,898	564,412	627,017
Provision for doubtful accounts	96,082	54,218	
Stock issued in exchange for services	112,018	48,004	34,845
Loan guarantee fee expense	728,831	294,669	179,452
Deferred lease costs	243,065	336,486	80,831
Imputed officer compensation	120,000	120,000	120,000
Loss on sale of property	24,215		7,561
Changes in assets and liabilities			
Accounts receivable	(290,430)	(307,709)	(41,436)
Inventories	(225,840)	(301,822)	(122,368)
Prepaid expenses and other assets	(78,669)	5,272	17,445
Accounts payable	(888,542)	983,052	(82,225)
Accrued liabilities	487,014	184,219	15,027
Net cash used in operating activities	(3,750,627)	(1,224,800)	(1,190,695)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment	(4,097,609)	(3,142,153)	(1,338,044)
Proceeds from sale of property and equipment	-		323,040
Purchase of Spinelli Coffee Company, net of cash acquired	(6,916,184)		
Additions to intangible assets	(40,745)	(170,600)	(37,579)
Net cash used in investing activities	(11,054,538)	(3,312,753)	(1,052,583)
CASH FLOWS FROM FINANCING ACTIVITIES			
Borrowings under bank line of credit	2,343,000	3,642,000	2,313,277
Repayment of bank line of credit	-	(1,985,000)	(710,000)
Payments on notes payable	(648,282)	77,453	(34,669)
Advance to stockholder			(42,356)
Proceeds from the issuance of convertible note	2,500,000		
Proceeds from issuance of common stock		2,937,449	745,511
Proceeds from issuance of preferred stock	13,043,700		
Stock issuance costs	(1,191,766)	(316,093)	(55,922)
Checks drawn in excess of bank balances	(113,893)	113,893	
Net cash provided by financing activities	15,932,759	4,469,702	2,215,841
Net increase (decrease) in cash and cash equivalents	1,127,594	(67,851)	(27,437)
Cash and cash equivalents			
Beginning of period	21,566	89,417	116,854

End of period	\$ 1,149,160	21,566	\$ 89,417
SUPPLEMENTAL CASH FLOW INFORMATION			
Cash paid during the period for interest	\$ 258,171	\$ 220,929	\$ 139,436
Noncash investing and financing activity			
Accounts Payable to purchase equipment	\$ 132,000	\$ 703,227	\$
Notes issued to purchase equipment	\$ 91,325	\$ 50,402	\$ 20,097
Note payable converted into preferred stock	\$ 2,500,000	-	-
Common stock issued to purchase equipment, leasehold improvements	\$ -	\$ 168,750	\$ -
Leasehold interests satisfied by majority shareholder in settlement of amounts due Company from shareholder	\$ -	\$	\$ 70,000
Deemed preferred stock dividend on preferred stock issuance as a result of beneficial conversion feature of attached common stock warrants	\$ 5,968,781	-	-

</TABLE>

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

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TULLY'S COFFEE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED MARCH 28, 1999, MARCH 29, 1998 AND MARCH 30, 1997

1. THE COMPANY AND SIGNIFICANT ACCOUNTING POLICIES

THE COMPANY AND NATURE OF OPERATIONS

Tully's Coffee Corporation, (the "Company") was formed in 1992 for the purpose of developing and operating retail specialty coffee shops. The Company sells high quality, premium roasted whole bean coffees, rich brewed coffees, Italian-style espresso and cold beverages, baked goods and pastries along with coffee-related hardware and supplies. In addition to its retail operations, the Company sells roasted coffee to wholesale accounts. Wholesale operations represent approximately 8% of revenue. The Company's fiscal years end on the Sunday closest to March 31.

Through franchises, licenses and one joint venture, the Company operates 16 stores internationally. The Company entered into a joint venture to operate three stores in Japan during 1999. The Company made a \$82,500 capital contribution in exchange for a 12% interest in this venture and its share of losses for 1999 is approximately \$12,000.

As of March 28, 1999, the Company operated 59 retail stores in the Seattle and San Francisco metropolitan areas.

CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary. All significant inter-company balances and transactions have been eliminated in consolidation.

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 amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS

Cash equivalents represent short-term investments consisting of money market funds. The Company considers all short-term investments with a maturity of three months or less when purchased to be cash equivalents. The Company places its cash and cash equivalents with one financial institution.

INVENTORIES

Inventories are stated at the lower of cost (on the first-in, first-out basis) or market.

PROPERTY AND EQUIPMENT

Property and equipment are carried at cost less accumulated depreciation and amortization. Depreciation of property and equipment, which includes amortization of assets under capital leases, is provided on the straight-line method over estimated useful lives, generally ranging from three to seven years. Leasehold improvements are amortized over the shorter of their estimated useful lives or the related lease life, generally three to fifteen years. The cost of property held under capital lease is equal to the lower of the net present value of the minimum lease payments or the fair value of the leased property at the inception of the lease. Expenditures for additions and betterments are capitalized and expenditures for repairs and maintenance are charged to expense as incurred. The cost and accumulated depreciation of assets sold or retired are removed from the accounts, and the related gains and losses are included in the results of operations.

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TULLY'S COFFEE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED MARCH 28, 1999, MARCH 29, 1998 AND MARCH 30, 1997

When facts and circumstances indicate that the cost of long-lived assets may be impaired, an evaluation of recoverability is performed by comparing the carrying value of the asset to projected undiscounted future cash flows. Upon indication that the carrying value of such assets may not be recoverable, the Company recognizes an impairment loss based on discounted cash flow by a charge against current operations.

INTANGIBLE ASSETS

Intangible assets include leasehold interests (see Note 10), trademark and logo design costs, covenants not to compete, goodwill and other assets. Amortization of leasehold interests is provided the life of the lease, including options to renew. Goodwill is amortized on the straight-line method over 15 years. Other intangible assets are amortized on the straight-line method over 5 to 15 years.

Costs in excess of net assets acquired "Goodwill" is amortized on a straight-line basis over the expected periods to be benefited. The Company assesses the recoverability of this intangible asset by determining whether the amortization of the goodwill balance over its remaining life can be recovered through undiscounted future operating cash flows of the acquired operations. The amount of goodwill impairment, if any, is measured based on projected discounted future operating cash flows using a discount rate reflecting the Company's average cost of funds. The assessment of the recoverability of goodwill will be impacted if estimated future operating cash flows are not achieved.

CASH MANAGEMENT

Checks issued but not presented for payment to the bank are reflected as "Checks drawn in excess of bank balances" in the accompanying financial statements.

REVENUE RECOGNITION

Revenue is recognized at the time of the sale or upon delivery of the products.

STORE PRE-OPENING COSTS

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

ADVERTISING COSTS

Costs incurred for advertising and promotions are expensed when incurred and totaled \$433,990, \$234,640 and \$56,499 during 1999, 1998 and 1997 respectively.

RENT EXPENSE

Certain lease agreements provide for scheduled rent increases during the lease terms or for rental payments commencing on a date other than the date of initial occupancy. Rent expense is recorded on a straight-line basis over the respective terms of the leases.

INCOME TAXES

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

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TULLY'S COFFEE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED MARCH 28, 1999, MARCH 29, 1998 AND MARCH 30, 1997

OFFICER COMPENSATION

In accordance with Staff Accounting Bulletin (SAB) 5T added by SAB 79 "Accounting for Expenses on liabilities paid by principal stockholder", the Company records an amount in the financial statements for compensation expense for its President who draws no salary. The Company recognized as compensation expense \$120,000 in 1999, 1998 and 1997 and corresponding increases to additional paid-in capital have been recorded.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount of cash and cash equivalents and other current assets and liabilities, such as accounts payable, accrued liabilities and accounts receivable as presented in the consolidated financial statements approximates fair value based on the short-term nature of these instruments. The Company believes the carrying amounts of the Company's notes payable, line of credit and long-term debt approximate fair value because the interest rates are subject to change with, or approximate, market interest rates.

STOCK-BASED COMPENSATION

The Company adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123 (SFAS No. 123), "Accounting for Stock-Based Compensation". The Company has chosen to continue to account for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations. Accordingly, compensation cost for stock options is measured as the excess, if any, of the fair value of the Company's stock at the date of grant over the amount an employee must pay to acquire the stock.

NET LOSS PER SHARE

Statement of Financial Accounting Standards No.128 "Earnings per Share" (SFAS 128) was issued in February 1997. This pronouncement modified the calculation and disclosure of loss per share. All periods presented have been prepared under the provisions of SFAS 128. Under these provisions, basic loss per share is calculated as loss available to the common stockholder divided by the weighted-average number of common shares outstanding during the period. Diluted loss per share is based on the weighted-average number of shares of common stock and common stock equivalents outstanding during the periods, including options and warrants computed using the treasury stock method. Common stock equivalent shares are excluded from the calculation of diluted loss per share if their effect is antidilutive. The Company had a net loss for all periods presented herein; therefore none of the options, warrants and convertible preferred stock outstanding during each of the periods presented were included in the computation of diluted loss per share as they were antidilutive. Such instruments convertible into a total of 10,929,862, 2,000,894 and 1,418,629 shares of common stock were excluded from the calculations of diluted loss per share for the years ended March 28, 1999, March 29, 1998 and March 30, 1997, respectively.

RECLASSIFICATIONS

Reclassifications of prior year balances have been made to conform to the current year classifications.

NEW ACCOUNTING STANDARDS

In June 1998, the Financial Accounting Standards Board issued SFAS 133, "Accounting for Derivative Instruments and Hedging Activities." This pronouncement will require Tully's to recognize certain derivatives on its balance sheet at fair value. Changes in the fair

Net sales	\$ 15,789	\$ 22,180
	-----	-----
Net loss	\$ 4,695	\$ 6,663
	-----	-----
Preferred stock dividend/accretion	\$ -	\$ 5,970
	-----	-----
Net loss used in calculating loss per common share	\$ 4,695	\$ 12,633
	-----	-----
Basic and diluted net loss per common share	\$ 0.35	\$ 0.88
	-----	-----

</TABLE>

The pro forma results are not necessarily indicative of what actually would have occurred if the acquisition had been in effect for the years presented. In addition, they are not intended to be a projection of future results and do not reflect any synergies that might be achieved from combined operations.

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TULLY'S COFFEE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED MARCH 28, 1999, MARCH 29, 1998 AND MARCH 30, 1997

3. ALLOWANCE FOR DOUBTFUL ACCOUNTS

<TABLE>

<S>	<C>
BALANCE AT MARCH 31, 1996	\$ -
Additions charged to costs and expenses	8,718
Deductions	(8,718)

BALANCE AT MARCH 30, 1997	\$ -
Additions charged to costs and expenses	54,218
Deductions	-

BALANCE AT MARCH 29, 1998	\$ 54,218
Additions charged to costs and expenses	144,689
Deductions	(32,671)

BALANCE AT MARCH 28, 1999	\$ 166,236

</TABLE>

4. INVENTORY

Inventories consist of the following:

<TABLE>
<CAPTION>

	1999	1998
<S>	<C>	<C>
Coffee		
Unroasted	\$ 696,281	\$ 72,030
Roasted	114,847	55,098
Other goods held for sale	547,064	402,214
Packaging and other supplies	450,364	102,050
	-----	-----
	1,808,556	631,392
Reserve for obsolete inventory	-	(14,091)
	-----	-----
	\$1,808,556	\$ 617,301
	-----	-----

</TABLE>

5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

<TABLE>
<CAPTION>

	1999	1998
<S>	<C>	<C>
Facility under capital lease	\$ 87,634	\$ 87,634
Machinery and equipment	4,180,325	2,238,758
Leasehold improvements	8,055,382	4,583,789
Office equipment, furniture and fixtures	1,214,774	839,516
Software	127,823	80,322
	-----	-----
	13,665,938	7,830,019
Less: Accumulated depreciation and amortization	(2,674,216)	(1,322,884)
	-----	-----
	\$10,991,722	\$ 6,507,135
	-----	-----

</TABLE>

Accumulated depreciation related to assets held under capital leases included in the above balance as of March 28, 1999 and March 29, 1998 was \$26,267 and \$23,046, respectively.

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TULLY'S COFFEE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED MARCH 28, 1999, MARCH 29, 1998 AND MARCH 30, 1997

6. INTANGIBLE ASSETS

Other intangible assets consist of the following:

<TABLE>
<CAPTION>

	1999	1998
<S>	<C>	<C>
Goodwill	\$5,297,422	\$ 202,458
Leasehold interests	397,848	-
Lease Commissions	134,849	118,090
Trademark and logo design costs	241,199	212,098
Covenants not to complete	85,000	60,000
Other	23,560	23,560
	-----	-----
	6,179,878	616,206
Less: Accumulated amortization	(446,188)	(126,421)
	-----	-----
	\$5,733,690	\$ 489,785
	-----	-----

</TABLE>

7. INCOME TAXES

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting and income tax purposes. The significant components of deferred tax assets and liabilities are as follows:

<TABLE>
<CAPTION>

	1999	1998
Deferred tax assets:		
<S>	<C>	<C>
Net operating loss carryforwards	\$ 4,481,000	\$ 2,421,000
Stock options	944,000	671,000
Goodwill	229,000	-
Allowance for doubtful accounts	60,000	18,000
Accrued vacation	41,000	20,000
Other	41,000	-
	-----	-----
Total deferred tax assets	5,796,000	3,130,000
Deferred tax liabilities:		
Depreciation and amortization	(249,000)	(33,000)
	-----	-----
Total deferred tax liabilities	(249,000)	(33,000)
	-----	-----
Total deferred tax assets	5,547,000	3,097,000

Less: Valuation allowance	(5,547,000)	(3,097,000)
Net deferred tax assets	\$ -	\$ -

</TABLE>

At March 28, 1999, the Company had accumulated tax net operating loss carryforwards of approximately \$12,600,000 which expire through 2019.

The Company's ability to use its net operating losses to offset future income could be subject to restrictions enacted in the United States Internal Revenue Code of 1986 as amended. These restrictions limit future use of net operating loss and credit carryforwards if certain stock ownership changes occur.

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

<TABLE>

<CAPTION>

	1999	1998	1997
<S>	<C>	<C>	<C>
Federal statutory rate	(34.0%)	(34.0%)	(34.0%)
State income taxes, net of Federal benefit	(1.6)	--	--
Change in tax rate	(2.0)	--	--
Other	1.3	1.75	1.9
Valuation allowance	36.3	32.25	32.1
	--%	--%	--%

</TABLE>

8. ACCRUED LIABILITIES

Accrued liabilities consist of the following:

<TABLE>

<CAPTION>

	1999	1998
<S>	<C>	<C>
Commissions payable	\$ 410,085	-
Employee wages and taxes	589,420	\$ 285,474
Other	199,908	89,911
	\$ 1,199,413	\$ 375,385

</TABLE>

9. BANK LINE OF CREDIT AND LONG-TERM DEBT:

At March 28, 1999, the Company had \$6,500,000 outstanding under a \$6,500,000 bank line of credit expiring March 31, 2000. Interest is charged at the prime lending rate plus 1/2% (8.25% at March 28, 1999). The line is collateralized by all of the Company's assets, and is guaranteed by the CEO and a board member in return for a guarantee fee of 1.0% of the line's monthly average balance. In 1999, 1998 and 1997, in exchange for the guarantee, the Company issued stock options for 323,924, 130,964 and 113,169 shares of common stock with an estimated fair market value of \$728,828, \$294,669 and \$179,452 to the guarantors, respectively.

The line of credit agreement contains certain covenants and restrictions requiring, among other things, a minimum level of tangible net worth, limitations on capital expenditures and certain other restrictions. The Company is in compliance with these provisions at March 28, 1999.

In June 1998, the Company amended its bank line of credit agreement, which reduced the amount available under the line to \$6,500,000 through March 1999 and \$6,000,000 through the term of the agreement.

On April 1, 1999, the Company paid \$500,000 on the line of credit.

In June 1998, the company issued a convertible note to a shareholder in the amount of \$2,500,000. The note accrues interest at a rate of 12% per annum and matures on June 30, 2003. The note and any accrued interest is convertible at any time into Series A Preferred Stock at a conversion rate of \$10.00 for four shares of the stock plus warrants to purchase two shares of common stock at a price of \$0.33 per share. The note was converted on March 28, 1999 into 1,000,000 shares of Series A Preferred Stock.

TULLY'S COFFEE CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 YEARS ENDED MARCH 28, 1999, MARCH 29, 1998 AND MARCH 30, 1997

Long-term debt consists of the following:

<S>	1999 <C>	1998 <C>
Note payable in monthly installments of \$2,420, including interest at 10.25%, through June 2004, collateralized by equipment	\$ 133,612	-
Note payable in monthly installments of \$542, including interest at 10.9%, through January 2001, collateralized by equipment	10,313	\$ 15,366
Note payable in monthly payments of \$442, including interest at 10.9%, through January 1999, collateralized by equipment	-	3,797
Note payable in monthly installments of \$501, including interest at 4.8%, through June 2000, collateralized by equipment	12,797	18,090
Note payable in monthly installments of \$2,000, including interest at 9.5%, through January 2000, repaid in fiscal 1999	-	99,162
	-----	-----
	156,722	136,415
Less: Current portion	(27,744)	(33,343)
	-----	-----
	\$ 128,978	\$ 103,072
	-----	-----

</TABLE>

Future principal payments on long-term debt are as follows:

FISCAL YEAR <S>	<C>
2000	\$ 27,744
2001	27,759
2002	21,216
2003	21,844
Thereafter	58,159

	\$ 156,722

</TABLE>

10. RELATED PARTY TRANSACTIONS

A company controlled by the majority stockholder of the Company provides development services to the Company. The Company incurred costs of \$112,542, \$48,500 and \$50,000 related to services provided by this company during 1999, 1998 and 1997.

TULLY'S COFFEE CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 YEARS ENDED MARCH 28, 1999, MARCH 29, 1998 AND MARCH 30, 1997

A director of the Company provides legal services to the Company. During 1999, 1998 and 1997, the Company incurred costs of \$137,683, \$64,950 and \$13,760, respectively, related to services performed by the director, (of which \$0, \$10,614 and \$1,527 was payable at March 28, 1999, March 29, 1998 and March 30, 1997, respectively).

During 1997, the Company entered into certain purchase agreements with

third parties to assume leases for certain locations and purchase certain assets such as equipment and leaseholds. In settlement of amounts owed to the Company by the majority shareholder, 40,000 shares of common stock valued at \$1.75 per share were issued by the majority shareholder, rather than the Company, to the lessees. The estimated fair value of the stock at the transaction dates (\$70,000) has been recorded as leasehold interests.

In June 1998, the Company issued a \$2,500,000 convertible note to a director of the Company. The Company incurred interest expense of \$223,383 related to the note. The note was converted into 1,000,000 shares of preferred stock on March 28, 1999. (See Note 9).

A company owned by a director of the Company leases space for three retail stores to the Company. Rental expense for 1999, 1998 and 1997 was \$185,131, \$136,285 and \$0, respectively.

Certain stockholders provide a guarantee on the Company's line of credit (See Note 9).

11. COMMITMENTS

LEASE COMMITMENTS

The Company leases retail and office space under operating leases which expire through 2016. The leases provide for minimum annual payments, contingent rentals based upon gross sales and, in certain cases, escalation clauses and options to renew leases. Rental expense is recorded on a straight-line basis over the respective terms of the leases. Rental expense under these leases was \$1,411,804, \$960,455 and \$542,674 for 1999, 1998 and 1997, respectively. Contingent rental expense was \$131,766, \$88,197 and \$23,414 for 1999, 1998 and 1997, respectively. The majority shareholder has guaranteed performance under one of the Company operating leases.

In connection with certain leases, lessors granted tenant improvement allowances. These amounts, included in the financial statements under the caption deferred lease costs, are amortized into income on a straight-line basis over the life of the related lease. Also recorded in deferred lease costs is the excess of rental expense computed on a straight-line basis over the actual rent payments required by the terms of the Company's leases.

The Company has subleased certain space through 2003. Sublease income is \$40,596 in 2000 and 2001 and \$21,548 and \$3,000 in 2002 and 2003, respectively.

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TULLY'S COFFEE CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 YEARS ENDED MARCH 28, 1999, MARCH 29, 1998 AND MARCH 30, 1997

Minimum future rental payments under noncancelable operating leases as of March 28, 1999 are summarized as follows:

<TABLE>
 <CAPTION>

FISCAL YEAR	<C>
<S>	
2000	\$ 2,393,994
2001	2,235,341
2002	2,005,665
2003	1,721,888
2004	1,346,593
Thereafter	3,640,424

Total	\$13,343,905

</TABLE>

Minimum future rental payments under capital leases as of March 28, 1999 are summarized as follows:

<TABLE>

<S>	<C>
2000	\$ 60,760
2001	57,474
2002	45,500
2003	42,165

2004	33,334
Thereafter	251,547

Total minimum lease payment	490,780
Less: Amount representing interest	(268,191)

Present value of net minimum lease payments under capital lease	\$ 222,589

</TABLE>

PURCHASE COMMITMENTS

During 1998, the Company entered into certain purchase agreements with third parties to assume leases for certain locations and purchase certain assets such as equipment and leasehold improvements and obtain non-compete agreements from the sellers. In the aggregate, the Company paid \$86,200 in cash, issued a \$108,456 note payable due in equal payments over 45 months, and issued 75,000 shares of common stock, valued at \$2.25 per share, to the sellers in connection with the purchase agreements.

As of July 20, 1999, the Company had fixed price inventory purchase commitments for green coffee totaling approximately \$1.2 million. The Company believes, based on relationships

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TULLY'S COFFEE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED MARCH 28, 1999, MARCH 29, 1998 AND MARCH 30, 1997

established with its suppliers in the past, that the risk of loss on non-delivery on such purchase commitments is remote. Such contracts are generally short-term in nature and the Company believes that their cost approximates fair market value.

The Company entered into a sponsorship agreement, effective February 5, 1999 through 2003, which provides for certain advertising and marketing rights in exchange for an annual fee. The annual fee is \$241,500 for 1999, \$476,000 for 2000 and increases by the rate of 3% per year thereafter.

CONTINGENCIES

In the ordinary course of its business, the Company may become involved in legal proceedings from time to time. As of July 20, 1999, the Company was not aware of any pending legal proceedings which in the opinion of management would adversely affect operations, or cash flow.

12. STORE OPERATIONS

Between March 28, 1999 and July 20, 1999, the Company opened 3 new stores and entered into lease agreements for these additional stores. The lease terms are commensurate with the Company's existing lease agreements.

13. STOCK OPTIONS

The Company has a stock option plan (the "Plan") which allows for the granting of incentive stock options and non-qualified stock options. The number of shares of common stock of the Company reserved for issue upon the exercise of options granted under the Plan cannot exceed 5% of the issued and outstanding shares of the Company. Grants, terms and vesting provisions are determined by the Board of Directors. The options vest pro rata over five years beginning with the employee's hire date and remain exercisable for a period not to exceed seven years from the date of grant. During 1999, 1998 and 1997, 359,000, 200,451 and 201,948 options, respectively, were granted at exercise prices of \$2.25, \$1.75 and \$1.50, respectively, per share (the estimated fair value at the grant date) pursuant to the plan.

During 1999, 1998, and 1997, options to purchase 283,000, 240,350 and 352,786 shares, respectively, of common stock owned by the majority stockholder at an exercise price of \$.01 per share were granted to certain key employees by the stockholder. The options were issued from the majority stockholder's shares rather than newly issued shares of the Company to avoid diluting the other stockholders. These options, all of which were outstanding and fully vested as of March 28, 1999, are exercisable indefinitely. Although the options were not granted by the

Company, generally accepted accounting principle requires that the Company record an expense related to these grants. In 1999 and 1998, the Company recorded an increase to additional paid-in capital and a non-cash charge to compensation expense of \$701,256 and \$540,787, respectively. In 1997, the Company recorded an increase to additional paid-in capital of \$572,074, a decrease to stockholder receivable of \$26,818 and a non-cash charge to compensation expense of \$598,892. The amount of expense recorded represents the difference between the estimated fair value of the underlying shares valued at \$2.25 on the grant dates and the exercise price.

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TULLY'S COFFEE CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 YEARS ENDED MARCH 28, 1999, MARCH 29, 1998 AND MARCH 30, 1997

The Company granted fully vested options to its directors as compensation for attending Board of Director meetings, and to certain outside contractors. Non-cash charges of \$70,416, \$23,625 and \$28,125 were recorded in 1999, 1998 and 1997 related to these options for 33,500, 10,500 and 17,500 shares, respectively.

In addition, in exchange for a guarantee on its line of credit, the Company issued stock options for 323,924, 130,964 and 113,169 shares of common stock in 1999, 1998 and 1997 respectively (see Note 9).

Subsequent to March 28, 1999, options to purchase 6,500 shares of common stock at an exercise price of \$0.01 per share were granted to certain employees and non-employees in connection with the Plan.

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TULLY'S COFFEE CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 YEARS ENDED MARCH 28, 1999, MARCH 29, 1998 AND MARCH 30, 1997

Stock option activity including amounts granted by the majority shareholder, under all plans for 1999 and 1998 is summarized as follows:

<TABLE>
 <CAPTION>

OUTSTANDING STOCK OPTIONS

	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE
<S>	<C>	<C>
Balance, April 1, 1996	733,226	\$.025
Granted	685,403	.449
Balance, March 30, 1997	1,418,629	0.230
Granted	582,265	0.610
Balance, March 29, 1998	2,000,894	0.340
Granted	1,132,632	0.720
Forfeited	(49,885)	0.010
Balance, March 28, 1999	3,083,641	0.485

<CAPTION>

	1999		1998		1997	
	SHARES	WEIGHTED AVERAGE	SHARES	WEIGHTED AVERAGE	SHARES	WEIGHTED AVERAGE
<S>	<C>	<C> FAIR VALUE	<C>	<C> FAIR VALUE	<C>	<C> FAIR VALUE
Weighted average fair value of options granted during the year whose exercise price was less than the fair value of the stock on the date of grant	929,188	\$2.01	381,814	\$2.24	483,455	\$1.67

Weighted average fair value of options granted during the year whose exercise price was equal to the fair value of the stock on the date of grant

203,444	\$0.89	200,451	\$0.41	201,948	\$0.51
-----		-----		-----	
1,132,632	---	582,265		685,403	
-----		-----		-----	
-----		-----		-----	

</TABLE>

In 1999, 1998 and 1997, the majority shareholder granted options to purchase 283,000, 240,350, and 243,863 shares of his common stock, respectively. These shares are presented as outstanding in the tables above.

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TULLY'S COFFEE CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 YEARS ENDED MARCH 28, 1999, MARCH 29, 1998 AND MARCH 30, 1997

The following table summarizes information about fixed-price options outstanding at March 28, 1999:

<TABLE>
 <CAPTION>

RANGE OF EXERCISE PRICES	OPTIONS OUTSTANDING			OPTIONS EXERCISEABLE	
	NUMBER OUTSTANDING	WEIGHTED-AVERAGE EXERCISE PRICE	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE (YEARS)	NUMBER EXERCISABLE	WEIGHTED-AVERAGE EXERCISE PRICE
<S>	<C>	<C>	<C>	<C>	<C>
\$0.0033	300,000	\$0.0033	4	300,000	\$0.0033
0.01	1,986,605	0.01	7.7	1,778,804	0.01
0.33	41,078	0.33	5	42,432	0.33
1.50	201,948	1.50	7	121,169	1.50
\$1.75 -2.25	554,010	1.90	9.1	236,742	\$1.80
	-----			-----	
	3,083,641			2,479,147	
	-----			-----	
	-----			-----	

</TABLE>

The following table presents net loss for 1999, 1998 and 1997, as if the Company accounted for compensation expense related to stock options under the fair value method prescribed by SFAS 123:

<TABLE>
 <CAPTION>

	YEARS ENDED		
	MARCH 28, 1999	MARCH 29, 1998	MARCH 31, 1997
<S>	<C>	<C>	<C>
Net loss-as reported	\$ (6,580,658)	\$ (3,819,571)	\$ (2,481,628)
Net loss-pro forma	(6,696,739)	\$ (3,860,160)	\$ (2,503,129)
Basic and diluted loss per common share			
As reported	(0.88)	(0.29)	(0.20)
Pro forma	\$ (0.89)	\$ (0.29)	\$ (0.20)

</TABLE>

The fair value of each option grant is estimated on the date of grant using the minimum value method with the following weighted average assumptions used for grants in 1999, 1998 and 1997:

<TABLE>
 <CAPTION>

	YEARS ENDED		
	MARCH 28, 1999	MARCH 29, 1998	MARCH 30, 1997
<S>	<C>	<C>	<C>

Risk free interest rate	4.17% to 5.72%	4.55% to 6.05%	4.84% to 6.07%
Expected lives	5-7 years	5-7 years	5-7 years

</TABLE>

As of March 28, 1999, March 29, 1998 and March 31, 1997 options for 2,479,147, 1,659,112 and 1,237,208 shares respectively, were exercisable.

14. STOCKHOLDERS' EQUITY

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TULLY'S COFFEE CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 YEARS ENDED MARCH 28, 1999, MARCH 29, 1998 AND MARCH 30, 1997

PREFERRED STOCK

In June 1998, the Company offered 2,000,000 Investment Units in a Regulation D offering. Each unit consists of 4 shares of the Company's Series A Preferred Stock and a Warrant to purchase two shares of the Company's Common Stock at an exercise price of \$0.33 per share. The warrants have a ten year life. The per share offering price was \$2.50. The Series A Preferred Stock is convertible into one share each of common stock, has preference over common stock upon liquidation of the Company, and the right to participate in any dividend payable on the common stock. The Preferred Stock also has voting rights. Each share of Preferred Stock is automatically convertible into one share of the Company's common stock if the Company makes a 'Qualified Offering' of its common stock. A Qualified Offering is defined as an offering of the Company's common stock in excess of \$15 million made pursuant to a registration statement filed under the Securities Act of 1933.

As of July 20, 1999, the offering is oversubscribed by 6,507,100 units, with an aggregate purchase price of \$16,267,750. The Company has not yet accepted these subscriptions because as of this date does not have a sufficient number of authorized shares of Class A Preferred Stock to issue upon acceptance of the subscriptions. The Company's Board of Directors has proposed certain amendments to the Company's Articles of Incorporation which include an increase in the number of authorized Class A Preferred Shares to 17,500,000. When and if the shareholders ratify and approve the proposed amended Articles, the Company will accept the subscriptions and issue the Preferred Shares and Warrants.

COMMON STOCK

During 1997, the Company issued 426,006 shares of common stock in a Regulation D securities offering. Proceeds of the offering were \$745,511. In 1998, in a Regulation A offering, the Company issued 1,305,533 shares of common stock for a total of \$2,937,449. The proposed amendment discussed above, if approved, would increase the authorized number of common shares to 120,000,000.

The line of credit arrangement restricts the Company's ability to pay dividends without the bank's permission.

WARRANTS

In connection with the preferred stock offering, the Company issued 2,870,387 warrants in 1999 to purchase common stock at an exercise price of \$0.33 per share. The exercise price of the warrant at the date of issuance was below the fair market value of the common stock and is therefor considered an "in the money" or beneficial conversion feature. Accounting for the issuance of a convertible preferred stock with a non detachable beneficial conversion feature at the date of issue requires that the conversion feature be recognized and measured in the financial statements by allocating a portion of the preferred stock offering proceeds to additional paid in capital. The discount resulting from the allocation of the proceeds to the beneficial conversion feature is analogous to a dividend and is recognized as a return to preferred shareholders from the date of issuance through the date the warrants are exercisable. As a result of the aforementioned accounting, the Company allocated \$5,968,781 of the preferred stock proceeds to additional paid in capital. As the warrants are exercisable the entire allocation was recognized as a preferred dividend through a charge to retained earnings and a credit to preferred stock. The weighted average fair value of the warrants on the date of grant was \$2.08. In relation to preferred stock oversubscribed, as of July 20, 1999, an additional 3,253,550 warrants are pending issue upon approval of proposed amended Articles.

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SIGNATURES

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant has duly caused this registrant statement to be signed on its behalf by the undersigned, unto duly authorized.

TULLY'S COFFEE CORPORATION

Date 7/26/1999

By /s/ Tom T. O'Keefe

Tom T. O'Keefe, President

This registration statement was signed by the following persons in the capacities and on the dates stated.

<TABLE>
<CAPTION>

NAME ----	TITLE -----	DATE -----
<S>	<C>	<C>
/s/ Tom T. O'Keefe ----- Tom T. O'Keefe	President, Chief Executive Officer and Chairman of the Board	7/26/1999
/s/ Stephen R. Griffin ----- Stephen R. Griffin	Vice President - Finance and Chief Financial Officer	7/26/1999

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/s/ Graham Anderson ----- Graham Anderson	Director	7/26/1999
/s/ Larry A. Culver ----- Larry A. Culver	Director	7/26/1999
/s/ Marc Evanger ----- Marc Evanger	Director	7/26/1999
/s/ Robert J. Holmes ----- Robert J. Holmes	Director	7/26/1999
/s/ Lawrence L. Hood ----- Lawrence L. Hood	Director	7/26/1999
/s/ George Hubman ----- George Hubman	Director	7/26/1999
----- Keith McCaw	Director	
/s/ Richard J. Padden ----- Richard J. Padden	Director	7/26/1999
/s/ James Cameron Towne ----- James Cameron Towne	Director	7/26/1999

</TABLE>

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ARTICLES OF AMENDMENT
TO
ARTICLES OF INCORPORATION
OF
TULLY'S COFFEE CORPORATION

Pursuant to the provisions of RCW 23B.10.060 of the Washington Business Corporation Act, the undersigned adopts the following Articles of Amendment to the Articles of Incorporation of TULLY'S COFFEE CORPORATION filed on July 16, 1992, as amended by the Amendment to Articles of Incorporation filed on July 26, 1993, and by the Amendment to Articles of Incorporation filed on April 10, 1995:

FIRST: The name of the Corporation is TULLY'S COFFEE CORPORATION.

SECOND: The following Articles of Amendment to Articles of Incorporation were adopted by the Shareholders and Directors of the Corporation on _____, 1998, as follows:

Article 2 is hereby amended to read as follows:

ARTICLE 2. SHARES

2.1 AUTHORIZED CAPITAL

The total number of shares which the Corporation is authorized to issue is 50,000,000, consisting of 40,000,000 shares of Common Stock without par value and 10,000,000 shares of Preferred Stock without par value. The Common Stock is subject to the rights and preferences of the Preferred Stock as hereinafter set forth.

2.2 ISSUANCE OF PREFERRED STOCK IN SERIES

The Preferred Stock may be issued from time to time in one or more series in any manner permitted by law and the provisions of these Articles of Incorporation of the Corporation, as determined from time to time by the Board of Directors and stated in the resolution or resolutions providing for the issuance thereof, prior to the issuance of authority to fix and determine and to amend, subject to the provisions hereof, the designation, preferences, limitations and relative rights of the shares of any series that is wholly unissued or to be established. Unless otherwise specifically provided in the resolution establishing

any series, the Board of Directors shall further have the authority, after the issuance of shares of a series whose number it has designated, to amend the resolution establishing such series to decrease the number of shares of that series, but not below the number of shares of such series then outstanding.

2.3 DIVIDENDS

The holders of shares of the Preferred Stock shall be entitled to receive dividends out of the funds of the Corporation legally available therefor at the rate and at the time or times, whether cumulative or noncumulative, as may be provided by the Board of Directors in designating a particular series of Preferred Stock. If such dividends on the Preferred Stock shall be cumulative, then if dividends shall not have been paid, the deficiency shall be fully paid or the dividends declared and set apart for payment at such rate, but without interest on cumulative dividends, before any dividends on the Common Stock shall be paid or declared and set apart for payment. The holders of the Preferred Stock shall not be entitled to receive any dividends thereon other than the dividends referred to in this Section.

2.4 REDEMPTION

The Preferred Stock may be redeemable at such price, in such amount, and at such time or times as may be provided by the Board of Directors in designating a particular series of Preferred Stock. In any event, such Preferred Stock may be repurchased by the Corporation to the extent legally permissible.

2.5 LIQUIDATION

In the event of any liquidation, dissolution, or winding up of the affairs of the Corporation, whether voluntary or involuntary, then, before any distribution shall be made to the holders of the Common Stock, the holders of the Preferred Stock at the time outstanding shall be entitled to be paid the preferential amount or amounts per share as may be provided by the Board of Directors in designating a particular series of Preferred Stock and dividends accrued thereon to the date of such payment. The holders of the Preferred Stock shall not be entitled to receive any distributive amounts upon the liquidation, dissolution, or winding up of the affairs of the Corporation other than the distributive amounts referred to in this Section, unless otherwise provided by the Board of Directors in designating a particular series of Preferred Stock.

2.6 CONVERSION

Shares of Preferred Stock may be convertible into Common Stock of the Corporation upon such terms and conditions, at such rate and subject to such adjustments as may be provided by the Board of Directors in designating a particular series of Preferred Stock.

2.7 VOTING RIGHTS

Holders of Preferred Stock shall have such voting rights as may be provided by the Board of Directors in designating a particular series of Preferred Stock.

THIRD: The foregoing Amendment does not provide for an exchange, reclassification, or cancellation of issued shares.

FOURTH: Except as modified herein, the Articles of Incorporation of Tully's Coffee Corporation as filed on July 16, 1992, as amended by the Amendment to Articles of Incorporation filed on July 26, 1993, and by the Amendment to Articles of Incorporation filed on April 10, 1995, shall remain unchanged and in full force and effect.

FIFTH: The foregoing Amendment to the Articles of Incorporation was proposed by the Corporation's Directors and approved by the Corporation's Shareholders in accordance with the provisions of RCW 23B.10.030 and RCW 23B.10.040.

I certify that I am the President of Tully's Coffee Corporation, and am authorized to execute the foregoing Articles of Amendment to Articles of Incorporation on behalf of the Corporation.

DATED: _____, 1998.

TULLY'S COFFEE CORPORATION

By _____
Tom T. O'Keefe
Its President

OF

TULLY'S COFFEE CORPORATION

Pursuant to the provisions of RCW 23B.10.070 of the Washington Business Corporation Act, the undersigned adopts the following Amendments to the Articles of Incorporation of Tully's Coffee Corporation filed on July 16, 1992, as amended by that certain Amendment to Articles of Incorporation of Tully's Coffee Corporation filed on July 26, 1993.

FIRST: The name of the Corporation is TULLY'S COFFEE CORPORATION.

SECOND: The following Amendment to Articles of Incorporation was adopted by the Shareholders of the Corporation on December 14, 1994, as follows:

Article 2 is hereby amended to read as follows:

ARTICLE 2. SHARES

The total authorized number of shares of this Corporation is 50,000,000 shares, which shall consist of a single class of stock.

THIRD: The foregoing Amendment does not provide for an exchange, reclassification, or cancellation of issued shares.

FOURTH: Except as modified herein, the Articles of Incorporation of Tully's Coffee Corporation as filed on July 16, 1992, as amended by that certain Amendment to Articles of Incorporation of Tully's Coffee Corporation as filed on July 26, 1993, shall remain unchanged and in full force and effect.

FIFTH: The foregoing Amendment to the Articles of Incorporation was proposed by the Corporation's Directors and adopted by its Shareholders, in accordance with the provisions of RCW 23B.10.030 and 23B.10.040.

I certify that I am an officer of TULLY'S COFFEE CORPORATION, and am authorized to execute the foregoing Amendment to Articles of Incorporation on behalf of the Corporation.

DATED: April ___, 1995

TULLY'S COFFEE CORPORATION

By: _____
Tom T. O'Keefe
Its President

BYLAWS
OF
TULLY'S COFFEE CORPORATION

ARTICLE 1. OFFICES

The principal office of the Corporation in the State of Washington shall be located in the City of Mercer Island, County of King. The Corporation may have such other offices, either in or out of the State of Washington, as the Board of Directors (at times referred to herein as the "Board") may designate or as the business of the Corporation may require from time to time.

ARTICLE 2. SHAREHOLDERS

2.1 ANNUAL MEETING. The annual meeting of the shareholders of this Corporation shall be held each year during the month of April for the purpose of electing directors and transacting such other business as may come before the meeting. The failure to hold an annual meeting at the time stated in these Bylaws does not affect the validity of any corporate action.

2.2 SPECIAL MEETINGS. Except as otherwise provided by law, special meetings of shareholders of this Corporation shall be held whenever called by any officer or the Board of Directors. Special meetings shall also be held whenever the holders of at least ten percent (10%) of all of the votes entitled to be cast on any issue presented for consideration at the proposed special meeting, sign, date and deliver to the Corporation's Secretary one (1) or more written demands for the meeting, describing the purpose or purposes for which such meeting is to be held. Only business within the purpose or purposes described in the meeting notice required by the Washington Business Corporation Act may be conducted at a special shareholders, meeting.

2.3 PLACE OF MEETINGS. Meetings of shareholders shall be held at the principal office of the Corporation or at such other place in or out of the State of Washington as determined by the Board of Directors, pursuant to proper notice.

2.4 RECORD DATE. The Board of Directors is authorized to determine the record date for one (1) or more voting groups in order to determine the shareholders entitled to notice of a shareholders' meeting, to demand a special meeting, to vote, or to take any other action. If the Board has not determined a record date, it shall be fixed as follows:

(a) If the Board of Directors has not fixed the record date for determining shareholders entitled to notice of and to vote at an annual or special shareholders' meeting, it shall be the day before the first notice is delivered to shareholders.

(b) If the Board has not fixed the record date for determining shareholders entitled to a share dividend, it shall be the date the Board of Directors authorizes the share dividend.

(c) If the Board has not fixed the record date for determining shareholders entitled to a distribution, other than one involving a purchase, redemption, or other acquisition of the Corporation's shares, it shall be the date the Board authorizes the distribution.

(d) If the Board has not fixed a record date for determining the shareholders entitled to demand a special meeting, it shall be the date the first shareholder signs the demand.

A record date may not be more than sixty (60) days before the meeting or action requiring a determination of shareholders.

A determination of shareholders entitled to notice of or to vote at a shareholders' meeting is effective for any adjournment of the meeting unless the Board of Directors fixes a new record date, which it must do if the meeting is adjourned to a date more than one hundred twenty (120) days after the date fixed for the original meeting.

2.5 SHAREHOLDERS' LIST FOR MEETING. After fixing a record date for a meeting, an alphabetical list shall be prepared of the names of all of the Corporation's shareholders on the record date who are entitled to notice of a shareholders' meeting. The list shall be arranged by voting group, and within each voting group by class or series of shares, and shall show the address of and number of shares held by each shareholder.

The shareholders' list must be available for inspection by any shareholder, beginning ten (10) days prior to the meeting and continuing through the meeting, at the Corporation's principal office or at a place identified in the meeting notice in the city where the meeting will be held. A shareholder, the shareholder's agent, or the shareholder's attorney is entitled to inspect the list, during regular business hours and at the shareholder's expense, during the period it is available for inspection. The Corporation shall make the shareholders' list available at the meeting, and any shareholder, the shareholder's agent, or the shareholder's attorney is entitled to inspect the list at any time during the meeting or any adjournment. Refusal or failure to

of action taken at the meeting.

2.6 NOTICE. Written notice of each shareholders' meeting stating the date, time, and place and, in case of a special meeting, the purpose or purposes for which such meeting is called, shall be given by the Corporation not less than ten (10) (unless a greater period of notice is required by law in a particular case) nor more than sixty (60) days prior to the date of the meeting, to each shareholder of record entitled to vote unless required by law to send notice to all shareholders regardless of whether or not such shareholders are entitled to vote, to the shareholder's address as it appears on the current record of shareholders of this Corporation.

Notice of a special meeting must include a description of the purpose or purposes for which the meeting is called.

If an annual or special shareholders, meeting is adjourned to a different date, time, or place, notice need not be given of the new date, time, and place if the new date, time or place is announced at the meeting before adjournment. However, if a new record date for the adjourned meeting is or must be fixed under Section 2.4 of this Article 2, notice of the adjourned meeting must be given under this Section to persons who are shareholders as of the new record date.

2.7 WAIVER OF NOTICE. A shareholder may waive any notice required to be given by these Bylaws, or the Articles of Incorporation of this Corporation, or any provision of the Washington Business Corporation Act, as amended, before or after the meeting that is the subject of such notice. A valid waiver is created by any of the following three methods:

(a) In writing, signed by the shareholder entitled to the notice and delivered to the Corporation for inclusion in its corporate records;

(b) Attendance at the meeting, unless the shareholder at the beginning of the meeting objects to holding the meeting or transacting business at the meeting; or

(c) Failure to object at the time of presentation of a matter not within the purpose or purposes described in the meeting notice.

2.8 QUORUM OF SHAREHOLDERS. At any meeting of shareholders, a majority in interest of all the shares entitled to vote on a matter, represented by shareholders of record in person or by proxy, shall constitute a quorum of that voting group for action on that matter.

to holding the meeting or transacting business, it is deemed to be present for quorum purposes for the remainder of the meeting and for any adjournment of that meeting unless a new record date is or must be set for the adjourned meeting pursuant to Section 2.4 of this Article 2. At such reconvened meeting, any business may be transacted which might have been transacted at the meeting as originally notified.

If a quorum exists, action on a matter is approved by a voting group if the votes cast within the voting group favoring the action exceed the votes cast within the voting group opposing the action, unless the Washington Business Corporation Act, as amended, the Articles of Incorporation or these Bylaws of this Corporation, require a different vote.

2.9 PROXIES. Shareholders of record may vote at any meeting either in person or by proxy executed in writing. A proxy is effective when received by the person authorized to tabulate votes for the Corporation. A proxy is valid for eleven (11) months unless a longer period is expressly provided in the proxy.

2.10 VOTING. Subject to the provisions of the laws of the State of Washington, and unless otherwise provided in the Articles of Incorporation, each outstanding share, regardless of class, is entitled to one (1) vote on each matter voted on at a shareholders, meeting; provided, however, that for the election of directors, shareholders are entitled to cumulate votes by multiplying the number of votes they are entitled to cast by the number of directors for whom they are entitled to vote, and to cast the product for a single candidate or distribute the product among two or more candidates.

2.11 ADJOURNMENT. A majority of the shares represented at the meeting, even if less than a quorum, may adjourn the meeting from time to time. At such reconvened meeting at which a quorum is present, any business may be transacted which might have been transacted at the meeting as originally notified.

ARTICLE 3. BOARD OF DIRECTORS

3.1 GENERAL POWERS. All corporate powers shall be exercised by or under authority of, and the business and affairs of the Corporation shall be managed under the direction of, a Board of Directors (at times referred to herein as the "Board"), except as otherwise provided by its Articles of Incorporation.

3.2 GENERAL STANDARDS FOR DIRECTORS.

(a) A director shall discharge the duties of a director, including duties as a member of a committee:

(1) In good faith;

(2) With the care an ordinarily prudent person in a like position would exercise under similar circumstances; and

(3) In a manner the director reasonably believes to be in the best interests of the Corporation.

(b) In discharging the duties of a director, a director is entitled to rely on information, opinions, reports, or statements, including financial statements and other financial data, if prepared or presented by:

(1) One or more officers or employees of the Corporation whom the director reasonably believes to be reliable and competent in the matters presented;

(2) Legal counsel, public accountants, or other persons as to matters the director reasonably believes are within the person's professional or expert competence; or

(3) A committee of the board of directors of which the director is not a member if the director reasonably believes—the committee merits confidence.

(c) A director is not acting in good faith if the director has knowledge concerning the matter in question that makes reliance otherwise permitted by subsection (b) of this Section 3.2 unwarranted.

(d) A director is not liable for any action taken as a director, or any failure to take any action, if the director performed the duties of the director's office in compliance with this Section 3.2.

3.3 NUMBER AND QUALIFICATIONS. The Board of Directors shall consist of at least one (1) individual; provided, however, that the number of directors may be increased or decreased from time to time to any number not less than one (1) by the shareholders or by the Board of Directors at any regular or special meeting.

A director need not be a resident of the State of Washington nor a shareholder of the Corporation.

3.4 ELECTION AND TERM OF OFFICE.

(a) Directors shall be elected at the first annual shareholders, meeting and at each annual meeting thereafter.

(b) The terms of the initial directors of the Corporation expire at the first shareholders, meeting at which directors are elected.

(c) The terms of all other directors expire at the next annual shareholders, meeting following their election.

(d) The term of a director elected to fill a vacancy expires at the next shareholders, meeting at which directors are elected.

(e) A decrease in the number of directors does not shorten an incumbent director's term.

(f) Despite the expiration of a director's term, each director shall continue to serve until the director's respective successor is elected and qualified or until there is a decrease in the number of directors.

3.5 MEETINGS AND ACTION OF THE BOARD.

(a) REGULAR MEETINGS. The Board of Directors may hold regular meetings at such times and at such places in or out of the State of Washington, as the Board by vote may determine, and if so determined, no notice thereof need be given.

(b) SPECIAL MEETINGS. The Board of Directors may hold special meetings in or out of the State of Washington, at any time or place, whenever called by any officer or two (2) or more directors, notice thereof being given to each director by the officer calling or by the officer directed to call the meeting.

(c) Any or all directors may participate in a regular or special meeting by, or conduct the meeting through the use of, any means of communication by which all directors participating can hear each other during the meeting. A director participating in a meeting by this means is deemed to be present in person at the meeting.

3.6 NOTICE.

(a) No notice is required for regular meetings of the Board of Directors.

(b) Notice of special meetings of the Board of Directors shall be given at least two (2) days prior to the date of the meeting, stating the date, time, and place thereof. Such notice may be oral or written. The purpose of the meeting need not be given in the notice.

3.7 WAIVER OF NOTICE. A director may waive notice of a special meeting of the Board of Directors either before or after the meeting, and such waiver shall be deemed to be the equivalent of giving notice. The waiver must be in writing, signed by the director entitled to the notice and delivered to the Corporation for inclusion in its corporate records. Attendance at or participation in a meeting shall constitute waiver of any required notice to the director of the meeting, unless the director at the beginning of the meeting, or promptly upon the director's arrival, objects to holding the meeting or transacting business at the meeting and does not thereafter vote for or assent to action taken at the meeting.

3.8 QUORUM AND VOTING.

(a) A majority of the members of the Board of Directors shall constitute a quorum for the transaction of business.

(b) If a quorum is present when a vote is taken, the affirmative vote of a majority of directors present is the act of the Board of Directors, except as otherwise required by the Articles of Incorporation or by these Bylaws.

3.9 ADJOURNMENT. A majority of the directors present, even if less than a quorum, may adjourn a meeting and continue it to a later time. Notice of the adjourned meeting or of the business to be transacted there, other than by announcement at the meeting at which the adjournment is taken, shall not be necessary. At an adjourned meeting at which a quorum is present, any business may be transacted which could have been transacted at the meeting as originally called.

3.10 RESIGNATION AND REMOVAL.

(a) Any director of this Corporation may resign at any time by giving written notice to the Board of Directors, its Chairperson, the President, or Secretary of this Corporation. Any such resignation is effective when the notice is delivered, unless the notice specifies a later effective date.

(b) The shareholders, at a special meeting called expressly for that purpose, may remove from office with or without cause one or more directors and elect their successors.

(c) A director may be removed only if the number of votes cast for removal exceeds the number of votes cast against removal.

3.11 VACANCIES. Unless otherwise provided by the Washington Business Corporation Act, as amended, in the case of any vacancy in the Board of Directors, including a vacancy resulting from an increase in the number of directors, the remaining directors, whether constituting a quorum or not, or the shareholders, may fill

the vacancy. If the directors in office constitute fewer than a quorum of the Board, they may fill the vacancy by the affirmative vote of a majority of all the directors in office.

3.12 COMPENSATION. By resolution of the Board of Directors, each director may be paid expenses, if any, for attendance at each meeting of the Board of Directors, and may be paid a stated salary as director or a fixed sum for attendance at each meeting of the Board of Directors, or both. No such payment shall preclude any director from serving this Corporation in any other capacity and receiving compensation therefor.

3.13 PRESUMPTION OF ASSENT. A director who is present at a meeting of the Board of Directors when action is taken is deemed to have assented to the action taken unless:

(a) The director objects at the beginning of the meeting, or promptly upon the director's arrival, to holding it or transacting business at the meeting;

(b) The director's dissent or abstention from the action is entered in the minutes of the meeting; or

(c) The director delivers written notice of the director's dissent or abstention to the presiding officer of the meeting before its adjournment or to the Corporation within a reasonable time after adjournment of the meeting.

The right of dissent or abstention is not available to a director who votes in favor of the action taken.

3.14 COMMITTEES. The Board of Directors, by resolution adopted by a majority of the full Board of Directors may designate from among its members an Executive Committee and one or more other committees, each of which:

(a) Must have two (2) or more members;

(b) Must be governed by the same rules regarding meetings, action without meetings, notice and waiver of notice, and quorum and voting requirements as applied to the Board of Directors; and

(c) To the extent provided in such resolution, shall have and may exercise all of the authority of the Board of Directors, except no such committee shall have the authority to:

(1) Authorize or approve a distribution except according to a general, formula or method prescribed by the Board of Directors;

- (2) Approve or propose to shareholders action which the Washington Business Corporation Act, as amended, requires to be approved by the shareholders;
- (3) Fill vacancies on the Board of Directors or on any of its committees;
- (4) Amend the Articles of Incorporation;
- (5) Adopt, amend, or repeal these Bylaws;
- (6) Approve a plan of merger not requiring shareholder approval; or
- (7) Authorize or approve the issuance or sale or contract for sale of shares, or determine the designation and relative rights, preferences, and limitations on a class or series of shares, except that the Board of Directors may authorize a committee, or a senior executive officer of the Corporation, to do so within limits specifically prescribed by the Board of Directors.

ARTICLE 4. SPECIAL MEASURES
APPLYING TO BOTH SHAREHOLDERS' MEETINGS
AND DIRECTORS MEETINGS

4.1 ACTION BY WRITTEN CONSENT. Any action required or permitted to be taken at a meeting of the shareholders or the Board of Directors may be accomplished without a meeting if the action is taken by all of the shareholders entitled to vote thereon, or by all of the members of the Board of Directors, as the case may be. The action must be evidenced by one or more written consents describing the action to be taken, signed by all of the shareholders entitled to vote thereon, or by all directors, as the case may be, and delivered to the Corporation for inclusion in the minutes. Directors' consents may be signed either before or after the action taken.

A shareholder may withdraw consent only by delivering a written notice of withdrawal to the Corporation prior to the time that all consents are in the possession of the Corporation. A director may not withdraw consent.

Action taken by unanimous written consent is effective when the last director signs the consent, unless the consent specifies a later effective date. Action taken by unanimous written consent of the shareholders effective when all consents are in possession of the Corporation, unless the consent specifies a later effective date.

If the corporate laws of the State of Washington require that notice of a proposed action be given to nonvoting shareholders and the action is to be taken by unanimous consent of the voting shareholders, the Corporation must give its nonvoting shareholders written notice of the proposed action at least ten (10) days before the action is taken. The notice must contain or be accompanied by the same material that would have been required to be sent to the nonvoting shareholders a notice of meeting at which the proposed action would have been submitted to such shareholders for action.

4.2 CONFERENCE TELEPHONE. Meetings of the shareholders and Board of Directors may be effectuated by means of a conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other during the meeting. Participation by such means shall constitute presence in person at such meeting.

4.3 ORAL AND WRITTEN NOTICE. Oral notice may be communicated in person or by telephone, wire or wireless equipment, which does not transmit a facsimile of the notice. Oral notice is effective when communicated.

Written notice may be transmitted by mail, private carrier, or personal delivery; telegraph or teletype; or telephone, wire, or wireless equipment which transmits a facsimile of the notice. Written notice is effective at the earliest of the following:

(a) When received;

(b) five (5) days after its deposit in the U.S. mail if mailed with first-class postage; or

(c) on the date shown on the return receipt, if sent by registered or certified mail, return receipt requested, and the receipt is signed by or on behalf of the addressee. Notwithstanding the previous sentence, written notice by the Corporation to a shareholder is effective when mailed, if it is in comprehensible form and if mailed with first-class postage and correctly addressed to the shareholder's address shown on the Corporation's current record of shareholders.

ARTICLE 5. OFFICERS

5.1 POSITIONS. The officers of this Corporation shall be a President and a Secretary or a Secretary/Treasurer, each of whom shall be appointed by the Board of Directors. Such other officers and assistant officers as may be deemed necessary may be appointed by the Board or appointed by a duly appointed officer to whom such authority has been delegated by Board resolution, including a Treasurer, and one or

more Vice-Presidents. No officer need be a shareholder or a director of this Corporation. Any two or more offices may be held by the same person.

The Board of Directors in its discretion may elect a Chairman from among its members to serve as Chairman of the Board, who, when present, shall preside at all meetings of the Board, and who shall have such other powers as the Board may determine. The Chairman shall be the chief executive officer of the Corporation. If the Board fails to elect a Chairman, the President of the Corporation shall be its chief executive officer as well as its chief operating officer.

5.2 APPOINTMENT AND TERM OF OFFICE. The officers of this Corporation shall be appointed annually by the Board of Directors at the first meeting of the Board held after each annual meeting of the shareholders. If officers are not appointed at such meeting, such appointment shall occur as soon as possible thereafter. Each officer shall hold office until a successor shall have been appointed and qualified or until said officer's earlier death, resignation, or removal.

5.3 POWERS AND DUTIES. If the Board appoints persons to fill the following officer positions, such officers shall have the powers and duties set forth below:

(a) PRESIDENT. The President shall be the chief operating officer of this Corporation and, subject to the direction and control of the Board of Directors, shall have general supervision of the business of this Corporation. Unless a Chairman of the Board of Directors has been elected and is present, the President shall preside at meetings of the Board and shall be the chief executive officer of the Corporation. The President or any Vice-President or such other persons as are specifically authorized by vote of the Board shall sign all bonds, deeds, mortgages, and any other agreements, and such signatures shall be sufficient to bind this Corporation. The President shall perform such other duties as the Board of Directors shall designate.

(b) VICE-PRESIDENT. During the absence or disability of the President, the Vice-President (or in the event that there be more than one Vice-President, the Vice Presidents in the order designated by the Board of Directors) shall exercise all functions of the President, except as limited by resolution of the Board of Directors. Each Vice-President shall have such duties as may be assigned from time to time to such Vice President by the President or by the Board of Directors.

(c) SECRETARY. The Secretary shall:

(1) Prepare minutes of the directors, and shareholders, meetings and keep them in one or more books provided for

that purpose;

(2) Authenticate records of the Corporation;

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(3) See that all notices are duly given in accordance with the provisions of these Bylaws or as required by law;

(4) Be custodian of the corporate records and of the seal of the Corporation (if any), and affix the seal of the Corporation to all documents as may be required;

(5) Keep a register of the post office address of each shareholder which shall be furnished to the Secretary by such shareholder;

(6) Sign with the President, or a Vice-President, certificates for shares of the Corporation, the issuance of which shall have been authorized by resolution of the Board of Directors;

(7) Have general charge of the stock transfer books of the Corporation; and

(8) In general, perform all the duties incident to the office of Secretary and such other duties as from time to time may be assigned by the President or by the Board of Directors. In the Secretary's absence, an Assistant Secretary may perform the Secretary's duties.

(d) TREASURER. The Treasurer shall have the care and custody of the money, funds, and securities of the Corporation, shall account for the same, and shall have and exercise, under the supervision of the Board of Directors, all the powers and duties commonly incident to this office.

5.4 SALARIES AND CONTRACT RIGHTS. The salaries, if any, of the officers shall be fixed from time to time by the Board of Directors. The appointment of an officer shall not of itself create contract rights.

5.5 RESIGNATION OR REMOVAL. Any officer of this Corporation may resign at any time by giving written notice to the Board of Directors, or to any officer of this Corporation. Any such resignation is effective when the notice is delivered, unless the notice specifies a later date, and shall be without prejudice to the contract rights, if any, of such officer.

The Board of Directors, by majority vote, may remove any officer or agent appointed by it, with or without cause. The removal shall be without prejudice to the contract rights, if any, of the person so removed.

5.6 VACANCIES. If the office of any officer becomes vacant by any reason, the directors may appoint a successor or successors who shall hold office for the unexpired term.

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ARTICLE 6. CONTRACTS, LOANS,
CHECKS AND DEPOSITS

6.1 CONTRACTS. The Board of Directors may authorize any officer or officers, agent or agents, to enter into any contract or execute and deliver any instrument in the name of and on behalf of the Corporation, and such authority may be general or confined to specific instances.

6.2 LOANS. No loans shall be contracted on behalf of the Corporation and no evidences of indebtedness shall be issued in its name unless authorized by a resolution of the Board. Such authority may be general or confined to specific instances.

6.3 LOANS TO OFFICERS AND DIRECTORS. No loans shall be made by the Corporation to its officers or directors, unless first approved by the holders of two-thirds (2/3) of the shares, and no loans shall be made by the Corporation secured by its shares.

6.4 CHECKS, DRAFTS, ETC. All checks, drafts or other orders for the payment of money, notes or other evidences of indebtedness issued in the name of the Corporation, shall be signed by such officer or officers, agent or agents, of the

Corporation and in such manner as is from time to time determined by resolution of the Board of Directors.

6.5 DEPOSITS. All funds of the Corporation not otherwise employed shall be deposited from time to time to the credit of the Corporation in such banks, trust companies or other depositories as the Board of Directors may select.

ARTICLE 7. CERTIFICATES FOR SHARES
AND THEIR TRANSFER

7.1 ISSUANCE OF CERTIFICATES FOR SHARES. No shares of this Corporation shall be issued unless authorized by the Board of Directors. Such authorization shall include the maximum number of shares to be issued, the consideration to be received, and a statement that the Board considers the consideration to be adequate. Certificates for shares of the Corporation shall be in such form as is consistent with the provisions of the Washington Business Corporation Act, as amended, and shall state:

(a) The name of the Corporation and that the Corporation is organized under the laws of the State of Washington;

(b) The name of the person to whom issued; and

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(c) The number and class of shares and the designation of the series, if any, which such certificate represents.

7.2 TRANSFER OF STOCK. Shares of stock may be transferred by delivery of the certificate accompanied by either an assignment in writing on the reverse side of the certificate or by a written power of attorney to assign and transfer the same on the books of this Corporation. The shares shall be transferable on the books of this Corporation upon surrender thereof so assigned or endorsed.

7.3 LOSS OR DESTRUCTION OF CERTIFICATES. In case of the loss, mutilation, or destruction of a certificate of stock, a duplicate may be issued upon such terms as the Board of Directors shall prescribe.

7.4 RECORD DATE AND TRANSFER BOOKS. As set forth in Section 2.4 of these Bylaws, the Board of Directors may fix in advance a record date for any such determination of shareholders, such date in any case to be not more than sixty (60) days and, in case of a meeting of shareholders, not less than ten (10) days prior to the date on which the particular action, requiring such determination of shareholders, is to be taken.

7.5 VOTING RECORD. As set forth in Section 2.5 of these Bylaws, the officer or agent having charge of the stock transfer books for shares of this Corporation shall make at least ten (10) days before each meeting of shareholders a complete record of the shareholders entitled to vote at such meeting or any adjournment thereof, arranged in alphabetical order, with the address of and the number of shares held by each.

ARTICLE 8. BOOKS AND RECORDS

8.1 MINUTE BOOK, BOOKS OF ACCOUNTS, AND SHARE REGISTER. The Corporation:

(a) Shall keep as permanent records minutes of all meetings of its shareholders and the Board of Directors, a record of all actions taken by the shareholders or the Board without a meeting, and a record of all actions taken by a committee of the Board exercising the authority of the Board on behalf of the Corporation;

(b) Shall maintain appropriate accounting records;

(c) Or its agent shall maintain a record of the shareholders of the Corporation, in a form that permits preparation of a list of the names and addresses of all shareholders, in alphabetical order by class of shares showing the number and class of shares held by each; and

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(d) Shall keep a copy of the following records at its principal office:

(1) The Articles or Restated Articles of Incorporation and all amendments to them currently in effect;

(2) The Bylaws or Restated Bylaws and all amendments to them currently in effect;

(3) The minutes of all shareholders, meetings, and records of all actions taken by shareholders without a meeting, for the past three (3) years;

(4) Its financial statements for the past three (3) years, including balance sheets showing in reasonable detail the financial condition of the Corporation as of the close of each fiscal year, and an income statement showing the results of its operations during each fiscal year prepared on the basis of generally accepted accounting principles, or, if not, prepared on a basis explained therein;

(5) All written communications to shareholders generally within the past three (3) years;

(6) A list of the names and business addresses of its current directors and officers; and

(7) Its most recent annual report delivered to the Washington Secretary of State.

8.2 COPIES OF RESOLUTIONS. Any person dealing with the Corporation may rely upon a copy of any of the records of the proceedings, resolutions, or votes of the Board of Directors or shareholders, when certified by the President or Secretary of the Corporation.

ARTICLE 9. FISCAL YEAR AND FINANCIAL STATEMENTS

9.1 FISCAL YEAR. The fiscal year end of the Corporation shall be determined by resolution of the Board of Directors.

9.2 FINANCIAL STATEMENTS. Not later than four months after the close of each fiscal year, and in any event prior to the annual meeting of shareholders, the Corporation shall prepare:

(a) A balance sheet showing in reasonable detail the financial condition of the Corporation as of the close of its fiscal year; and

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(b) An income statement showing the results of the Corporation's operation during its fiscal year.

Such statements may be consolidated or combined statements of the Corporation and one or more of its subsidiaries, as appropriate. If financial statements are prepared by the Corporation for any purpose on the basis of generally accepted accounting principles, the annual statements must also be prepared, and disclose that they are prepared, on that basis. If financial statements are prepared only on a basis other than generally accepted accounting principles, they must be prepared, and disclose that they are prepared, on the same basis as other reports and statements prepared by the Corporation for the use of others.

Upon written request, the Corporation shall promptly mail to any shareholder a copy of the most recent balance sheet and income statement. If prepared for other purposes, the Corporation shall also furnish upon written request a statement of sources and applications of funds, and a statement of changes in shareholders, equity, for the most recent fiscal year.

If the annual financial statements are reported upon by a public accountant, the accountant's report must accompany them. If not, the statements must be accompanied by a statement of the President or the person responsible for the Corporation's accounting records:

(a) Stating the person's reasonable belief whether the statements were prepared on the basis of generally accepted accounting principles and, if not, describing the basis of preparation; and

(b) Describing any respects in which the statements were not prepared on a basis of accounting consistent with the basis used for statements prepared for the preceding year.

For purposes of this section, "shareholder" includes a beneficial owner whose shares are held in a voting trust or by a nominee on the beneficial owner's behalf.

ARTICLE 10. CORPORATE SEAL

The seal of this Corporation, if the Corporation has a corporate seal,

shall consist of the name of the Corporation, the state of its incorporation and the year of its incorporation.

ARTICLE 11. INDEMNIFICATION OF
DIRECTORS, OFFICERS, EMPLOYEES AND AGENTS

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11.1 DEFINITIONS. As used in this Article 11:

(a) "Act" means the Washington Business Corporation Act, now or hereafter in force.

(b) "Corporation" means this Corporation, and any domestic or foreign predecessor entity which, in a merger or other transaction, ceased to exist.

(c) "Director" means an individual who is or was a director of the Corporation or an individual who, while a director of the Corporation, is or was serving at the Corporation's request as a director, officer, partner, trustee, employee or agent of another foreign or domestic corporation, partnership, joint venture, trust, employee benefit plan, or other enterprise. "Director" includes, unless the context requires otherwise, the estate or personal representative of a director.

(d) "Expenses" include counsel fees.

(e) "Indemnitee" means an individual made a party to a proceeding because the individual is or was a director, officer, employee, or agent of the Corporation, and who possesses indemnification rights pursuant to the Articles of Incorporation, these Bylaws, or other corporate action. If the Articles of Incorporation so provide, the term shall also include, for officers, employees, or agents, service at the Corporation's request as a director, officer, partner, trustee, employee or agent of another foreign or domestic corporation, partnership, joint venture, trust, employee benefit plan, or other enterprise. "Indemnitee" shall also include the heirs, executors, and other successors in interest of such individuals.

(f) "Liability" means the obligation to pay a judgment, settlement, penalty, fine, including an excise tax assessed with respect to an employee benefit plan, or reasonable expenses incurred with respect to a proceeding.

(g) "Proceeding" means any threatened, pending, or completed action, suit, or proceeding, whether civil, criminal, administrative, or investigative, and whether formal or informal.

11.2 INDEMNIFICATION OF DIRECTORS, OFFICERS, EMPLOYEES AND

AGENTS. The Corporation shall indemnify and advance expenses to its directors, officers, agents, and employees, as follows:

(a) DIRECTORS AND OFFICERS. The Corporation shall indemnify its directors and officers to the full extent permitted by the Washington Business Corporation Act now or hereafter in force. However, such indemnity shall not apply on account of:

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(1) Acts or omissions of the director or officer finally adjudged to be intentional misconduct or a knowing violation of law;.

(2) Conduct of the director or officer finally adjudged to be in violation of RCW 23B.08.310; or

(3) Any transaction with respect to which it was finally adjudged that such director or officer personally received a benefit in money, property, or services to which the director was not legally entitled.

(b) EMPLOYEES-AND AGENTS WHO ARE NOT DIRECTORS. The Corporation shall indemnify and advance expenses to its employees and agents who are not directors to the same extent as directors and officers against liability arising out of a proceeding to which such individual was made a party because the individual is or was an employee or agent of the Corporation.

(c) ADVANCE FOR EXPENSES. The Corporation shall advance expenses incurred by such persons who are parties to a proceeding in advance of final disposition of the proceeding pursuant to the terms set forth in these Bylaws, or in a separate directors, resolution or contract.

11.3 PROCEDURE FOR SEEKING INDEMNIFICATION AND/OR ADVANCEMENT OF EXPENSES.

(a) NOTIFICATION AND DEFENSE OF CLAIM. Indemnitee shall promptly notify the Corporation in writing of any proceeding for which indemnification could be sought under this Article. In addition, Indemnitee shall give the Corporation such information and cooperation as it may reasonably require and as shall be within Indemnitee's power.

With respect to any such proceeding as to which Indemnitee has notified the Corporation:

(1) The Corporation will be entitled to participate therein at its own expense;

(2) Except as otherwise provided below, to the extent that it may wish, the Corporation, jointly with any other indemnifying party similarly notified, will be entitled to assume the defense thereof, with counsel satisfactory to Indemnitee. Indemnitee's consent to such counsel will not be unreasonably withheld.

After notice from the Corporation to Indemnitee of its election to assume the defense, the Corporation will not be liable to Indemnitee under this Article

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for any legal or other expenses subsequently incurred by Indemnitee in connection with such defense. However:

-- Indemnitee shall continue to have the right to employ its counsel in such proceeding, at Indemnitee's expense; and

-- If:

(i) The employment of counsel by Indemnitee has been authorized by the Corporation;

(ii) Indemnitee shall have reasonably concluded that there may be a conflict of interest between the Corporation and Indemnitee in the conduct of such defense; or

(iii) The Corporation shall not in fact have employed counsel to assume the defense of such proceeding, the fees and expenses of Indemnitee's counsel shall be at the expense of the Corporation.

The Corporation shall not be entitled to assume the defense of any proceeding brought by or on behalf of the Corporation or as to which Indemnitee shall reasonably have made the conclusion that a conflict of interest may exist between the Corporation and the Indemnitee in the conduct of the defense.

(b) INFORMATION TO BE SUBMITTED AND METHOD OF DETERMINATION AND AUTHORIZATION OF INDEMNIFICATION. For the purpose of pursuing rights to indemnification under this Article, the Indemnitee shall submit to the Board of Directors:

-- A sworn statement requesting indemnification; and

-- Reasonable evidence of all amounts for which indemnification is requested

(together, constitutes "Indemnification Statement").

Submission of an Indemnification Statement to the Board of Directors shall create a presumption that the Indemnitee is entitled to indemnification hereunder, and the Corporation shall, within sixty (60) calendar days thereafter, make payments requested in the Indemnification Statement to or for the benefit of the Indemnitee, unless

(i) Within such sixty (60) calendar day period it shall be determined by the Corporation that the Indemnitee is not entitled to indemnification under this Article;

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(ii) Such vote shall be based upon clear and convincing evidence (sufficient to rebut the foregoing presumption); and

(iii) The Indemnitee shall receive notice in writing of such determination, which notice shall disclose with particularity the evidence upon which the determination is based.

At the election of the President, the foregoing determination may be made either:

- The written consent of the shareholders owning a majority of the stock of the Corporation;
- A committee chosen by written consent of a majority of the directors of the Corporation, and consisting solely of two (2) or more directors not at the time parties to the proceeding; or
- As provided by RCW 23B.08.550, as amended.

Any determination that the Indemnitee is not entitled to indemnification, and any failure to make the payments requested in the Indemnification Statement shall be subject to judicial review by any court of competent jurisdiction.

(c) SPECIAL PROCEDURE REGARDING ADVANCE FOR EXPENSES. An indemnitee seeking payment of expenses in advance of a final disposition of the proceeding must furnish the Corporation, as part of the Indemnification Statement:

- (1) A written affirmation of the Indemnitee's

good faith belief that the Indemnitee has met the standard of conduct required to be eligible for indemnification; and

(2) A written undertaking, constituting an unlimited general obligation of the Indemnitee, to repay the advance if it is ultimately determined that the director did not meet the required standard of conduct.

If the Corporation determines that indemnification is authorized, the Indemnitee's request for advance of expenses shall be granted.

(d) SETTLEMENT. The Corporation is not liable to indemnify Indemnitee for any amounts paid in settlement of any proceeding without the Corporation's written consent. The Corporation shall not settle any proceeding in any manner which would impose any penalty or limitation on Indemnitee without

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Indemnitee's written consent. Neither the Corporation nor Indemnitee will unreasonably withhold its consent to a proposed settlement.

11.4 CONTRACT AND RELATED RIGHTS.

(a) CONTRACT RIGHTS. The right of an Indemnitee to indemnification and advancement of expenses is a contract right upon which the Indemnitee shall be presumed to have relied in determining to serve or to continue to serve in his or her capacity with the Corporation. Such right shall continue as long as Indemnitee shall be subject to any possible proceeding. Any amendment to or repeal of this Article shall not adversely affect any right or protection of an Indemnitee with respect to any acts or omissions of such Indemnitee occurring prior to such amendment-or repeal.

(b) OPTIONAL INSURANCE, CONTRACTS, AND FUNDING. The Corporation may:

(1) Maintain insurance, at its expense, to protect itself and any Indemnitee against any liability, whether or not the Corporation would have power to indemnify the individual against the same liability under RCW 23B.08.510 or .520, or successor statute;

(2) Enter into contracts with any Indemnitee in furtherance of this Article and consistent with the Act; and

(3) Create a trust fund, grant a security interest, or use other means (including without limitation a letter of credit) to ensure the payment of such amounts as may be necessary to effect indemnification as provided in this Article.

(c) SEVERABILITY. If any provision or application of this Article shall be invalid or unenforceable, the remainder of this Article and its remaining applications shall not be affected thereby, and shall continue in full force and effect.

(d) RIGHT OF INDEMNITEE TO BRING SUIT. If a claim under this Article:

- For indemnification is not paid in full by the Corporation within sixty (60) days; or
- For advancement of expenses is not paid in full by the Corporation within twenty (20) days,

after a written claim has been received by the Corporation, the Indemnitee may, but need not, at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim. To the extent successful in whole or in part, the Indemnitee shall

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be entitled to also be paid the expense (to be proportionately prorated if the Indemnitee is only partially successful) of prosecuting such claim.

Neither:

(1) The failure of the Corporation (including its Board of Directors, its shareholders, or independent legal counsel) to have made a determination prior to the commencement of such proceeding that indemnification of or reimbursement or advancement of expenses to the Indemnitee is proper in the circumstances, nor

(2) An actual determination by the Corporation (including its Board of Directors, its shareholders, or independent legal counsel) that the Indemnitee is not entitled to indemnification or to the reimbursement or advancement of expenses, shall be a defense to the proceeding or create a presumption that the Indemnitee is not so entitled.

11.5 EXCEPTIONS. Any other provision herein to the contrary notwithstanding, the Corporation shall not be obligated pursuant to the terms of these Bylaws to indemnify or advance expenses to Indemnitee with respect to any proceeding:

(a) CLAIMS INITIATED BY INDEMNITEE. Initiated or brought voluntarily by Indemnitee and not by way of defense, except with respect to

proceedings brought to establish or enforce a right to indemnification under these Bylaws or any other statute or law or as otherwise required under the statute; but such indemnification or advancement of expenses may be provided by the Corporation in specific cases if the Board of Directors finds it to be appropriate.

(b) LACK OF GOOD FAITH. Instituted by Indemnatee to enforce or interpret this Agreement, if a court of competent jurisdiction determines that each of the material assertions made by Indemnatee in such proceeding was not made in good faith or was frivolous.

(c) INSURED CLAIMS. For which any of the expenses or liabilities for indemnification is being sought have been paid directly to Indemnatee by an insurance carrier under a policy of officers' and directors' liability insurance maintained by the Corporation.

(d) PROHIBITED BY LAW. If the Corporation is prohibited by the Washington Business Corporation Act or other applicable law as then in effect from paying such indemnification and/or advancement of expenses. For example, the Corporation and Indemnatee acknowledge that the Securities and Exchange Commission ("SEC") has taken the position that indemnification is not possible for liabilities arising under certain federal securities laws, and federal legislation prohibits

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indemnification for certain ERISA violations. Indemnatee understands and acknowledges that the Corporation has undertaken or may be required in the future to undertake with the SEC to submit the question of indemnification to a court in certain circumstances for a determination of the Corporation's right under public policy to indemnify Indemnatee.

ARTICLE 12. AMENDMENTS TO BYLAWS

12.1 BY THE SHAREHOLDERS. These Bylaws may be amended or repealed by a majority of all of the votes entitled to be cast, at any annual or special meeting of the shareholders notice of the proposed amendment is contained in the notice of the meeting.

12.2 BY THE BOARD OF DIRECTORS. These Bylaws may be amended or repealed by the affirmative vote of a majority of the whole Board of Directors at any meeting of the Board, if notice of the proposed amendment is contained in the notice of the meeting. However, the directors may not modify the Bylaws fixing their qualifications, classifications, or term of office.

ARTICLE 13. RULES OF ORDER

The rules contained in the most recent edition of Robert's Rules of

Order, newly revised, shall govern all meetings of shareholders and directors where those rules are not inconsistent with the Articles of Incorporation, these Bylaws, or other rules of order of this Corporation.

ADOPTED by the Board of Directors July 30th, 1992.

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AMENDMENT TO BYLAWS
OF
TULLY'S COFFEE CORPORATION

Pursuant to Article 12.2 of the Bylaws of Tully's Coffee Corporation, as adopted by the Board of Directors July 30, 1992, the undersigned adopts the following amendments to the Bylaws.

Article 2.1 is hereby amended to read as follows:

2.1 ANNUAL MEETING. The annual meeting of the shareholders of this Corporation shall be held each year prior to the end of the calendar year in which the fiscal year ends for the purpose of electing directors and transacting such other business as may come before the meeting. The failure to hold an annual meeting at the time stated in these Bylaws does not affect the validity of any corporate action.

This amendment was adopted by vote of the Board of Directors at the meeting of October 23, 1997.

Tom T. O'Keefe
Chairman of the Board
President

Stephen R. Griffin
Vice President - Finance
Secretary

AIRPORT WAY LEASE

THIS LEASE AGREEMENT made this 9th day of November, 1994, by and between AIRPORT WAY RENTALS (the "Lessor") and TULLY'S COFFEE CORPORATION, a Washington Corporation (the "Lessee").

1. PREMISES. Lessor does hereby lease to Lessee those certain premises, to wit: approximately 8,400 square feet of office and warehouse as outlined on Exhibit A attached hereto (hereinafter called "Premises") being situated upon land known as 2010 Airport Way S., Seattle, WA. See Legal attached as Exhibit B.
2. TERM. This Lease shall be for a term of ten (10) years and 0 months commencing December 15, 1994 (the "Commencement Date") and terminating March 31 2005. Providing Lessee is not then in default, Lessor grants Lessee four (4) five (5) year options to renew providing Lessee gives Lessor written notice of its' intent to renew 180 days prior to the then current term.
3. RENT. Lessee covenants and agrees to pay Lessor at 2025 1st Ave., Suite 710, Seattle, Washington 98121, or to such other party or at such other place as Lessor may hereafter designate, monthly rent in advance without offset or deduction, on or before the first (1st) day of each month of the Lease term in the following amount:

<TABLE>

<S>	<C>
Months 1-3	\$0
Months 4-30	\$3,200
Months 31-60	\$3,600
Months 61-90	\$3,900
Months 91-120	\$4,200
Options	Market Rent

</TABLE>

4. USE. Lessee shall use the Premises for the purposes of anything related to Tully's Coffee office, roasting plant and warehouse operations and shall comply with all governmental laws, ordinances, regulations, orders and directives and insurance requirements applicable to Lessee's use of the Premises.
5. RULES AND REGULATIONS. Lessee agrees to comply with any Rules and Regulations attached hereto, 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

tenant(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 tenant shall not be deemed to be a waiver of same.

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6. 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 and maintain the Premises, including but not limited to storefronts, exterior doors and windows, tenant division walls and mechanical, electrical, sprinkler and other utility systems, 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 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; and remove ice and snow from entries and common areas immediately adjacent to the Premises. After reasonable notice from Lessee, Lessor shall repair the roof, exterior walls (excluding storefronts, doors and windows), foundations and common areas and facilities, if any, and the cost thereof shall be shared as provided in Section 8 hereof.
7. 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 control.
8. MONTHLY OPERATING EXPENSE ADJUSTMENTS. Lessee shall pay as additional monthly rent all expenses incurred by Lessor for operation of the land and building(s) described on Exhibits A and B hereto during the term or any extension hereof, as follows:
 - a) Real Estate taxes and 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, painting, upkeep and repair of building exterior, roofing, parking, landscaping, and all common areas and facilities.

Lessor shall from time to time estimate to Lessee its monthly expense based upon existing 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 refunded or credited to Lessee, at its option, and any deficiency shall be paid 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.

9. LESSOR'S RESERVATIONS. Lessor reserves the right without liability to Lessee: (a) to inspect the Premises, to show them to prospective tenants, and if they are vacated, to prepare

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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 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.

10. POSSESSION. If Lessor does not deliver possession of the Premises at the Commencement Date of the term of this Lease, Lessee may give Lessor written notice of its intention to cancel this Lease if possession is not delivered within ninety (90) days after receipt of such notice by Lessor. Lessor shall not be liable for any damages caused by failure to deliver possession of the Premises and Lessee shall not be liable for any rent until such time as Lessor delivers possession. A delay of possession shall not extend the term or the termination date. If Lessor offers possession of the Premises or any portion thereof prior to the Commencement Date of the term of this Lease, and if Lessee accepts such early possession, then both parties shall be bound by all of the covenants and terms contained herein during such period of early possession including the payment of rent which shall be pro-rated accordingly and for the number of days of such early possession.

11. 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 to occupy or use the Premises without Lessor's prior written consent. Lessor reserves the right to recapture 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 Five Hundred And No/100 Dollars (\$500.00) 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. A transfer by the present majority shareholders of ownership or control of a majority of the voting stock of corporate Lessee shall be deemed an assignment.

12. ALTERATIONS. After obtaining the prior written consent of Lessor, Lessee may make minor alterations, additions and improvements in said 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

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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 promptly 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.

13. 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. Lessor does not authorize or consent to the performance of any work, furnishing of material or supply of equipment incurred by or on behalf of Lessee prior to Lessee providing Lessor with the signed waiver of lien referred to above. 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.

14. 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 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.
15. 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 including but not limited to coverage for personal injuries with limits of not less than \$1,000,000 combined single limit for death, personal injury, and property damage, per occurrence, including Lessor as an additional insured. Such policies shall be endorsed to provide contractual liability insurance covering all liability assumed by Lessee under the provisions of this Lease and a copy of said endorsement will be delivered to Lessor prior to commencement of the Term.
 - (ii) Special cause of loss or "all risk" perils property insurance upon all building improvements and alterations on the Premises and upon Lessee's property, including but not limited to Fire and Extended Coverage, Vandalism and Malicious Mischief, in the amount of one hundred percent (100%) full replacement cost, including Lessor as an additional insured, as its interests may

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appear, with a loss payable clause in favor of Lessor to the extent of Lessor's interest in property damaged, except to the extent proceeds are required to be paid to holders of mortgages or trust deeds.

- 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

other party. Lessee shall furnish the other, prior to commencement of the Term, with insurance certificates and, upon request, copies of such policies required to be maintained hereunder.

16. INDEMNITY AGAINST LIABILITY FOR LOSS OR DAMAGE BY LESSEE.

- 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 (Lessee hereby acknowledges its immunity under the Washington State Industrial Insurance Act and hereby waives said immunity for purposes of this indemnification clause with respect to any claims by its employees) 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;
 - (ii) Except as otherwise provided in Subsection 16(E), 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 6, Maintenance.
- C. Lessee assumes all responsibility for and shall indemnify and hold harmless Lessor and affiliated companies against, and shall assume the defense of, any claims, suits or judgments brought against Lessor or its affiliated companies under the Federal Employer's Liability Act whenever employees of Lessee or any of its contractors, subcontractors, or agents claim or allege that they are employees of Lessor or its

they are furthering operational activities of Lessor or its affiliated companies.

- D. In the event any claim or suit is brought against Lessor or affiliated companies by employees of Lessee or any of contractors, subcontractors, or agents, under the theory outlined in the preceding paragraph, Lessor shall give Lessee reasonable notice in writing of the pendency of such claim or suit and, upon receipt of such notice, Lessee shall forthwith assume the defense of such claim or suit, and shall save and hold harmless Lessor and affiliated companies, from all loss, cost, expense and liability by reason thereof.
- E. Lessee assumes all responsibility for and shall indemnify, hold harmless and defend Lessor and affiliated companies, from and against any and all claims, demands, suits and actions whatsoever, including expense of investigation and litigation, for injury to or death of Lessee or any contractor, subcontractor, or agent or any of their respective employees, due to the condition or state of repair of the portions of the Premises which Lessee is responsible to maintain under this Lease or other property of Lessor upon, about or in connection with the terms of the Lease. Lessor assumes all responsibility for and shall indemnify, hold harmless and defend Lessee and affiliated companies, from and against any and all claims, demands, suits and actions whatsoever, including expense of investigation and litigation, for injury to or death of Lessee or any contractor, subcontractor, or agent or any of their respective employees, due to the condition or state of repair of the portions of the Premises for which Lessor is responsible to maintain under this Lease or other property of Lessor upon, about or in connection with the terms of this Lease.
- F. It is mutually understood and agreed that the assumption of liabilities and indemnification provided for in this Section shall survive any termination of this Lease.
- G. Notwithstanding the preceding provisions of this Section 16, 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 perils insured against, whether due to the negligence of either party, their agents, employees, contractors, invitees or otherwise.
17. DAMAGE OR DESTRUCTION. If the Premises or the building shall be damaged or destroyed by fire or other casualty, Lessor shall have the option either (a) to repair or rebuild within one hundred twenty (120) days, 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 thirty (30) 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

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of the Premises; provided that if the damage is due to the fault or neglect of Lessee, there shall be no abatement of rent.

18. 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.
19. 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, without, however, terminating Lessee's obligations under this Lease.
20. 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, then Lessor may, at its option, without further notice or demand:

- (a) Cure such breach for the account and at the expense of Lessee 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 Lessor may deem

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advisable. In either event, any monies 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, 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. The above remedies of Lessor are cumulative and in addition to RCW 59.12 or any other remedies now or hereafter allowed by law or elsewhere provided for in this Lease.

- 21. REMOVAL OF PROPERTY. Any property of Lessee removed by Lessor in accordance with Section 19 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.
- 22. 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 or, at Lessor's election, in King County, Washington.

23. 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 "extended coverage" insurance endorsement approved for use in the state in which the Premises are situated which occurs in, on or about the Premises, whether due to the negligence of either party, their agents, employees or otherwise.
24. HOLDING OVER. If Lessee, with the implied or 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 by a factor, the numerator of which shall be the applicable E.H. Boeckh & Associates Construction Index for the Seattle area most current preceding such expiration, and the denominator of which shall be the said Boeckh Index which was current at the date of the commencement of this Lease. In no event, however, shall the monthly rent be less than that in effect immediately preceding such expiration.

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25. SUBORDINATION AND ATTORNMENT; MORTGAGE 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 default at such time. Notwithstanding anything to the contrary in this Lease, the Lessor shall not be in default under any provision of this Lease unless written notice specifying such default is given to Lessor and to all persons who have an interest in all or part of the Premises as mortgagees and/or deed of trust beneficiaries, and the mortgagee or deed of trust holder shall have been provided thirty (30) days within which to cure or commence the cure of such default and thereafter diligently pursue such cure to completion including, if necessary to effectuate such cure, the commencement of judicial or non-judicial foreclosure proceedings.
- B. LESSEE'S CERTIFICATE. Lessee shall at any time and from time to time

upon not less than three (3) 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. Any such statement may be relied upon by any prospective purchaser or encumbrancer of all or any portion of the Premises of which the Premises are a part.

C. MORTGAGE 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 times 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 affect such cure),

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in which event this Lease shall not be terminated if such remedies are being so diligently pursued.

26. 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 which Lessee is entitled to remove and those alterations, additions, improvements or signs which may be required by Lessor to be removed, pursuant to Sections 12 and 14 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.

27. LATE PAYMENT AND INTEREST. If any amount due from Lessee is not received in the office of Lessor on or before the tenth (10th) 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 twelve percent (12%) from the date due or date of invoice, whichever is earlier, until paid.
28. NOTICE. Any notice required to be given by either party to the other pursuant to the provisions of this Lease or any law, present or future, shall be in writing, and shall be deemed to have been duly given or sent if either delivered personally or deposited in the United States Mail, postage prepaid, registered or certified, return receipt requested, addressed to the Lessor at 2025 1st Ave., Suite 710, Seattle, Washington or to Lessee at 2010 Airport Way S., Seattle, WA., or to such other address as either party may designate.
29. 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.
30. 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.

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31. 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 herein above provided.
32. 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.

LESSOR: AIRPORT WAY RENTALS

LESSEE: TULLY'S COFFEE CORPORATION

By: /s/ Arthur L. Wahl

By: /s/ Tom T. O'Keefe

Its: -----

Its: President

Date: 11-10-94

Date: 11/9/94

33. LEASE CANCELLATION RIGHT BY LESSEE. It is understood and agreed that so long as Lessee of the subject property is not in default, Lessee may cancel this lease at the end of the 39th month of the subject lease arrangement.

Any time after the 39th month, Lessee may present the Lessor with an intent to vacate letter, and along with that letter a cashier's check in the amount of one year's current prescribed rent plus taxes for that year, and agree to leave the premises within 60 days of said notice.

If Lessee is in default at the time of the notice, the cancellation will be accepted upon the cure of the default and the payment of the rent indicated above.

By: /s/ Arthur L. Wahl

Arthur L. Wahl

By: /s/ Tom T. O'Keefe

Tom T. O'Keefe

Date: 11-10-94

Date: 11/9/94

ARTICLES OF AMENDMENT AND RESTATEMENT OF THE
ARTICLES OF INCORPORATION
OF
TULLY'S COFFEE CORPORATION

Pursuant to the provisions of RCW 23B.10.070 of the Washington Business Corporation Act, the undersigned adopts and submits for filing the following Articles of Amendment and Restatement of the Articles of Incorporation of TULLY'S COFFEE CORPORATION (the "Corporation"). The original Articles of Incorporation of the Corporation were filed on July 16, 1992, and amended by Articles of Amendment to the Articles of Incorporation filed on July 26, 1993, April 10, 1995, June 8, 1998 and October 23, 1998.

FIRST: The name of the Corporation is Tully's Coffee Corporation.

SECOND: Effective upon the filing of these Articles of Amendment and Restatement with the Washington Secretary of State's Office, the original Articles of Incorporation of the Corporation and all amendments thereto shall be replaced and superseded by the following Amended and Restated Articles of Incorporation of the Corporation:

AMENDED AND RESTATED
ARTICLES OF INCORPORATION
OF
TULLY'S COFFEE CORPORATION

ARTICLE I. NAME

The name of the Corporation is TULLY'S COFFEE CORPORATION.

ARTICLE II. SHARES

2.1 AUTHORIZED CAPITAL.

The total number of shares which the Corporation is authorized to issue is 150,000,000, consisting of 120,000,000 shares of Common Stock without par value and 30,000,000 shares of Preferred Stock without par value. The Common Stock is subject to the rights and preferences of the Preferred Stock as hereinafter set forth.

2.2 ISSUANCE OF PREFERRED STOCK IN SERIES.

The Preferred Stock may be issued from time-to-time in one or more series in any manner permitted by law and the provisions of these Amended and Restated Articles of

Incorporation of the Corporation, as determined from time-to-time by the Board of Directors and stated in the resolution or resolutions providing for the issuance thereof, prior to the issuance of authority to fix and determine and to amend, subject to the provisions hereof, the designation, preferences, limitations and relative rights of the shares of any series that is wholly unissued or to be established. Unless otherwise specifically provided in the resolution establishing any series, the Board of Directors shall further have the authority, after the issuance of shares of a series whose number it has designated, to amend the resolution establishing such series to decrease the number of shares of that series, but not below the number of share of such series then outstanding.

2.3 DIVIDENDS.

The holders of shares of the Preferred Stock shall be entitled to receive dividends out of the funds of the corporation legally available therefor at the rate and at the time or times, whether cumulative or noncumulative, as may be provided by the Board of Directors in designating a particular series of Preferred Stock. If such dividends on the Preferred Stock shall be cumulative, then if dividends shall not have been paid, the deficiency shall be fully paid or the dividends declared and set apart for payment at such rate, but without interest on cumulative dividends, before any dividends on the Common Stock shall be paid or declared and set apart for payment. The holders of the Preferred Stock shall not be entitled to receive any dividends thereon other than the dividends referred to in this Section.

2.4 REDEMPTION.

The Preferred Stock may be redeemable at such price, in such amount, and at such time or times as may be provided by the Board of Directors in designating a particular series of Preferred Stock. In any event, such Preferred Stock may be repurchased by the Corporation to the extent legally permissible.

2.5 LIQUIDATION.

In the event of any liquidation, dissolution or winding up of the affairs of the Corporation, whether voluntary or involuntary, then, before any distribution shall be made to the holders of the Common Stock, the holders of the Preferred Stock at the time outstanding shall be entitled to be paid the preferential amount or amounts per share as may be provided by the Board of Directors in designating a particular series of Preferred Stock and dividends accrued thereon to the date of such payment. The holders of the Preferred Stock shall not be entitled to receive any distributive amounts referred to in this Section, unless otherwise provided by the Board of Directors in designating a particular series of Preferred Stock.

Shares of Preferred Stock may be convertible into Common Stock of the Corporation upon such terms and conditions, at such rate and subject to such adjustments as may be provided by the Board of Directors in designating a particular series of Preferred Stock.

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2.7 VOTING RIGHTS.

Holders of Preferred Stock shall have such voting rights as may be provided by the Board of Directors in designating a particular series of Preferred Stock.

2.8 SERIES A PREFERRED STOCK.

The rights, preferences, privileges and restrictions granted to and imposed on the Series A Preferred Stock, which shall consist of 17,500,000 shares are as set forth below:

a. DIVIDENDS. The holders of shares of Series A Preferred Stock shall share ratably (on an as-if converted to Common Stock basis) with the holders of the Corporation's Common Stock in any dividends, when and if such dividends are declared by the Corporation's Board of Directors.

b. LIQUIDATION. In the event of any liquidation, dissolution or winding up of the affairs of the Corporation (other than a deemed liquidation, dissolution and winding up in connection with a Sale Transaction as hereinafter defined), whether voluntary or involuntary, before any distribution shall be made to the holders of the Common Stock, the holders of the Series A Preferred Stock at the time outstanding shall be entitled to be paid an amount per share equal to \$2.50 (the "Original Series A Issue Price"), plus all declared but unpaid dividends (the "Series A Liquidation Preference"). If the assets and funds available for distribution to the holders of the Series A Preferred Stock are insufficient to permit the payment to such holders of the full Series A Liquidation Preference, then, subject to the rights of any series of Preferred Stock which may from time-to-time come into existence, the entire assets and funds of the corporation legally available for distribution shall be distributed ratably among the holders of the Series A Preferred Stock in proportion to the amount of such stock owned by each such holder. Assuming distribution of the full Series A Liquidation Preference, the holders of the Common Stock at the time outstanding shall be entitled to be paid an amount per share equal to \$2.25, plus all declared but unpaid dividends (the "Common Stock Liquidation Preference"). If, after full payment of the Series A Liquidation Preference, the assets and funds available for distribution to the holders of the Common Stock are insufficient to permit the payment to such holders of the full Common Stock Liquidation Preference, then the assets and funds of the

Corporation remaining after full payment of the Series A Liquidation Preference and legally available for distribution shall be distributed ratably among the holders of the Common Stock in proportion to the amount of such stock owned by each such holder. Assuming distribution of the full Series A Liquidation Preference and the full Common Stock Liquidation Preference, subject to the rights of any series of Preferred Stock which may from time-to-time come into existence, the remaining assets of the Corporation available for distribution to Shareholders shall be distributed among the holders of Series A Preferred Stock and Common Stock pro rata based on the number of shares of Common Stock held by each (assuming, for this purpose, full conversion of all such Series A Preferred Stock).

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Any (i) acquisition of the Corporation by means of a merger, consolidation or other form of corporate reorganization in which outstanding shares of the Corporation are exchanged for securities or other consideration issued, or caused to be issued, by the acquiring entity or its subsidiary (other than a mere reincorporation transaction or a merger which will not result in more than fifty percent (50%) of the Corporation's capital stock outstanding immediately after the effective date of such merger being owned of record or beneficially by persons other than the holders of such capital stock immediately prior to such merger), or (ii) sale, conveyance or transfer of all or substantially all of the assets of the Corporation (in either case, a "Sale Transaction") shall be deemed to be a liquidation, dissolution or winding up of the Corporation for purposes of this SECTION 2.8(b), and shall entitle the holders of the Series A Preferred Stock to receive at the closing of the Sale Transaction, in redemption of such Holders' Series A Preferred Stock, in cash, securities or other property (valued at the fair market value thereof as determined by the Board of Directors in good faith), in an amount per share (the "Series A Sale Transaction Liquidation Preference") equal to the Series A Liquidation Preference reduced by the amount by which the Common Stock Transaction Amount (as hereinafter defined) exceeds \$1.78 (as adjusted for stock splits, stock dividends, and the like); provided, however, that in no event shall the Series A Sale Transaction Liquidation Preference be less than \$1.78. For these purposes, (1) the term "Common Stock Transaction Amount" means the amount or value of consideration payable to the Corporation or the holders of the Corporation's outstanding equity securities with respect to the Sale Transaction divided by the aggregate number of shares of Common Stock then issued and outstanding and issuable on exercise or conversion of Eligible Common Stock Equivalents, and (ii) the term "Eligible Common Stock Equivalents" means options, warrants or other rights to acquire Common Stock and other debt or equity securities convertible into Common Stock which are then, or as a result of the Sale Transaction will become, exercisable or convertible at an exercise or conversion price of \$1.78 (as adjusted for stock splits, stock dividends and the like) or less.

Each holder of Series A Preferred Stock shall have the right to elect

the benefits of Section 2.8(c)(i) or other applicable conversion provisions in lieu of receiving payment in a liquidation, dissolution or winding up (or deemed liquidation, dissolution or winding up) of the Corporation pursuant to this SECTION 2.8(b).

c. CONVERSION. The holders of Series A Preferred Stock shall have conversion rights as follows:

i. OPTIONAL CONVERSION. Subject to subsection 2.8(c)(iii), each share of Series A Preferred Stock shall be convertible, at the option of the holder thereof, at any time after the date of issuance of such share at the office of the Corporation or any transfer agent for the Series A Preferred Stock, into such number of fully paid and nonassessable shares of Common Stock as is determined by dividing the sum of \$1.78 plus any declared but unpaid dividends on such share by the Conversion Price (as defined in subsection 2.8(c)(iv)) at the time then in effect for such share.

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ii. AUTOMATIC CONVERSION. Each share of Series A Preferred Stock shall automatically be converted into such number of fully paid and nonassessable shares of Common Stock as is determined by dividing the sum of \$1.78 plus any declared but unpaid dividends on such share by the Conversion Price at the time then in effect for such share immediately upon the earlier of (A) a "Qualified Public Offering" (as defined herein), or (B) the date upon which the Corporation obtains the consent of the holders of at least seventy-five percent (75%) of the then outstanding shares of Series A Preferred Stock (each, an "Automatic Conversion Event"). For purposes of this subsection 2.8(c)(ii), "Qualified Public Offering" shall mean the consummation of the Corporation's first sale of its Common Stock to the public pursuant to a registration statement on Form S-1 or Form SB-2 (or any successor form) under the Securities Act of 1933, as amended, at an aggregate price to the public of at least \$15 million and a per share price to the public of at least \$5.00 (as adjusted for stock splits, combinations, recapitalizations and the like). Upon the occurrence of an Automatic Conversion Event, the outstanding shares of Series A Preferred Stock shall be converted automatically without any further action by the holders of such shares and whether or not the certificates representing such shares are surrendered to the corporation or its transfer agent; provided, that the Corporation shall not be obligated to issue to any such holder certificates evidencing the shares of Common Stock issuable upon such conversion unless certificates evidencing the shares of Series A Preferred Stock are delivered to the Corporation or its transfer agent.

iii. MECHANICS OF OPTIONAL CONVERSION. The holder of any shares of Series A Preferred Stock may exercise the optional conversion right described in subsection 2.8(c)(i) by surrendering to the Corporation or any transfer agent of the corporation the certificate or certificates for the

shares to be converted, duly endorsed, at the office of the Corporation or of any transfer agent for the Series A Preferred Stock, accompanied by written notice specifying the number of shares to be converted and the name or names in which the certificate or certificates for shares of Common Stock are to be issued. The Corporation shall, as soon as practicable thereafter, issue and deliver at such office to such holder of Series A Preferred Stock, or to the nominee or nominees of such holder, a certificate or certificates for the number of shares of Common Stock to which such holder shall be entitled as aforesaid. Such conversion shall be deemed to have been made immediately prior to the close of business on the date of such surrender of the shares of Series A Preferred Stock to be converted, and the person or persons entitled to receive the shares of Common Stock issuable upon such conversion shall be treated for all purposes as the record holder or holders of such shares of Common Stock as of such date.

iv. CONVERSION PRICE ADJUSTMENTS OF SERIES A PREFERRED STOCK. The conversion price per share for shares of Series A Preferred Stock (the "Conversion Price") shall initially be \$1.78, and shall be subject to adjustment as provided below:

A. If the corporation should (I) declare a dividend or make a distribution on its Common Stock in shares of its Common Stock, (II) subdivide or reclassify its outstanding shares of Common Stock into a greater number of shares, or (III) combine or reclassify its outstanding shares of Common Stock into a smaller number of shares, the

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Conversion Price then in effect at the time of the record date for such dividend or distribution or the effective date of such subdivision, combination or reclassification shall be proportionately adjusted so that the holder of any shares of Series A Preferred Stock which may thereafter be surrendered for conversion or automatically converted shall be entitled to receive the number of shares of Common Stock which the holder would have owned or been entitled to receive had such Series A Preferred Stock been converted prior to such date. Successive adjustments to the Conversion Price shall be made whenever any event specified above shall occur.

B. (I) Upon each issuance by the Corporation of any Additional Stock (as defined in subsection 2.8(c)(iv)(C)), after the date upon which any shares of Series A Preferred Stock were first issued (the "Purchase Date") without consideration or for a consideration per share less than the Conversion Price for the Series A Preferred Stock in effect immediately prior to the issuance of such Additional Stock, the Conversion Price for the Series A Preferred Stock in effect immediately prior to each such issuance shall forthwith (except as otherwise provided in subsection 2.8(c)(iv)(B)(II)) be reduced to a per share amount determined by multiplying such Conversion Price by a fraction, the numerator of which shall

be the number of shares of Common Stock deemed outstanding (as defined in the following sentence) immediately prior to such issuance plus the number of shares of Common Stock which the aggregate consideration received by the corporation for such issuance of Additional Stock would purchase at such Conversion Price; and the denominator of which shall be the number of shares of Common Stock deemed outstanding (as defined in the following sentence) immediately prior to such issuance plus the number of shares of such Additional Stock. For the purposes of the preceding sentence, all outstanding shares of Common Stock and all shares of Common Stock issuable upon conversion of outstanding Preferred Stock or other convertible instruments or upon exercise of options or warrants or other rights to acquire Common Stock or convertible securities (and the resulting securities fully converted into shares of Common Stock, if so convertible) shall be "deemed outstanding."

(II) No adjustment of the Conversion Price for the Series A Preferred Stock shall be made in an amount less than one cent (\$.01) per share; provided that any adjustments which are not required to be made by reason of this sentence shall be carried forward and shall be either taken into account in any subsequent adjustment made prior to three years from the date of the event giving rise to the adjustment being carried forward, or shall be made at the end of three years from the date of the event giving rise to the adjustment being carried forward. Except to the limited extent provided for in subsections 2.8(c)(iv)(B)(V)(c) and (d) below, no adjustment of such Conversion Price pursuant to this subsection 2.8(c)(iv)(B) shall have the effect of increasing the Conversion Price above the Conversion Price in effect immediately prior to such adjustment.

(III) In the case of the issuance of Common Stock for cash, the consideration shall be deemed to be the amount of cash paid therefor, before deducting any reasonable discounts, commissions or other expenses allowed, paid or

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incurred by the Corporation for any underwriting or otherwise in connection with the issuance and sale thereof.

(IV) In the case of the issuance of the Common Stock for a consideration in whole or in part other than cash, the consideration other than cash shall be deemed to be the fair value thereof as determined in good faith by the Board of Directors. In the case of the issuance of Additional Stock that is sold together with other securities or assets of the corporation for a consideration which covers both the Additional Stock and such other securities or assets, the consideration per share for the Additional Stock will be that portion of the total consideration received by the Corporation which is allocated to the Additional Stock as determined in good faith by the Board.

(V) In the case of the issuance after the Purchase Date of options or warrants to purchase or rights to subscribe for Common Stock, securities by their terms convertible into or exchangeable for Common Stock or options to purchase or rights to subscribe for such convertible or exchangeable securities (other than the issuance of any options pursuant to the Option Plan defined in Section 2.8(c)(iv)(QIV)), such issuances shall be deemed issuances of "Additional Stock" and the following provisions shall apply for all purposes of this subsection 2.8(c)(iv)(B):

(a) The aggregate maximum number of shares of Common Stock deliverable upon exercise of such options or warrants to purchase or rights to subscribe for Common Stock shall be deemed to have been issued at the time such options, warrants or rights were issued and for a consideration equal to the consideration (determined in the manner provided in subsections 2.8(c)(iv)(B)(III) and (IV), if any, received by the Corporation upon the issuance of such options, warrants or rights plus the minimum exercise price provided in such options, warrants or rights for the Common Stock covered thereby.

(b) The aggregate maximum number of shares of Common Stock deliverable upon conversion of or in exchange for any such convertible or exchangeable securities or upon the exercise of options or warrants to purchase or rights to subscribe for such convertible or exchangeable securities and subsequent conversion or exchange thereof, shall be deemed to have been issued at the time such securities were issued or such options, warrants or rights were issued and for a consideration equal to the consideration, if any, received by the Corporation for any such securities and related options, warrants or rights (excluding any cash received on account of accrued interest or accrued dividends), plus the minimum additional consideration, if any, to be received by the Corporation upon the conversion or exchange of such securities or the exercise of any related options, warrants or rights (the consideration in each case to be determined in the manner provided in subsections 2.8(c)(iv)(B)(III) and (IV)).

(c) In the event of any change in the number of shares of Common Stock deliverable or in the consideration payable to the Corporation upon exercise of such options or rights or upon conversion of or in exchange for such

convertible or exchangeable securities, including, but not limited to, a change resulting from the anti-dilution provisions thereof, the Conversion Price of the Series A Preferred Stock, to the extent in any way affected by or computed using such options, rights or securities, shall be recomputed to reflect such change, but no further adjustment shall be made for the actual

issuance of Common Stock or any payment of such consideration upon the exercise of any such options or rights or the conversion or exchange of such securities.

(d) Upon the expiration of any such options or rights, the termination of any such rights to convert or exchange or the expiration of any options or rights related to such convertible or exchangeable securities, the Conversion Price of the Series A Preferred Stock, to the extent in any way affected by or computed using such options, rights or securities or options or rights related to such securities, shall be recomputed to reflect the issuance of only the number of shares of Common Stock (and convertible or exchangeable securities which remain in effect) actually issued upon the exercise of such options or rights, upon the conversion or exchange of such securities or upon the exercise of the options or rights related to such securities.

(e) The number of shares of Common Stock deemed issued and the consideration deemed paid therefor pursuant to subsections 2.8(c)(iv)(B)(V)(a) and (b) shall be appropriately adjusted to reflect any change, termination or expiration of the type described in either subsection 2.8(c)(iv)(B)(V)(c) or (d).

C. "Additional Stock" shall mean any shares of Common Stock issued (or deemed to have been issued pursuant to subsection 2.8(c)(iv)(B)(V)) by this corporation after the Purchase Date, other than:

(I) Common Stock issued pursuant to a transaction described in subsection 2.8(c)(iv)(A) hereof;

(II) up to four hundred thousand (400,000) shares of Common Stock (as adjusted for stock splits and the like) issued or issuable upon exercise of options to purchase Common Stock outstanding as of August 31, 1998;

(III) warrants to purchase up to four million (4,000,000) shares of Common Stock (as adjusted for stock splits and the like) sold and issued as a unit with the shares of Series A Preferred Stock and the shares of Common Stock issued or issuable upon exercise thereof; and

(IV) shares of Common Stock (as adjusted for stock splits and the like) issued or issuable upon exercise of options to purchase Common Stock granted or issued after August 31, 1998, pursuant to that certain 1994 Stock Option Plan adopted October 1994, by the Corporation (the "Option Plan") up to but not exceeding five percent (5%) of the aggregate number of: (i) the outstanding shares of Common Stock as of the date of these Articles of Amendment; and (ii) the outstanding shares of the Series A Preferred Stock.

v. OTHER DISTRIBUTIONS. In the event the Corporation shall declare a distribution to all holders of shares of its Common Stock which is payable in (A) securities other than its Common Stock, (B) evidences of indebtedness issued by Corporation or other persons, (C) assets (excluding cash dividends), or (D) options or rights, then, in each such case the holders of the Series A Preferred Stock shall be entitled to a proportionate share of any such distribution as though they were the holders of the number of shares of Common Stock of the Corporation into which their shares of Series A Preferred Stock are convertible as of the record date fixed for the determination of the holders of Common Stock of the Corporation entitled to receive such distribution.

vi. RECAPITALIZATIONS. If at any time or from time-to-time there shall be a recapitalization, reclassification or reorganization of the Common Stock such that the Common Stock shall be changed into the same or different number of shares of any class or series of stock (other than a subdivision or combination transaction provided for elsewhere in this SECTION 2.8(c)), provision shall be made so that the holders of the Series A Preferred Stock shall thereafter be entitled to receive upon conversion of the Series A Preferred Stock the number of shares of stock or other securities or property of the Corporation or otherwise, to which a holder of Common Stock deliverable upon conversion would have been entitled on such recapitalization, reclassification or reorganization. In any such case, appropriate adjustment shall be made in the application of the provisions of this SECTION 2.8(c) with respect to the rights of the holders of the Series A Preferred Stock after the recapitalization, reorganization or reclassification, to the end that the provisions of this SECTION 2.8(c) (including adjustment of the Conversion Price then in effect and the number of shares purchasable upon conversion of the Series A Preferred Stock) shall be applicable after that event as nearly equivalent as may be practicable.

vii. NO IMPAIRMENT. The Corporation will not, by amendment of its Articles of Incorporation or through any reorganization, recapitalization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Corporation, but will at all times in good faith assist in the carrying out of all the provisions of this SECTION 2.8(c) and in the taking of all such action as may be necessary or appropriate in order to protect the conversion rights of the holders of the Series A Preferred Stock against impairment.

viii. NO FRACTIONAL SHARES AND CERTIFICATE AS TO ADJUSTMENTS.

A. No fractional shares shall be issued

upon conversion of the Series A Preferred Stock, and the number of shares of Common Stock to be issued shall be rounded to the nearest whole share. Whether or not fractional shares are issuable upon such conversion shall be determined on the basis of the total number of shares of Series A Preferred Stock the holder is at the time converting into Common Stock and the number of shares of Common Stock issuable upon such aggregate conversion.

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B. Upon the occurrence of each adjustment or readjustment of the Conversion Price of Series A Preferred Stock pursuant to this SECTION 2.8(c), the Corporation, at its expense, shall promptly compute such adjustment or readjustment in accordance with the terms hereof and prepare and furnish to each holder of Series A Preferred Stock a certificate setting forth such adjustment or readjustment and showing in detail the facts upon which such adjustment or readjustment is based. The Corporation shall, upon the written request at any time of any holder of Series A Preferred Stock, furnish or cause to be furnished to such holder a like certificate setting forth (I) such adjustment and readjustment, (II) the Conversion Price at the time in effect, and (III) the number of shares of Common Stock and the amount, if any, of other property which at the time would be received upon the conversion of a share of Series A Preferred Stock.

ix. NOTICES OF RECORD DATE. In the event of any taking by the Corporation of a record of the holders of any class of securities for the purpose of determining the holders thereof who are entitled to receive any dividend (other than a cash dividend) or other distribution, any right to subscribe for, purchase or otherwise acquire any shares of stock of any class or any other securities or property, or to receive any other right, this corporation shall mail to each holder of Series A Preferred Stock, at least twenty (20) days prior to the date specified therein, a notice specifying the date on which any such record is to be taken for the purpose of such dividend, distribution or right, and the amount and character of such dividend, distribution or right.

x. RESERVATION OF STOCK ISSUABLE UPON CONVERSION. The Corporation shall at all times reserve and keep available out of its authorized but unissued shares of Common Stock solely for the purpose of effecting the conversion of the shares of the Series A Preferred Stock such number of its shares of Common Stock as shall from time-to-time be sufficient to effect the conversion of all outstanding shares of the Series A Preferred Stock; and if at any time the number of authorized but unissued shares of Common Stock shall not be sufficient to effect the conversion of all then outstanding shares of the Series A Preferred Stock, in addition to such other remedies as shall be available to the holder of such Series A Preferred Stock, the Corporation will take such corporate action as may, in the opinion of its counsel, be necessary to increase its authorized but unissued shares of Common Stock to such number of shares as shall be sufficient for such

purposes.

xi. NOTICES. Any notice required by the provisions of this SECTION 2.8(c) to be given to the holders of shares of Series A Preferred Stock shall be deemed given if deposited in the United States mail, postage prepaid, and addressed to each holder of record at the address appearing on the books of the Corporation for each holder.

d. VOTING RIGHTS. Each share of Series A Preferred Stock is entitled to cast one vote for each share of Common Stock into which such share is then convertible on all matters submitted to a vote of the Shareholders of the Corporation, except in connection with the election of Directors of the Corporation, in which case all Shareholders (Preferred and Common) may cumulate their votes and cast them all for one or more of the Director candidates, provided, however, that so long as shares of Series A Preferred Stock are

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outstanding, the Corporation shall not without first obtaining the approval (by vote or written consent) of the holders of at least a majority of the then outstanding shares of Series A Preferred Stock:

(i) alter or change the rights, preferences or privileges of the shares of Series A Preferred Stock so as to affect adversely the shares;

(ii) increase the authorized number of shares of Series A Preferred Stock; or

(iii) create any new class or series of stock or any other securities convertible into equity securities of the Corporation having a preference over or being on parity with the Series A Preferred Stock with respect to voting, dividends or upon liquidation.

ARTICLE III. REGISTERED OFFICE AND AGENT

The registered agent and registered office of the Corporation re as follows:.

Registered Agent

Registered Office, Street and Mailing Address

Washington Corporate Services, Inc.

701 Fifth Avenue
2250 Columbia Center
Seattle, Washington 98104

ARTICLE IV. DIRECTORS

The number of Directors of this Corporation shall be fixed by the Bylaws and may be increased or decreased from time-to-time in the manner specified therein.

ARTICLE V. LIMITATION OF LIABILITY

A Director of this Corporation shall not be personally liable to this Corporation or its Shareholders for monetary damages for conduct as a Director, except for:

- a. Acts or omissions involving intentional misconduct by the Director or a knowing violation of law by the Director;
- b. Conduct violating RCW 23B.08.310 (which involves certain distributions by the Corporation); or

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- c. Any transaction from which the Director will personally receive a benefit in money, property or services to which the Director is not legally entitled.

If the Washington Business Corporation Act is amended to authorize corporate action further eliminating or limiting the personal liability of Directors, then the liability of a Director of this Corporation shall be eliminated or limited to the fullest extent permitted by the Washington Business Corporation Act, as so amended. Any repeal or modification of the foregoing paragraph by the Shareholders of this Corporation shall not adversely affect any right or protection of a Director of this Corporation with respect to any acts or omissions of such Director occurring prior to such repeal or modification.

ARTICLE VI. INDEMNIFICATION

This Corporation shall indemnify and advance expenses to its Directors, Officers, Agents and Employees, as follows:

6.1 DIRECTORS AND OFFICERS.

This Corporation shall indemnify its Directors and Officers to the full extent permitted by the Washington Business Corporation Act now or hereafter in force. However, such indemnity shall not apply on account of: (1) acts or omissions of the Director or Officer finally adjudged to be intentional

misconduct or a knowing violation of law; (2) conduct of the Director finally adjudged to be in violation of RCW 23B.08.310; or (3) any transaction with respect to which it was finally adjudged that such Director or Officer personally received a benefit in money, property or services to which the Director or Officer was not legally entitled.

This Corporation shall advance expenses for such persons pursuant to the terms set forth in the Bylaws, or in a separate Directors' Resolution or Contract.

6.2 EMPLOYEES AND AGENTS WHO ARE NOT DIRECTORS OR OFFICERS.

This Corporation shall indemnify and advance expenses to its employees and agents who are not Directors or Officers to the extent authorized by the Board of Directors or the Bylaws, and consistent with the law.

6.3 IMPLEMENTATION.

The Board of Directors may take such action as is necessary to carry out these indemnification and expense advancement provisions. The Board is expressly empowered to adopt, approve and amend from time-to-time such Bylaws, resolutions, contracts or further

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indemnification and expense advancement arrangements as may be permitted by law, implementing these provisions. Such Bylaws, resolutions, contracts or further arrangements shall include, but not be limited to, implementing the manner in which determinations as to any indemnity or advancement of expenses shall be made.

6.4 SURVIVAL OF INDEMNIFICATION RIGHTS.

No amendment or repeal of this Article shall apply to or have any effect on any right to indemnification provided hereunder with respect to acts or omissions occurring prior to such amendment or repeal.

ARTICLE VII. PREEMPTIVE RIGHTS

Preemptive rights shall not exist with respect to shares of stock or securities convertible into shares of stock of the Corporation.

ARTICLE VIII. CUMULATIVE VOTING

The Shareholders of the Corporation shall not have the right to cumulate their votes in the election of Directors.

DATED: July ____, 1999.

TULLY'S COFFEE CORPORATION

By _____
Tom T. O'Keefe
Its Chairman and Chief Executive Officer

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PART A

THIS BUSINESS LOAN AGREEMENT ("AGREEMENT") IS MADE BETWEEN TULLY'S COFFEE CORPORATION ("BORROWER") AND BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION (FORMERLY KNOWN AS BANK OF AMERICA NW, N.A.) DOING BUSINESS AS SEAFIRST BANK (INCLUDING ITS SUCCESSORS AND/OR ASSIGNS "BANK") WITH RESPECT TO THE FOLLOWING:

1) LINE OF CREDIT. Subject to the terms of this Agreement, Bank will make loans to Borrower under a revolving line of credit as follows:

(a) TOTAL AMOUNT AVAILABLE: \$3,000,000; Three Million Dollars. Subject to the provisions of any accounts receivable and/or inventory borrowing plan required herein; it is expressly understood that collateral ineligible for borrowing purposes is determined solely by Bank. This Line of Credit replaces \$2,000,000 Line of Credit expiring August 31, 1997 under Business Loan Agreement dated March 21, 1996 and \$500,000 Line of Credit expiring March 31, 1997 under Borrowing Agreement dated November 1, 1996.

(b) AVAILABILITY PERIOD: Advances are available from December 15, 1996 through March 31, 2000. However, if loans are made and/or new promissory notes executed after the termination date, such advances will be subject to the terms of this Agreement until repaid in full unless a written statement signed by Bank and Borrower provides otherwise, or a replacement loan agreement is executed. The making of such additional advances alone, however, does not constitute a commitment by Bank to make any further advances or extend the availability period.

(c) INTEREST RATE: Bank's publicly announced prime rate plus .50 percent of the principal per annum, adjusted on the date of any Bank prime rate change.

(d) INTEREST RATE BASIS: All interest will be calculated on the basis of actual number of days elapsed over a year of 360 days.

(e) REPAYMENT: At the times and in amounts as set forth in note(s) required under Part B Article 1 of this Agreement.

(f) LOAN FEE: .50% annual fee on the total commitment amount, payable each April 1st in advance.

(g) COLLATERAL: This revolving line of credit shall be secured by a security interest, which is hereby granted, in favor of Bank on the following collateral: first security interest in all assets of Borrower.

PART B

1. PROMISSORY NOTE(S). All loans shall be evidenced by promissory notes in a form and substance satisfactory to Bank.
2. CONDITIONS TO AVAILABILITY OF LOAN/LINE OF CREDIT. Before Bank is obligated to disburse/make any advance, or at any time thereafter which Bank deems necessary and appropriate, Bank must receive all of the following, each of which must be in form and substance satisfactory to Bank ("loan documents"):
 - 2.1 Original, executed promissory note(s);
 - 2.2 Original executed security agreement(s) and/or deed(s) of trust covering the collateral described in Part A;
 - 2.3 All collateral described in Part A in which Bank wishes to have a possessory security interest;
 - 2.4 Financing statement(s) executed by Borrower;
 - 2.5 Such evidence that Bank may deem appropriate that the security interests and liens in favor of Bank are valid, enforceable, and prior to the rights and interests of others except those consented to in writing by Bank;
 - +2.6 The following guaranty(ies) in favor of the Bank: Tom T. O'Keefe,

threatened, before any court or government agency, and no other event has occurred which may have a material adverse effect on Borrower's financial condition;

- 3.7 There is no event which is, or with notice or lapse of time, or both, would be, an Event of Default (as defined in Section 7) under this Agreement;
- 3.8 Borrower has exercised due diligence in inspecting Borrower's properties for hazardous wastes and hazardous substances. Except as otherwise previously disclosed and acknowledged to Bank in writing: (a) during the period of Borrower's ownership of Borrower's properties, there has been no use, generation, manufacture, storage, treatment, disposal, release or threatened release of any hazardous waste or hazardous substance by any person in, on, under or about any of Borrower's properties; (b) Borrower has no actual or constructive knowledge that there has been any use, generation, manufacture, storage, treatment, disposal, release or threatened release of any hazardous waste or hazardous substance by any person in, on, under or about any of Borrower's properties by any prior owner or occupant of any of Borrower's properties; and (c) Borrower has no actual or constructive notice of any actual or threatened litigation or claims of any kind by any person relating to such matters. The terms "hazardous waste(s)," "hazardous substance(s)," "disposal," "release," and "threatened release" as used in this Agreement shall have the same meanings as set forth in the Comprehensive Environment Response, Compensation, and Liability Act of 1980, as amended, 42 U.S.C. Section 9601, et seq., the Superfund Amendments and Reauthorization Act of 1986, as amended, Pub. L. No. 99-499, the Hazardous Materials Transportation Act, as amended, 49 U.S.C. Section 1801, et seq., the Resource Conservation and Recovery Act, as amended, 49 U.S.C. Section 6901, et seq., or other applicable state or federal laws, rules or regulations adopted pursuant to any of the foregoing.
- +3.9 Each chief place of business of Borrower, and the office or offices where Borrower keeps its records concerning any of the collateral, is located at: 2010 Airport Way S., Seattle, WA 98134.

4. AFFIRMATIVE COVENANTS. So long as credit granted under this Agreement is available and until full and final payment of all sums outstanding under this Agreement and promissory note(s) Borrower will:

- +4.1 Use the proceeds of the loans covered by this Agreement only in connection with Borrower's business activities and exclusively for the following purposes: working capital and to fund retail stores.
- +4.2 Maintain current assets in an amount at least equal to N/A times current liabilities, and not less than \$ N/A. Current assets and current liabilities shall be determined in accordance with generally accepted accounting principles and practices, consistently applied;
- +4.3 Maintain a tangible net worth of at least \$250,000 at all times, increasing to \$2,500,000 by March 31, 2000, and not permit Borrower's total indebtedness which is not subordinated in a manner satisfactory to Bank to exceed N/A times Borrower's tangible net worth. "Tangible net worth" means the excess of total assets over total liabilities, excluding, however, from the determination of total assets (a) all assets which should be classified as intangible assets such as goodwill, patents, trademarks, copyrights, franchises, and deferred charges (including unamortized debt discount and research and development costs), (b) treasury stock, (c) cash held in a sinking or other similar fund established for the purpose of redemption or other retirement of capital stock, (d) to the extent not already deducted from total assets, reserves for depreciation, depletion, obsolescence or amortization of properties and other reserves or appropriations of

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retained earnings which have been or should be established in connection with the business conducted by the relevant corporation, and (e) any revaluation or other write-up in book value of assets subsequent to the fiscal year of such corporation last ended at the date of this Agreement;

- +4.4 Upon request Borrower agrees to insure and to furnish Bank with evidence of insurance covering the life of Borrower (if an individual) or the lives of designated partners or officers of

Borrower (if a partnership or corporation) in the amounts stated below. Borrower shall take such actions as are reasonably requested by Bank, such as assigning the insurance policies to Bank or naming Bank as beneficiary and obtaining the insurer's acknowledgment thereof, to provide that in the event of the death of any of the named insured the policy proceeds will be applied to payment of Borrower's obligations owing to Bank;

Name: N/A Amount:

Name: Amount:

- +4.5 Promptly give written notice to Bank of: (a) all litigation and claims made or threatened affecting Borrower where the amount is \$50,000 or more; (b) any substantial dispute which may exist between Borrower and any governmental regulatory body or law enforcement authority; (c) any Event of Default under this Agreement or any other agreement with Bank or any other creditor or any event which become an Event of Default; and (d) any other matter which has resulted or might result in a material adverse change in Borrower's financial condition or operations;
- +4.6 Borrower shall as soon as available, but in any event within 120 days following the end of each Borrower's fiscal years and within 45 days following the end of each month provide to Bank, in a form satisfactory to Bank (including audited statements if required at any time by Bank), such financial statements and other information respecting the financial condition and operations of Borrower as Bank may reasonably request;
- +4.6a Updated personal financial statements for Guarantors to be provided annually or upon request;
- 4.7 Borrower will maintain in effect insurance with responsible insurance companies in such amounts and against such risks as is customarily maintained by persons engaged in businesses similar to that of Borrower and all policies covering property given as security for the loans shall have loss payable clauses in favor of Bank. Borrower agrees to deliver to Bank such evidence of insurance as Bank may reasonably require and, within thirty (30) days after notice from Bank, to obtain such additional insurance with an insurer satisfactory to the Bank;
- 4.8 Borrower will pay all indebtedness taxes and other obligations for which the Borrower is liable or to which its income or property is subject before they shall become delinquent, except any which is being contested by the Borrower in good faith;
- 4.9 Borrower will continue to conduct its business as presently constituted, and will maintain and preserve all rights, privileges and franchises now enjoyed, conduct Borrower's business in an orderly, efficient and customary manner, keep all Borrowers properties in good working order and condition, and from time to time make all needed repairs, renewals or replacements so that the efficiency of Borrower's properties shall be fully maintained and preserved.
- 4.10 Borrower will maintain adequate books, accounts and records and prepare all financial statements required hereunder in accordance with generally accepted accounting principles and practices consistently applied, and in compliance with the regulations of any governmental regulatory body having jurisdiction over Borrower or Borrower's business;
- 4.11 Borrower will permit representatives of Bank to examine and make copies of the books and records of Borrower and to examine the collateral of the Borrower at reasonable times;
- 4.12 Borrower will perform, on request of Bank, such acts as may be necessary or advisable to perfect any lien or security interest provided for herein or otherwise carry out the intent of this Agreement;
- 4.13 Borrower will comply with all applicable federal, state and municipal laws, ordinances, rules and regulations relating to its properties, charters, businesses and operations, including compliance with all minimum funding and other requirements related to any of Borrower's employee benefit plans;
- 4.14 Borrower will permit representatives of Bank to enter onto Borrower's properties to inspect and test Borrower's properties as Bank, in its sole discretion, may deem appropriate to determine Borrower's compliance with section 5.8 of this Agreement; provided

however, that any such inspections and tests shall be for Bank's sole benefit and shall not be construed to create any responsibility or liability on the part of Bank to Borrower or to any third party.

5. NEGATIVE COVENANTS. So long as credit granted under this Agreement is available and until full and final payment of all sums outstanding under this Agreement and promissory note(s):

- +5.1 Borrower will not, during any fiscal year, expend or incur in the aggregate more than \$ N/A for fixed assets, nor more than \$ N/A for any single fixed asset whether or not payable that fiscal year or later under any purchase agreement or lease;
- +5.2 Borrower will not, without the prior written consent of Bank, purchase or lease under an agreement for acquisition exceeding \$250,000, incur any other indebtedness for borrowed money exceeding \$250,000, mortgage, assign, or otherwise encumber any of Borrower's assets, nor sell, transfer or otherwise hypothecate any such assets except in the ordinary course of business. Borrower shall not guaranty, endorse, co-sign, or otherwise become liable upon the obligations of others, except by the endorsement of negotiable instruments for deposit or collection in the ordinary course of business. For purposes of this paragraph, the sale or assignment of accounts receivable, or the granting of a security interest therein, shall be deemed the incurring of indebtedness for borrowed money;

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- +5.3 The total of salaries, withdrawals, or other forms of compensation, whether paid in cash or otherwise, by Borrower shall not exceed the following amounts for the persons indicated, nor will amounts in excess of such limits be paid to any other person:

Name: N/A Amount:

Name: Amount:

- 5.4 Borrower will not, without Bank's prior written consent, declare any dividends on shares of its capital stock, or apply any of its assets to the purchase, redemption or other retirement of such shares, or otherwise amend its capital structure;
- +5.5 Borrower will not make any loan or advance to any person(s) or purchase or otherwise acquire the capital stock, assets or obligations of, or any interest in, any person, except: (a) commercial bank time deposits maturing within one year, (b) marketable general obligations of the United States or a State, or marketable obligations fully guaranteed by the United States, (c) short-term commercial paper with the highest rating of a generally recognized rating service, (d) other investments related to the Borrower's business which, together with such other investments now outstanding, do not in the aggregate exceed the sum of \$500,000 at any time;
- 5.6 Borrower will not liquidate or dissolve or enter into any consolidation, merger, pool, joint venture, syndicate or other combination, or sell, lease, or dispose of Borrower's business as a whole or such as in the opinion of Bank constitute a substantial portion of Borrower's business or assets;
- 5.7 Borrower will not engage in any business activities or operations substantially different from or unrelated to present business activities or operations; and
- 5.8 Borrower, and Borrower's tenants, contractors, agents or other parties authorized to use any of Borrower's properties, will not use, generate, manufacture, store, treat, dispose of, or release any hazardous substance or hazardous waste in, on, under or about any of Borrower's properties; and any such activity shall be conducted in compliance with all applicable federal, state and local laws, regulations and ordinances, including without limitation those described in section 3.8.

6. WAIVER, RELEASE AND INDEMNIFICATION. Borrower hereby: (a) releases and

waives any claims against Bank for indemnity or contribution in the event Borrower becomes liable for cleanup or other costs under any of the applicable federal, state or local laws, regulations or ordinances, including without limitation those described in section 3.8, and (b) agrees to indemnify and hold Bank harmless from and against any and all claims, losses, liabilities, damages, penalties and expenses which Bank may directly or indirectly sustain or suffer resulting from a breach of (i) any of Borrower's representations and warranties with respect to hazardous wastes and hazardous substances contained in section 3.8, or (ii) section 5.8. The provisions of this section 6 shall survive the full and final payment of all sums outstanding under this Agreement and promissory notes and shall not be affected by Bank's acquisition of any interest in any of the Borrower's properties, whether by foreclosure or otherwise.

7. EVENTS OF DEFAULT. The occurrence of any of the following events ("Events of Default") shall terminate any and all obligations on the part of Bank to make or continue the loan and/or line of credit and, at the option of Bank, shall make all sums of interest and principal outstanding under the loan and/or line of credit immediately due and payable, without notice of default, presentment or demand for payment, protest or notice of non payment or dishonor, or other notices or demands of any kind or character, all of which are waived by Borrower, and Bank may proceed with collection of such obligations and enforcement and realization upon all security which it may hold and to the enforcement of all rights hereunder or at law:
- 7.1 The Borrower shall fail to pay when due any amount payable by it hereunder on any loans or notes executed in connection herewith;
 - 7.2 Borrower shall fail to comply with the provisions of any other covenant, obligation or term of this Agreement for a period of (15) days after the earlier of written notice thereof shall have been given to the Borrower by Bank or Borrower or any Guarantor has knowledge of an Event of Default or an event that can become an Event of Default;
 - 7.3 Borrower shall fail to pay when due any other obligation for borrowed money, or to perform any term or covenant on its part to be performed under any agreement relating to such obligation or any such other debt shall be declared to be due and payable and such failure shall continue after the applicable grace period;
 - 7.4 Any representation or warranty made by Borrower in this Agreement or in any other statement to Bank shall prove to have been false or misleading in any material respect when made;
 - 7.5 Borrower makes an assignment for the benefit of creditors, files a petition in bankruptcy, is adjudicated insolvent or bankrupt, petitions to any court for a receiver or trustee for Borrower or any substantial part of its property, commences any proceeding relating to the arrangement, readjustment, reorganization or liquidation under any bankruptcy or similar laws, or if there is commenced against Borrower any such proceedings which remain undismitted for a period of thirty (30) days or, if Borrower by any act indicates its consent or acquiescence in any such proceeding or the appointment of any such trustee or receiver;
 - +7.6 Any judgment attaches against Borrower or any of its properties for an amount in excess of \$ 50,000 which remains unpaid, unstayed on appeal, unbonded, or undismitted for a period of thirty (30) days;
 - 7.7 Loss of any required government approvals, and/or any governmental regulatory authority takes or institutes action which, in the opinion of the Bank, will adversely affect Borrower's condition, operations or ability to repay the loan and/or line of credit;
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- 7.8 Failure of Bank to have a legal, valid and binding first lien on, or a valid and enforceable prior perfected security interest in, any property covered by any deed of trust or security agreement required under this Agreement;
 - 7.9 Borrower dies, becomes incompetent, or ceases to exist as a going concern;
 - 7.10 Any of the preceding events occur with respect to any guarantor of credit under this Agreement, or such guarantor dies or becomes incompetent, unless the obligations arising under the guaranty and related agreements have been unconditionally assumed by the guarantor's estate in a manner satisfactory to Bank.
8. SUCCESSORS; WAIVERS. Notwithstanding the Events of Default above, this

Agreement shall be binding upon and inure to the benefit of Borrower and Bank, their respective successors and assigns, except that Borrower may not assign its rights hereunder. No consent or waiver under this Agreement shall be effective unless in writing and signed by the Bank and shall not waive or affect any other default, whether prior or subsequent thereto, and whether of the same or different type. No delay or omission on the part of the Bank in exercising any right shall operate as a waiver of such right or any other right.

9. ARBITRATION.

9.1 At the request of either Bank or Borrower any controversy or claim between the Bank and Borrower, arising from or relating to this Agreement or any Loan Document executed in connection with this Agreement or arising from any alleged tort shall be settled by arbitration in King County Washington. The United States Arbitration Act will apply to the arbitration proceedings which will be administered by the American Arbitration Association under its commercial rules of arbitration except that unless the amount of the claim(s) being arbitrated exceeds \$5,000,000 there shall be only one arbitrator. Any controversy over whether an issue is arbitrable shall be determined by the arbitrator(s). Judgment upon the arbitration award may be entered in any court having jurisdiction. The institution and maintenance of any action for judicial relief or pursuit of a provisional or ancillary remedy shall not constitute a waiver of the right of either party, including plaintiff, to submit the controversy or claim to arbitration if such action for judicial relief is contested.

For purposes of the application of the statute of limitations the filing of an arbitration as provided herein is the equivalent of filing a lawsuit and the arbitrator(s) will have the authority to decide whether any claim or controversy is barred by the statute of limitations, and if so, to dismiss the arbitration on that basis. The parties consent to the joinder in the arbitration proceedings of any guarantor, hypothecator or other party having an interest related to the claim or controversy being arbitrated.

9.2 Notwithstanding the provisions of Section 9.1, no controversy or claim shall be submitted to arbitration without the consent of all parties if at the time of the proposed submission, such controversy or claim arises from or relates to an obligation secured by real property;

9.3 No provision of this Section 9 shall limit the right of the Borrower or the Bank to exercise self-help remedies such as setoff, foreclosure or sale of any collateral, or obtaining any ancillary provisional or interim remedies from a court of competent jurisdiction before, after or during the pendency of any arbitration proceeding. The exercise of any such remedy does not waive the right of either party to request arbitration. At Bank's option foreclosure under any deed of trust may be accomplished by exercise of the power of sale under the deed of trust or judicial foreclosure as a mortgage.

10. COLLECTION ACTIVITIES, LAWSUITS AND GOVERNING LAW. Borrower agrees to pay Bank all costs and expenses (including reasonable attorney's fees and the allocated cost for in-house legal services incurred by Bank), to enforce this Agreement, any notes or any Loan Documents pursuant to this Agreement, whether or not suit is instituted. If suit is instituted by Bank to enforce this Agreement or any of these documents, Borrower consents to the personal jurisdiction of the Courts of the State of Washington and Federal Courts located in the State of Washington. Borrower further consents to the venue of this suit, being laid in King County, Washington. This Agreement and any notes and security agreements entered into pursuant to this Agreement shall be construed in accordance with the laws of the State of Washington.

+11. ADDITIONAL PROVISIONS. Borrower agrees to the additional provisions set forth immediately following this Section 11 or on any "Exhibit N/A" attached to and hereby incorporated into Agreement. This Agreement supersedes all oral negotiations or agreements between Bank and Borrower with respect to the subject matter hereof and constitutes the entire understanding and Agreement of the matters set forth in this Agreement.

11.1 If any provision of this Agreement is held to be invalid or unenforceable, then (a) such provision shall be deemed modified if possible, or if not possible, such provision shall be deemed

stricken, and (b) all other provisions shall remain in full force and effect.

11.2 If the imposition of or any change in any law, rule, or regulation guideline or the interpretation or application of any thereof by any court of administrative or governmental authority (including any request or policy whether or not having the force of law) shall impose or modify any taxes (except U.S. federal, state or local income or franchise taxes imposed on Bank), reserve requirements, capital adequacy requirements or other obligations which would: (a) increase the cost to Bank for extending or maintaining any loans and/or line of credit to which this Agreement relates, (b) reduce the amounts payable to Bank under this Agreement, such notes and other instruments, or (c) reduce the rate of return on Bank's capital as a consequence of Bank's obligations with respect to any loan and/or line of credit to which this Agreement relates, then Borrower agrees to pay Bank such additional amounts as will compensate Bank therefor, within five (5) days after Bank's written demand for such payment, which demand shall be accompanied by an explanation of such imposition or charge and a calculation in reasonable detail of the additional amounts payable by Borrower, which explanation and calculations shall be conclusive, absent manifest error.

11.3 Bank may sell participations in or assign this loan in whole or in part without notice to Borrower and Bank may provide information regarding the Borrower and this Agreement to any prospective participant or assignee. If a participation is sold or the loan is assigned the purchaser will have the right of set off against the Borrower and may enforce its interest in the Loan irrespective of any claims or defenses the Borrower may have against the Bank.

+11.4 Proceeds from additional equity capital or subordinated debt issued will be applied to the outstanding balance of the revolving credit commitment.

12. NOTICES. Any notices shall be given in writing to the opposite party's signature below or as that party may otherwise specify in writing.

13. 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.

This Business Loan Agreement (Parts A and B) executed by the parties on _____ 19 __ Borrower acknowledges having read all of the provisions of this Agreement and Borrower agrees to its terms.

BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION, DOING BUSINESS AS SEAFIRST BANK
MET WHOLESALE BANKING, TEAM #7

By: Mary Knell Title: Vice President

Address: 701 Fifth Avenue, Floor 12 City, State, Zip: Seattle, WA 98104

Phone: (206) 358-3588 Fax: (206) 585-1794

TULLY'S COFFEE CORPORATION
(Borrower)

By: [ILLEGIBLE] Title: President

Address: 2010 Airport Way So. City, State, Zip: Seattle, WA 98134

Phone: (206) 233-2071 Fax: (206) 233-2077

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[LOGO]

PROMISSORY NOTE

<TABLE>
<CAPTION>

PRINCIPAL	LOAN DATE	MATURITY	LOAN NO	CALL	COLLATERAL	ACCOUNT	OFFICER	INITIALS
<S> \$3,000,000.00	<C>	<C> 03-31-2000	<C> R26	<C>	<C>	<C> 9075799840	<C> 83002	<C>

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.

BORROWER: TULLYS COFFEE CORPORATION LENDER: BANK OF AMERICA NT&SA D/B/A SEAFIRST BANK
2010 AIRPORT WAY SOUTH 800 FIFTH AVENUE
SEATTLE, WA 98134 P.O. BOX 84448
SEATTLE, WA 98124

PRINCIPAL AMOUNT: \$3,000,000.00 0.500% OVER THE INDEX DATE OF NOTE: DECEMBER 15, 1996
</TABLE>

PROMISE TO PAY. TULLYS COFFEE CORPORATION ("BORROWER") PROMISES TO PAY TO BANK OF AMERICA NT&SA D/B/A SEAFIRST BANK ("LENDER"), OR ORDER, IN LAWFUL MONEY OF THE UNITED STATES OF AMERICA, THE PRINCIPAL AMOUNT OF THREE MILLION & 00/100 DOLLARS (\$3,000,000.00) OR SO MUCH AS MAY BE OUTSTANDING, TOGETHER WITH INTEREST ON THE UNPAID OUTSTANDING PRINCIPAL BALANCE UNTIL PAID IN FULL.

PAYMENT. BORROWER WILL PAY THIS LOAN IN ONE PAYMENT OF ALL OUTSTANDING PRINCIPAL PLUS ALL ACCRUED UNPAID INTEREST ON MARCH 31, 2000. IN ADDITION, BORROWER WILL PAY REGULAR MONTHLY PAYMENTS OF ACCRUED UNPAID INTEREST BEGINNING JANUARY 1, 1997, AND ALL SUBSEQUENT INTEREST PAYMENTS ARE DUE ON THE SAME DAY OF EACH MONTH AFTER THAT. Interest on this Note is computed on a 365/360 simple interest basis; that is, by applying the ratio of the annual interest rate over a year of 360 days, multiplied by the outstanding principal balance, multiplied by the actual number of days the principal balance is outstanding. Borrower will pay Lender at Lender's address shown above or at such other place as Lender may designate in writing. Unless otherwise agreed or required by applicable law, payments will be applied first to accrued unpaid interest, then to principal, and any remaining amount to any unpaid collection costs and late charges.

AUTOMATIC PAYMENTS. Borrower hereby authorizes Lender to automatically deduct from Borrower's CHECKING/SAVINGS account number 0067664003, or such other Seafirst account as may be authorized in the future, the loan payment according to the amount and terms of this Note. If the funds in the account are insufficient to cover any payment, Lender shall not be obligated to advance funds to cover the payment. At any time and for any reasons, Borrower or Lender may voluntarily terminate Automatic Payments. Our business days are Monday through Friday. Payments that come due on a Saturday, Sunday or legal bank holiday, will be deducted on the following business day.

VARIABLE INTEREST RATE. THE INTEREST RATE ON THIS NOTE IS SUBJECT TO CHANGE FROM TIME TO TIME BASED ON CHANGES IN AN INDEX WHICH IS THE LENDER'S PUBLICLY

ANNOUNCED REFERENCE RATE (THE "INDEX"). The interest rate change will not occur more often than each day the Reference Rate changes. Lender will tell Borrower the current Index rate upon Borrower's request. Borrower understands that Lender may make loans based on other rates as well. The interest rate change will not occur more often than each day. THE INTEREST RATE TO BE APPLIED TO THE UNPAID PRINCIPAL BALANCE OF THIS NOTE WILL BE AT A RATE OF 0.500 PERCENTAGE POINTS OVER THE INDEX. NOTICE: Under no circumstances will the interest rate on this Note be more than the maximum rate allowed by applicable law.

PREPAYMENT FEE. Early payments will not, unless agreed to by Lender in writing, relieve Borrower of Borrower's obligation to continue to make payments under the payment schedule. Rather, they will reduce the principal balance due and may result in Borrower's making fewer payments.

LATE CHARGE. If a payment is 10 DAYS OR MORE LATE, Borrower will be charged 5.000% OF THE REGULARLY SCHEDULED PAYMENT OR \$20.00, WHICHEVER IS GREATER.

DEFAULT. Borrower will be in default if any of the following happens:

(a) Borrower fails to make any payment when due. (b) Borrower breaks any promise Borrower has made to Lender, or Borrower fails to comply with or to perform when due any other term, obligation, covenant, or condition contained in this Note or any agreement related to this Note, or in any other agreement or loan Borrower has with Lender. (c) Any representation or statement made or furnished to Lender by Borrower or on Borrower's behalf is false or misleading in any material respect either now or at the time made or furnished. (d) Borrower becomes insolvent, 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. (e) 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. (f) Any guarantor dies or any of the other events described in this default section occurs with respect to any guarantor of this Note.

LENDER'S RIGHTS. Upon default, Lender may declare the entire unpaid principal balance on this Note and all accrued unpaid interest immediately due, without notice, and then Borrower will pay that amount. Upon default, including failure to pay upon final maturity, Lender, at its option, may also, if permitted under applicable law, do one or both of the following: (a) increase the variable interest rate on this Note to 2.500 percentage points over the Index, and (b) add any unpaid accrued interest to principal and such sum will bear interest therefrom until paid at the rate provided in this Note (including any increased rate). The interest rate will not exceed the maximum rate permitted by applicable law. Lender may hire or pay someone else to help collect this Note if Borrower does not pay. Borrower also will pay Lender that amount. This includes, subject to any limits under applicable law, Lender's attorneys' fees and Lender's legal expenses whether or not there is a lawsuit, including attorneys' fees and legal expenses for bankruptcy proceedings (including efforts to modify or vacate any automatic stay or injunction), appeals, and any anticipated post-judgment collection services. If not prohibited by applicable law, Borrower also will pay any court costs, in addition to all other sums provided by law. THIS NOTE HAS BEEN DELIVERED TO LENDER AND ACCEPTED BY LENDER IN THE STATE OF WASHINGTON. IF THERE IS A LAWSUIT, BORROWER AGREES UPON LENDER'S REQUEST TO SUBMIT TO THE JURISDICTION OF THE COURTS SITUATED IN KING COUNTY, THE STATE OF WASHINGTON. THIS NOTE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF WASHINGTON.

LINE OF CREDIT. This Note evidences a revolving line of credit. Advances under this Note, as well as directions for payment from Borrower's accounts, may be requested orally or in writing by Borrower or by an authorized person. Lender may, but need not, require that all oral requests be confirmed in writing. The following party or parties are authorized to request advances under the line of credit until Lender receives from Borrower at Lender's address shown above written notice of revocation of their authority: TOM T. O'KEEFE AND STEVE GRIFFIN. Borrower agrees to be liable for all sums either: (a) advanced in accordance with the instructions of an authorized person or (b) credited to any of Borrower's accounts with Lender. The unpaid principal balance owing on this Note at any time may be evidenced by endorsements on this Note or by Lender's internal records, including daily computer print-outs. Lender will have no obligation to advance funds under this Note if: (a) Borrower or any guarantor is in default under the terms of this Note or any agreement that Borrower or any guarantor has with Lender, including any agreement made in connection with the signing of this Note; (b) Borrower or any guarantor ceases doing business or is insolvent; (c) any guarantor seeks, claims or otherwise attempts to limit, modify or revoke such guarantor's guarantee of this Note or any other loan with Lender; (d)

Borrower has applied funds provided pursuant to this Note for purposes other than those authorized by Lender; or

PROMISSORY NOTE
(Continued)

PAGE 2

GENERAL PROVISIONS. Lender may delay or forgo enforcing any of its rights or remedies under this Note without losing them. Borrower and any other person who signs, guarantees or endorses this Note, to the extent allowed by law, waive presentment, demand for payment, protest and notice of dishonor. Upon any change in the terms of this Note, and unless otherwise expressly stated in writing, no party who signs this Note, whether as maker, guarantor, accommodation maker or endorser, shall be released from liability. All such parties agree that Lender may renew, extend (repeatedly and for any length of time) or modify this loan, with the consent of Borrower, or release any party or guarantor; or impair, fail to realize upon or perfect Lender's security interest in the collateral; and take any other action deemed necessary by Lender without the consent of or notice to anyone.

PRIOR TO SIGNING THIS NOTE, BORROWER READ AND UNDERSTOOD ALL THE PROVISIONS OF THIS NOTE, INCLUDING THE VARIABLE INTEREST RATE PROVISIONS. BORROWER AGREES TO THE TERMS OF THE NOTE AND ACKNOWLEDGES RECEIPT OF A COMPLETED COPY OF THE NOTE.

BORROWER:

TULLYS COFFEE CORPORATION

BY: /s/ Tom T. O'Keefe

TOM T. O'KEEFE, PRESIDENT

AMENDMENT TO LIMITED GUARANTY AGREEMENT

This Amendment amends that certain Limited Guaranty Agreement dated March 21, 1996 (the "Guaranty"), by Tom T. O'Keefe and George E. Hubman in favor of Bank of America NW, N.A. Bank of America NW, N.A. has since merged into Bank of America National Trust and Savings Association, but continues to do business as Seafirst Bank. For mutual consideration, the parties agree as follows:

1. Section 2 of the Guaranty is amended in its entirety to read as follows:

2. LIMITATION OF LIABILITY. THE LIABILITY OF GUARANTOR UNDER THIS AGREEMENT SHALL BE LIMITED TO THE PRINCIPAL AMOUNT OF \$1,500,000.00, PLUS ALL INTEREST ON THE OBLIGATIONS, PLUS ALL COLLECTION COSTS AND EXPENSES, ATTORNEYS' FEES, AND LEGAL EXPENSES (INCLUDING THE ALLOCATED COST OF IN-HOUSE COUNSEL, AND INCLUDING ALL LEGAL FEES INCURRED IN ANY ACTION, BANKRUPTCY PROCEEDING, ARBITRATION OR OTHER ALTERNATIVE DISPUTE RESOLUTION PROCEEDING, OR APPEAL, OR IN THE COURSE OF EXERCISING ANY JUDICIAL OR NONJUDICIAL REMEDIES) RELATING TO (i) THE COLLECTION OF THE OBLIGATIONS AND (ii) THE ENFORCEMENT OF THIS AGREEMENT. IF, HOWEVER, (a) BORROWER SHALL FAIL TO ACHIEVE THE TANGIBLE NET WORTH COVENANT, AS DEFINED UNDER SECTION 4.3 OF THE BUSINESS LOAN AGREEMENT DATED MARCH 14, 1997, BETWEEN BORROWER AND BANK (THE "LOAN AGREEMENT"), OR (b) BORROWER SHALL FAIL TO ACHIEVE A POSITIVE VARIANCE IN TOTAL SALES AGAINST BUDGET AS OF EACH FISCAL QUARTER END, BEGINNING WITH THE SECOND FISCAL QUARTER OF 1997, OR (c) BORROWER IS IN DEFAULT UNDER ANY OF THE LOAN DOCUMENTS EVIDENCING THE OBLIGATIONS, THEN GUARANTOR'S LIABILITY UNDER THIS AGREEMENT SHALL INCREASE TO THE LESSER OF (1) THE OUTSTANDING PRINCIPAL BALANCE OF THE OBLIGATIONS, OR (2) \$3,000,000. GUARANTOR'S LIABILITY UNDER THIS AGREEMENT SHALL REDUCE TO \$1,000,000 IF (x) BORROWER ACHIEVES A FIXED CHARGE COVERAGE RATIO, DEFINED AS EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTIZATION DIVIDED BY INTEREST EXPENSE (ASSUMING DEBT OF \$1,000,000) OF AT LEAST 1.25% FOR TWO CONSECUTIVE FISCAL QUARTERS AND (y) BORROWER SHALL NOT OTHERWISE BE IN DEFAULT UNDER ANY OF THE LOAN DOCUMENTS EVIDENCING THE OBLIGATIONS.

2. Except as specifically amended by this Amendment, all other terms, conditions, and definitions of the Guaranty shall remain in full force

and effect.

DATED March _____, 1997.

GUARANTORS:

LENDER:

SEAFIRST BANK

/s/ Tom T. O'Keefe

TOM T. O'KEEFE

By /s/ Mary Knell

Mary Knell, Vice President

/s/ George E. Hubman

GEORGE E. HUBMAN

[LOGO]

LOAN MODIFICATION
AGREEMENT

This agreement amends the PROMISSORY NOTE dated DECEMBER 15, 1996 ("Note") and Business Loan Agreement dated MARCH 27, 1997 ("Business Loan Agreement"), each executed by TULLYS COFFEE CORPORATION ("Borrower") in favor of BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION, DOING BUSINESS AS SEAFIRST BANK ("Bank"), regarding a loan in the maximum principal amount of \$3,000,000.00 (the "Loan"), which currently has a maximum principal amount of \$6,000,000.00. For mutual consideration, Borrower and Bank agree to amend the above loan documents as follows:

1. CREDIT LIMIT. The maximum principal amount of Borrower's line of credit is hereby changed to \$6,700,000.00, and Borrower's maximum liability for principal under the Note is also changed to \$6,700,000.00 from June 28, 1998 to November 30, 1998. Then on December 1, 1998, the maximum principal amount of Borrower's line of credit will be decreased to \$6,500,000.00 and reducing to \$6,000,000.00 on April 1, 1999 and Borrower's maximum liability for principal under the Note is also decreased to \$6,000,000.00. Borrower must make a principal payment in the amount necessary, if any, to reduce the principal balance of this Note to the reduced maximum Borrowing amount.

2. MATURITY DATE. The maturity date of the Note is changed to MARCH 31, 2000. Bank's commitment to make advances to Borrower under its line of credit is also extended to MARCH 31, 2000.

3. COVENANTS. The following covenants of the Business Loan Agreement are modified as follows:

- PART B, SECTION 4.3, 1ST SENTENCE IS CHANGED TO: MAINTAIN A MINIMUM TOTAL STOCKHOLDERS EQUITY OF \$1,000,000.00.

PART B, SECTION 5.2, IS AMENDED TO READ: BORROWER WILL NOT WITHOUT THE PRIOR WRITTEN CONSENT OF BANK, PURCHASE OR LEASE UNDER AN AGREEMENT FOR ACQUISITION EXCEEDING \$500,000.00, INCUR ANY OTHER INDEBTEDNESS FOR BORROWED MONEY EXCEEDING \$250,000.00 HOWEVER ADDITIONAL INDEBTEDNESS OF CONVERTIBLE PREFERRED DEBT IS PERMITTED PROVIDED IT IS FULLY SUBORDINATED IN FORM AND MANNER ACCEPTABLE TO BANK, MORTGAGE ASSIGN OR OTHERWISE ENCUMBER ANY OF BORROWER'S ASSETS, NOR SELL, TRANSFER OR OTHERWISE HYPOTHECATE ANY SUCH ASSETS EXCEPT IN THE ORDINARY COURSE OF BUSINESS.

- ON THE BASIS OF A COMPREHENSIVE REVIEW AND ASSESSMENT OF BORROWER'S SYSTEMS AND EQUIPMENT AND INQUIRY MADE OF BORROWER'S MATERIAL SUPPLIERS, VENDORS AND CUSTOMERS, BORROWER REASONABLY BELIEVES THAT THE "YEAR 2000 PROBLEM" (THAT IS, THE INABILITY OF COMPUTERS, AS WELL AS EMBEDDED MICROCHIPS IN NON-COMPUTING DEVICES, TO PERFORM PROPERLY DATE-SENSITIVE FUNCTIONS WITH RESPECT TO CERTAIN DATES PRIOR TO AND AFTER DECEMBER 31, 1999), INCLUDING COSTS OF REMEDIATION, WILL NOT RESULT IN A MATERIAL ADVERSE CHANGE IN THE OPERATIONS, BUSINESS, PROPERTIES, CONDITION (FINANCIAL OR OTHERWISE) OR PROSPECTS OF BORROWER. BORROWER HAS DEVELOPED FEASIBLE CONTINGENCY PLANS ADEQUATELY TO ENSURE UNINTERRUPTED AND UNIMPAIRED BUSINESS OPERATION IN THE EVENT OF FAILURE OF ITS OWN OR A THIRD PARTY'S SYSTEMS OR EQUIPMENT DUE TO THE YEAR 2000 PROBLEM, INCLUDING THOSE OF VENDORS, CUSTOMERS, AND SUPPLIERS,

AS WELL AS A GENERAL FAILURE OF OR INTERRUPTION IN ITS COMMUNICATIONS AND DELIVERY INFRASTRUCTURE.

4. OTHER TERMS. Except as specifically amended by this agreement or any prior amendment, all other terms, conditions, and definitions of the Note, Business Loan Agreement, and all other security agreements, guaranties, deeds of trust, mortgages, and other instruments or agreements entered into with regard to the Loan shall remain in full force and effect.

DATED June 26, 1998.

Bank:	Borrower:
SEAFIRST BANK	TULLYS COFFEE CORPORATION
By /s/ Mary Knell	By /s/ Tom T. O'Keefe
-----	-----
Title Vice President	TOM T. O'KEEFE, PRESIDENT

CONSENT OF GUARANTORS:

/s/ Tom T. O'Keefe

TOM T. O'KEEFE

/s/ George E. Hubman

GEORGE E. HUBMAN

[LOGO] LOAN MODIFICATION AGREEMENT

This agreement amends the PROMISSORY NOTE dated DECEMBER 15, 1996 ("Note") and Business Loan Agreement dated MARCH 27, 1997 ("Business Loan Agreement"), each executed by TULLYS COFFEE CORPORATION ("Borrower") in favor of BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION, DOING BUSINESS AS SEAFIRST BANK ("Bank"), regarding a loan in the maximum principal amount of \$3,000,000.00 (the "Loan"). For mutual consideration, Borrower and Bank agree to amend the above loan documents as follows:

1. CREDIT LIMIT. The maximum principal amount of Borrower's line of credit is hereby changed to \$6,000,000.00, and Borrower's maximum liability for principal under the Note is also changed to \$6,000,000.00. Then, on August 31, 1998, the maximum principal amount of Borrower's line of credit will be decreased to \$3,000,000.00 and Borrower's maximum liability for principal under the Note is also decreased to \$3,000,000.00. Borrower must make a principal payment in the amount necessary, if any, to reduce the principal balance of the Note to the reduced maximum Borrowing amount.

2. COVENANTS. The following covenants of the Business Loan Agreement are modified as follows:

BORROWER HAS CONDUCTED A COMPREHENSIVE REVIEW AND ASSESSMENT OF THE BORROWER'S COMPUTER APPLICATIONS AND MADE INQUIRY OF THE BORROWER'S KEY SUPPLIERS, VENDORS AND CUSTOMERS WITH RESPECT TO THE "YEAR 2000 PROBLEM" (THAT IS, THE RISK THAT COMPUTER APPLICATIONS MAY NOT BE ABLE TO PROPERLY PERFORM DATE-SENSITIVE FUNCTIONS AFTER DECEMBER 31, 1999) AND, BASED ON THAT REVIEW AND INQUIRY, THE BORROWER DOES NOT BELIEVE THE YEAR 2000 PROBLEM WILL RESULT IN A MATERIAL ADVERSE CHANGE IN THE BORROWER'S BUSINESS CONDITION (FINANCIAL OR OTHERWISE), OPERATIONS, PROPERTIES, OR ABILITY TO REPAY THE CREDIT.

3. OTHER TERMS. Except as specifically amended by this agreement or any prior amendment, all other terms, conditions, and definitions of the Note, Business Loan Agreement, and all other security agreements, guaranties, deeds of trust, mortgages, and other instruments or agreements entered into with regard to the Loan shall remain in full force and effect.

DATED June 8, 1998

Bank:	Borrower:
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SEAFIRST BANK

TULLYS COFFEE CORPORATION

By /s/ Mary Knell

Title Vice President

By: /s/ Tom T. O'Keefe

TOM T. O'KEEFE, PRESIDENT

CONSENT OF GUARANTORS:

/s/ Tom T. O'Keefe

TOM T. O'KEEFE

/s/ George E. Hubman

GEORGE E. HUBMAN

[LOGO] LOAN MODIFICATION AGREEMENT

This agreement amends the PROMISSORY NOTE dated DECEMBER 15, 1996 ("Note") executed by TULLYS COFFEE CORPORATION ("Borrower") in favor of BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION, DOING BUSINESS AS SEAFIRST BANK ("Bank"), regarding a loan in the maximum principal amount of \$3,000,000.00 (the "Loan"). For mutual consideration, Borrower and Bank agree to amend the above loan documents as follows:

1. CREDIT LIMIT. The maximum principal amount of Borrower's line of credit is hereby changed to \$4,500,000.00, and Borrower's maximum liability for principal under the Note is also changed to \$4,500,000.00. Then, on May 31, 1998, the maximum principal amount of Borrower's line of credit will be decreased to \$3,000,000.00 and Borrower's maximum liability for principal under the Note is also decreased to \$3,000,000.00. Borrower must make a principal payment in the amount necessary, if any, to reduce the principal balance of this Note to the reduced maximum Borrowing amount.

2. OTHER TERMS. Except as specifically amended by this agreement or prior amendment, all other terms, conditions, and definitions of the Note and all other security agreements, guaranties, deeds of trust, mortgages, and other instruments or agreements entered into with regard to the Loan shall remain in full force and effect.

DATED April 20, 1998

Bank:

SEAFIRST BANK

By /s/ Mary Knell

Title Vice President

Borrower:

TULLYS COFFEE CORPORATION

By: /s/ Tom T. O'Keefe

TOM T. O'KEEFE, PRESIDENT

GENERAL GUARANTY AGREEMENT

In this agreement "Guarantor" refers to each person, partnership, corporation, association or legal entity which signs this agreement. "Bank" refers to Bank of America National Trust and Savings Association, doing business as Seafirst Bank, its successor and assigns.

1. GUARANTOR'S PROMISE TO REIMBURSE BANK FOR BORROWER'S OBLIGATION TO BANK.

To induce Bank to lend money, or extend other credit to TULLY'S COFFEE CORPORATION ("Borrower") or for other consideration, Guarantor guarantees payment to Bank of all the Obligations. "Obligations" means all principal, interest, late charges, loan fees, collection costs and expenses, attorneys'

fees and legal expenses (including the allocated cost of in-house counsel, and including all legal fees incurred in any action, bankruptcy proceeding, arbitration or other alternative dispute resolution proceeding, or appeal, or in the course of exercising any judicial or nonjudicial remedies) which Borrower may now owe to Bank or for which Borrower may become obligated to pay or reimburse Bank for in the future, under promissory notes or other instruments executed by Borrower, and any other obligation which may arise from Borrower to Bank of any kind or type.

2. BENEFIT FROM GUARANTOR'S PROMISE.

Guarantor is either financially interested in Borrower or will receive other benefits, directly or indirectly, as a result of Guarantor's promise.

3. WRITTEN NOTICE NEEDED TO WITHDRAW GUARANTOR'S PROMISE

Guarantor's promise shall remain effective until Bank actually receives, at its Metropolitan Wholesale, Team 7 office, written notice from Guarantor that Guarantor withdraws Guarantor's promise. Withdrawal of Guarantor's promise will have no effect on Guarantor's promise as to Obligations Borrower owes Bank before the withdrawal is effective, or for renewals or extensions of those Obligations made after Bank receives Guarantor's notice, or for amounts Bank is then committed to advance to Borrower, or for attorneys' fees and all other costs and expenses incurred by Bank in enforcing those Obligations. Also, withdrawal of Guarantor's promise by one person who has signed this agreement will have no effect on Guarantor's promise with respect to anyone else who has signed this agreement.

4. BANK'S RIGHT NOT TO PROCEED AGAINST BORROWER OR OTHERS.

Guarantor's promise is joint and several as to each of the individuals or entities signing below. Bank may enforce each Guarantor's promise without attempting to collect Borrower's Obligations from Borrower, any co-maker, any other guarantor, or anyone else who is liable for Borrower's Obligations.

5. BANK'S RIGHT NOT TO PROCEED AGAINST COLLATERAL.

Bank may enforce Guarantor's promise without attempting to enforce Bank's rights in any collateral Bank now has or may later acquire as security for Borrower's Obligations.

6. OTHER RIGHTS OF BANK AND GUARANTOR'S WAIVER OF NOTICE.

Bank may do any of the following things as many times as Bank wishes, without Guarantor's permission and without notifying Guarantor, and this will not affect Guarantor's promise:

(a) Bank may extend the time for repayment of any of Borrower's Obligations.

(b) Bank may renew any of Borrower's Obligations.

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(c) Bank may stop lending money or extending other credit to Borrower.

(d) Bank may make any other changes in its agreement with Borrower.

(e) Bank may exchange or release any collateral Bank now holds or may later acquire as security for Borrower's Obligations.

(f) Bank may apply any money or collateral received from or on behalf of Borrower to the repayment of any of Borrower's Obligations in any order Bank wishes.

7. GUARANTOR'S ADDITIONAL WAIVERS OF NOTICE.

Bank does not have to notify Guarantor of any of the following events and this will not affect Guarantor's promise:

(a) Bank does not have to notify Guarantor of Bank's acceptance of Guarantor's promise.

(b) Bank does not have to notify Guarantor when Bank lends money, leases equipment or extends other credit to Borrower or acquires Obligations of Borrower.

(c) Bank does not have to notify Guarantor of Borrower's failure to pay Borrower's Obligations when due, or of Borrower's failure to perform any other duty owed to Bank when required.

Bank will use its reasonable efforts to notify Guarantor of any failure by Borrower to pay the Obligations when due; provided, however, any reasonable failure or delay by Bank in doing so shall not affect Guarantor's promise.

8. GUARANTOR'S DUTY TO KEEP INFORMED OF BORROWER'S FINANCIAL CONDITION.

Guarantor is now adequately informed of Borrower's financial condition, and Guarantor agrees to keep so informed. Bank does not have to provide Guarantor with any present or future information concerning the financial condition of Borrower, and this does not affect Guarantor's promise. Guarantor has not relied on financial information furnished by Bank.

9. GUARANTOR'S AGREEMENT TO POSTPONE RIGHTS AGAINST BORROWER.

By paying Bank under this agreement, Guarantor may acquire rights against Borrower such as subrogation rights. Guarantor agrees not to exercise any of those rights until Borrower has fully paid its Obligations to Bank.

10. GUARANTOR'S ASSIGNMENT OF RIGHTS AGAINST BORROWER.

Guarantor assigns to Bank all rights Guarantor may have against Borrower or Borrower's property in any proceeding under the federal Bankruptcy Code, or any receivership or insolvency proceeding. This assignment includes all rights of Guarantor to be paid by Borrower even though they have nothing to do with this agreement. However, when Bank has been fully paid everything owed under Guarantor's promise, Guarantor may then enforce any of these rights which still remain. This assignment does not prevent Bank from enforcing Guarantor's promise in any way.

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11. ATTORNEY'S FEES AND COLLECTION EXPENSES.

Guarantor agrees to pay a reasonable attorneys' fee and all other costs and expenses which Bank may incur in enforcing or defending this agreement, whether or not a lawsuit is started.

12. LAW THAT APPLIES AND WHERE GUARANTOR MAY BE SUED.

This agreement governed by Washington law. Guarantor consents to the personal jurisdiction of the courts of the State of Washington and the federal courts located in Washington so that Bank may sue Guarantor in Washington to enforce this agreement. Guarantor agrees not to claim that Washington is an inconvenient place for trial. At Bank's option, the venue (location) of any suit to enforce this agreement may be in Seattle, Washington.

13. MANDATORY ARBITRATION.

(a) At the request of either Bank or Guarantor, any controversy or claim between Bank and Guarantor, arising from or relating to this agreement, or arising from an alleged tort, shall be settled by arbitration in Seattle, Washington. The United States Arbitration Act shall apply even though this agreement is otherwise governed by Washington law. The proceedings shall be administered by the American Arbitration Association under its commercial rules of arbitration. Any controversy over whether an issue is arbitrable shall be determined by the arbitrator(s). Judgement upon the arbitration award may be entered in any court having jurisdiction over the parties. The institution and maintenance of an action for judicial relief or pursuit of an ancillary or provisional remedy shall not constitute a waiver of the right of either party, including the plaintiff, to submit the controversy or claim to arbitration if such action for judicial relief is contested. For purposes of the application of the statute of limitations, the filing

of an arbitration pursuant to this subsection is the equivalent of the filing of a lawsuit, and any claim or controversy which may be arbitrated under this subsection is subject to any applicable statute of limitations. The arbitrator(s) will have the authority to decide whether any such claim or controversy is barred by the statute of limitations and, if so, to dismiss the arbitration on that basis. The parties consent to the joinder of any guarantor, hypothecator, or other party having an interest relating to the claim or controversy being arbitrated in any proceedings under this Section.

(b) Notwithstanding the provisions of subsection 13.(a), no controversy or claim shall be submitted to arbitration without the consent of all parties if at the time of the proposed submission, such controversy or claim arises from or relates to an obligation secured by real property.

(c) No provision of this subsection shall limit the right of Guarantor or Bank to exercise self-help remedies such as set-off, foreclosure, retention or sale of any collateral, or obtaining any ancillary, provisional, or interim remedies from a court of competent jurisdiction before, after, or during the pendency of any arbitration proceeding. The exercise of any such remedy does not waive the right of either party to request arbitration.

14. COUNTERPARTS.

This agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures to such counterparts were upon the same instrument. This agreement shall become effective as to each Guarantor when a counterpart signed by such Guarantor is received, regardless of whether all other counterparts are received.

15. CREDIT REPORTS.

Each individual Guarantor authorizes and directs Bank as Bank deems necessary to obtain one or more credit reports about such Guarantor as individuals in connection with Bank's decision to make the loan(s) guaranteed by this agreement and/or any renewal, monitoring, or collection of any such loan(s).

16. WHOLE AGREEMENT.

This agreement, including all counterparts, constitutes the entire understanding between Bank and Guarantor concerning the guaranty reflected by this agreement, and it may be changed only in writing signed by Bank and Guarantor.

GUARANTOR HAS READ THIS AGREEMENT AND RECEIVED A COPY. BY SIGNING THIS AGREEMENT, GUARANTOR AGREES TO ITS TERMS. GUARANTOR UNDERSTANDS THAT, AS A RESULT, GUARANTOR IS LIABLE FOR THE OBLIGATIONS OF BORROWER IF BORROWER FAILS TO PAY BANK WHEN THEY ARE DUE. IF THIS HAPPENS, BANK MAY, IF IT WANTS, REQUIRE GUARANTOR TO PAY BORROWER'S OBLIGATIONS.

Dated as of April _____, 1998.

Guarantor:

/s/ Tom T. O'Keefe

TOM T. O'KEEFE

/s/ George E. Hubman

GEORGE E. HUBMAN

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[Letterhead]

LOAN MODIFICATION
AGREEMENT

This agreement amends the PROMISSORY NOTE dated DECEMBER 15, 1996 ("Note") executed by TULLYS COFFEE CORPORATION ("Borrower") in favor of BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION, DOING BUSINESS AS SEAFIRST BANK ("Bank"), regarding a loan in the maximum principal amount of \$3,000,000.00 (the "Loan"). For mutual consideration, Borrower and Bank agree to amend the above loan documents as follows:

1. CREDIT LIMIT. The maximum principal amount of Borrower's line of credit is hereby changed to \$4,500,000.00, and Borrower's maximum liability for principal under the Note is also changed to \$4,500,000.00. Then, on April 10, 1998, the maximum principal amount of Borrower's line of credit will be decreased to \$3,000,000.00 and Borrower's maximum liability for principal under the Note is also decreased to \$3,000,000.00. Borrower must make a principal payment in the amount necessary, if any, to reduce the principal balance of this Note to the reduced maximum Borrowing amount.

2. OTHER TERMS. Except as specifically amended by this agreement or any prior amendment, all other terms, conditions, and definitions of the Note and all other security agreements, guaranties, deeds of trust, mortgages, and other instruments or agreements entered into with regard to the Loan shall remain in full force and effect.

DATED April 1, 1998

Bank:

Borrower:

SEAFIRST BANK

TULLYS COFFEE CORPORATION

By /s/ Mary Knell

By /s/ Tom T. O'Keefe

TOM T. O'KEEFE, PRESIDENT

Title Vice President

[Letterhead]

LOAN MODIFICATION
AGREEMENT

This agreement amends the PROMISSORY NOTE dated DECEMBER 15, 1996 ("Note") executed by TULLYS COFFEE CORPORATION ("Borrower") in favor of BANK

OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION, DOING BUSINESS AS SEAFIRST BANK ("Bank"), regarding a loan in the maximum principal amount of \$3,000,000.00 (the "Loan"). For mutual consideration, Borrower and Bank agree to amend the above loan documents as follows:

1. CREDIT LIMIT. The maximum principal amount of Borrower's line of credit is hereby changed to \$3,500,000.00, and Borrower's maximum liability for principal under the Note is also changed to \$3,500,000.00. Then, on March 31, 1998, the maximum principal amount of Borrower's line of credit will be decreased to \$3,000,000.00 and Borrower's maximum liability for principal under the Note is also decreased to \$3,000,000.00. Borrower must make a principal payment in the amount necessary, if any, to reduce the principal balance of this Note to the reduced maximum Borrowing amount.

2. MODIFICATION FEE. Borrower shall pay to Bank a modification fee of \$1,000.00 upon execution of this Agreement.

3. OTHER TERMS. Except as specifically amended by this agreement or any prior amendment, all other terms, conditions, and definitions of the Note and all other security agreements, guaranties, deeds of trust, mortgages, and other instruments or agreements entered into with regard to the Loan shall remain in full force and effect.

DATED February 9, 1998

Bank:

Borrower:

SEAFIRST BANK

TULLYS COFFEE CORPORATION

By /s/ Mary Knell

By /s/ Tom T. O'Keefe

Title Vice President

TOM T. O'KEEFE, PRESIDENT

Consent of Guarantors:

By /s/ Tom T. O'Keefe

TOM T. O'KEEFE

By /s/ George E. Hubman

GEORGE E. HUBMAN

[LETTERHEAD]

MARY A. KNELL
Vice President
Metropolitan Wholesale Banking

June 8, 1998

Mr. Stephen Griffin
Vice President - Finance
Tully's Coffee Corporation
2010 Airport Way South
Seattle, WA 98134

RE: Business Loan Agreement dated December 15, 1996

Dear Steve:

This is to inform you that we consent and waive effective upon your acknowledgement and acceptance below, the following provision contained under the Business Loan Agreement dated December 15, 1996 between Seafirst Bank ("Bank") and Tully's Coffee Corporation ("Borrower"):

- Section 5.5: Bank hereby consents to the Borrower's purchase of Spinelli Coffee Company under a Stock Purchase Agreement;
- Section 11.4: Bank hereby waives covenant that proceeds from additional equity capital or subordinated debt will be applied to the outstanding balance of the revolving credit commitment and permits up to \$8,000,000 to be used for the purchase of Spinelli Coffee Company and related expenses.

This waiver shall not be construed as a course of conduct. All other conditions not specifically waived hereby shall be strictly construed. Please sign below and return a copy to my attention at your earliest convenience.

Very truly yours,

/s/ Mary A. Knell

Mary A. Knell

Accepted by:
Tully's Coffee Corporation

By: _____

Its: _____

[LETTERHEAD]

MARY A. KNELL
Vice President
Metropolitan Wholesale Banking

March 1, 1998

Mr. Stephen Griffin
Vice President - Finance
Tully's Coffee Corporation
2010 Airport Way South
Seattle, WA 98134

RE: Business Loan Agreement dated December 15, 1996

Dear Steve:

This is to inform you that we waive the following provision contained under the Business Loan Agreement dated December 15, 1996 between Seafirst Bank ("Bank") and Tully's Coffee Corporation ("Borrower"):

- Section 4.3: Bank hereby waives the minimum tangible net worth at all times covenant of \$250,000 for the period from February 28, 1998 to August 31, 1998

This waiver shall not be construed as a course of conduct. All other conditions not specifically waived hereby shall be strictly construed. Please sign below acknowledging your acceptance and return a copy to my attention at your earliest convenience.

Very truly yours,

/s/ Mary A. Knell

Mary A. Knell

Accepted by:

Tully's Coffee Corporation

By: _____

Its: _____

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the use in this Registration Statement on Form 10 of our report dated July 20, 1999 relating to the financial statements of Tully's Coffee Corporation, which appear in such Registration Statement.

PricewaterhouseCoopers LLP

Seattle, Washington

July 26, 1999

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