

# STARBUCKS CORP

## FORM 10-K (Annual Report)

Filed 12/20/2001 For Period Ending 9/30/2001

|             |                                                 |
|-------------|-------------------------------------------------|
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| CIK         | 0000829224                                      |
| Industry    | Restaurants                                     |
| Sector      | Services                                        |
| Fiscal Year | 09/28                                           |



**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, DC 20549

**Form 10-K**

**FOR ANNUAL AND TRANSITION REPORTS PURSUANT TO  
SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

- ☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the fiscal year ended September 30, 2001**
- or**
- ☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the transition period from            to**

Commission File Number: 0-20322

**Starbucks Corporation**

*(Exact Name of Registrant as Specified in its Charter)*

**Washington**  
*(State or Other Jurisdiction of Incorporation or Organization)*  
**2401 Utah Avenue South, Seattle, Washington**  
*(Address of Principal Executive Offices)*

**91-1325671**  
*(I.R.S. Employer Identification Number)*  
**98134**  
*(Zip Code)*

**Registrant's Telephone Number, including Area Code: (206) 447-1575**

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

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

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

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

The aggregate market value of the voting stock held by non-affiliates of the Registrant, based upon the closing sale price of the Registrant's Common Stock on December 17, 2001, as reported on the National Market tier of The Nasdaq Stock Market, Inc. was \$5,692,060,889.

As of December 17, 2001, there were 380,259,618 shares of the Registrant's Common Stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Registrant's Annual Report to Shareholders for the fiscal year ended September 30, 2001 have been incorporated by reference into Parts II and IV of this Annual Report on Form 10-K. Portions of the definitive Proxy Statement for the Registrant's Annual Meeting of Shareholders to be held on February 26, 2002 have been incorporated by reference into Part III of this Annual Report on Form 10-K.

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**CAUTIONARY STATEMENT PURSUANT TO THE PRIVATE  
SECURITIES LITIGATION REFORM ACT OF 1995**

*Certain statements set forth in or incorporated by reference into this Annual Report on Form 10-K, including anticipated store and market openings, planned capital expenditures and trends in or expectations regarding the Company's operations, constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are based on currently available operating, financial and competitive information and are subject to various risks and uncertainties. Actual future results and trends may differ materially depending on a variety of factors, including, but not limited to, coffee and other raw materials prices and availability, successful execution of internal performance and expansion plans, the effect of slowing United States and international economies, the economic ramifications of the September 11, 2001 terrorist attacks and the governmental response thereto, the impact of competition, the effect of legal proceedings and other risks detailed herein.*

**PART I**

**Item 1. Business**

*General.* Starbucks Corporation (together with its subsidiaries, "Starbucks" or the "Company") purchases and roasts high-quality whole bean coffees and sells them, along with fresh, rich-brewed coffees, Italian-style espresso beverages, cold blended beverages, a variety of pastries and confections, coffee-related accessories and equipment, a selection of premium teas and a line of compact discs primarily through Company-operated retail stores. In addition to sales through its Company-operated retail stores, Starbucks sells coffee and tea products through other channels of distribution including the Business Alliances business unit and other specialty operations (collectively, "Specialty Operations"). Starbucks, through its joint venture partnerships, also produces and sells bottled Frappuccino® coffee drink and a line of premium ice creams. The Company's objective is to establish Starbucks as the most recognized and respected brand in the world. To achieve this goal, the Company plans to continue to rapidly expand its retail operations, grow its Specialty Operations and selectively pursue other opportunities to leverage the Starbucks brand through the introduction of new products and the development of new distribution channels.

*Company-Operated Retail Stores.* The Company's retail goal is to become the leading retailer and brand of coffee in each of its target markets by selling the finest quality coffee and related products and by providing superior customer service, thereby building a high degree of customer loyalty. Starbucks strategy for expanding its retail business is to increase its market share in existing markets and to open stores in new markets where the opportunity exists to become the leading specialty coffee retailer. In support of this strategy, the Company opened 647 new stores during the fiscal year ended September 30, 2001 ("fiscal 2001"). At fiscal year end, Starbucks had 2,971 Company-operated stores in 38 states, the District of Columbia and five Canadian provinces (which comprise the Company-operated North American retail operations), as well as 252 stores in the United Kingdom, 25 stores in Thailand and 18 stores in Australia (which comprise the Company-operated international retail operations). Company-operated retail stores accounted for approximately 84% of net revenues during fiscal 2001.

Starbucks retail stores are typically located in high-traffic, high-visibility locations. Because the Company can vary the size and format of its stores, they are located in a variety of settings, including downtown and suburban retail centers, office buildings and university campuses. While the Company selectively locates stores in suburban malls, it focuses on stores that have convenient access for pedestrians and drivers.

All Starbucks stores offer a choice of regular and decaffeinated coffee beverages, including at least one "coffee of the day," a broad selection of Italian-style espresso beverages, cold blended beverages, a selection of teas and distinctively packaged roasted whole bean coffees. Starbucks stores also offer a selection of fresh pastries and other food items, sodas, juices, coffee-making equipment and accessories and a selection of compact discs. Each Starbucks store varies its product mix depending upon the size of the store and its location. Larger stores carry a broad selection of the Company's whole bean coffees in various sizes and types of packaging, as well as an assortment of coffee and espresso-making equipment and accessories such as coffee

grinders, coffee makers, espresso machines, coffee filters, storage containers, travel tumblers and mugs. Smaller Starbucks stores and kiosks typically sell a full line of coffee beverages, a more limited selection of whole bean coffees and a few accessories such as travel tumblers and logo mugs. Approximately 700 Starbucks stores carry a selection of “grab and go” sandwiches and salads. During fiscal 2001, the Company’s retail sales mix by product type was approximately 75% handcrafted beverages, 14% food items, 7% whole bean coffees, and 4% coffee-making equipment and accessories.

**Specialty Operations.** Starbucks Specialty Operations strive to develop the Starbucks brand outside the Company-operated retail store environment through a number of channels. Starbucks strategy is to reach customers where they work, travel, shop and dine by establishing relationships with prominent third parties who share Starbucks values and commitment to quality. These relationships take various forms, including arrangements with foodservice companies and retail store licensing agreements for North American locations (which together comprise the Business Alliances business unit), grocery channel licensing agreements, warehouse club accounts, international retail store licensing agreements, direct-to-consumer market channels, joint ventures and other initiatives related to the Company’s core businesses. In certain licensing situations, the licensee is a joint venture in which Starbucks has an equity ownership interest. During fiscal 2001, specialty revenues (which include royalties and fees from licensees as well as product sales) accounted for approximately 16% of the Company’s net revenues.

**Foodservice Accounts.** The Company sells whole bean and ground coffees to office coffee distributors, institutional foodservice companies that service business, industry, education and healthcare accounts, and to hotels, airlines, retailers and restaurants. As of September 30, 2001, the Company had approximately 5,500 foodservice accounts, and revenues from these accounts comprised approximately 31% of specialty revenues in fiscal 2001.

**North American Retail Store Licensing.** Although the Company does not generally relinquish operational control of its retail stores in North America, in situations in which a master concessionaire or another company controls or can provide improved access to desirable retail space, the Company licenses its operations. As part of these arrangements, Starbucks receives license fees and royalties and sells coffee and related products for resale in the licensed locations. Employees working in the licensed locations must follow Starbucks detailed store-operating procedures and attend training classes similar to those given to Starbucks store managers and employees. As of September 30, 2001, the Company had 809 licensed stores in continental North America, and revenues from these stores accounted for approximately 15% of specialty revenues in fiscal 2001.

**Grocery Channel Licensing.** Starbucks has a long-term licensing agreement with Kraft Foods, Inc. (“Kraft”) to market and distribute Starbucks whole bean and ground coffees in the grocery channel in the United States. Pursuant to that agreement, Kraft manages all distribution, marketing, advertising and promotions for Starbucks whole bean and ground coffee in grocery and mass merchandise stores. By the end of fiscal 2001, the Company’s whole bean and ground coffees were available throughout the United States in approximately 18,000 supermarkets, and revenues from the grocery channel accounted for approximately 14% of specialty revenues in fiscal 2001.

**Warehouse Club Accounts.** The Company sells whole bean and ground coffees to warehouse club chains. As part of its agreement with Starbucks to market and distribute to the grocery channel, Kraft also distributes Starbucks products to warehouse club stores. Revenues from warehouse club accounts accounted for approximately 13% of specialty revenues in fiscal 2001.

**International Retail Store Licensing.** Starbucks retail stores located outside of North America, the United Kingdom, Thailand and Australia are operated through a number of joint venture and licensing arrangements with prominent retailers. During fiscal 2001, the Company expanded its international presence by opening 282 new international licensed stores, including the first stores in Bahrain, Saudi Arabia, Switzerland and Israel. At fiscal year end, the Company had a total of 634 licensed international stores, including 289 stores in Japan, 74 in Taiwan, 62 in China, 33 in the Philippines, 30 in Singapore, 26 in Hawaii, 26 in New Zealand, 24 in South Korea, 21 in Malaysia, 12 in the United Arab Emirates, 11 in Saudi Arabia, nine in Kuwait, six in Switzerland, five in Lebanon, three in Qatar, two in Bahrain and one in Israel.

Product

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sales to and royalty and license fee revenues from licensed international retail stores accounted for approximately 13% of specialty revenues in fiscal 2001.

**Direct-to-Consumer Marketing.** The Company makes fresh Starbucks coffee and coffee-related products conveniently available via mail order and on-line. Starbucks publishes and distributes a mail order catalog and a catalog of business gifts that offer coffees, certain food items and select coffee-making equipment and accessories, and the Company maintains a web site at [www.starbucks.com](http://www.starbucks.com) with an on-line store that allows customers to purchase coffee, gifts and other items via the Internet. Management believes that the Company's direct-to-consumer operations support its retail store expansion into new markets and reinforce brand recognition in existing markets. Starbucks direct-to-consumer channel accounted for approximately 5% of specialty revenues in fiscal 2001.

**Other Initiatives.** The Company has several other initiatives related to its core businesses that are intended to enhance the customers' experience at Starbucks retail stores. For example, the Company is currently in the process of implementing wireless internet access in its retail stores and has marketed a selection of premium tea products since the acquisition of Tazo, L.L.C. in 1999. Collectively, these initiatives accounted for approximately 7% of specialty revenues in fiscal 2001.

**Joint Ventures.** The Company has two non-retail domestic 50-50 joint ventures. The North American Coffee Partnership, a joint venture with the Pepsi-Cola Company, a division of PepsiCo, Inc., develops and distributes ready-to-drink coffee-based products. By the end of fiscal 2001, the joint venture was distributing bottled Frappuccino coffee drink to approximately 200,000 supermarkets, convenience and drug stores and other locations throughout the United States and Canada. The Company has a joint venture with Dreyer's Grand Ice Cream, Inc. to develop and distribute Starbucks premium coffee ice creams. By the end of fiscal 2001, the joint venture was distributing a variety of ice cream and novelty products to over 20,000 supermarkets throughout the United States. Starbucks sells roasted coffee and coffee extract to these joint ventures, and revenues from these joint ventures accounted for approximately 2% of specialty revenues in fiscal 2001. (See Note 7 to the Company's consolidated financial statements, "Joint Ventures," incorporated by reference to the Company's 2001 Annual Report to Shareholders in Item 8 of this Form 10-K.)

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

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

The Company depends upon its relationships with outside trading companies and exporters for its supply of green coffee. Because world coffee prices reached 30-year lows during fiscal 2001, the Company is negotiating contracts with its suppliers at levels equal to prior years in order to encourage the continuing supply of high quality coffee in the future, and has been successful in securing long-term contracts on this basis. The Company routinely enters into fixed-price purchase commitments for future deliveries of coffee. As of September 30, 2001, the Company had approximately \$284 million in fixed-price purchase commitments which, together with existing inventory, are expected to provide an adequate supply of green coffee for 2002. The Company believes, based on relationships established with its suppliers in the past, that the risk of non-delivery on such purchase commitments is low. There can be no assurance that these activities will successfully protect the Company against the risks of higher coffee prices or that such activities will not result

in the Company having to pay substantially more for its coffee supply than it would have been required to pay absent such activities.

In addition to coffee, the Company also purchases significant amounts of dairy products to support the needs of its retail stores. Fluid milk is purchased from several suppliers who have processing facilities near concentrations of Starbucks retail stores. Dairy prices vary throughout the year as supply and demand fluctuate and are subject to additional changes due to government regulations.

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

Products other than whole bean coffees and coffee beverages sold in Starbucks retail stores are obtained through a number of different channels. Beverage ingredients other than coffee and milk are purchased from several specialty manufacturers, usually pursuant to long-term supply contracts. Specialty foods, such as fresh pastries and lunch items, are generally purchased from both regional and local sources based on quality and price. Coffee-making equipment, such as drip, vacuum and french press coffee makers, espresso machines and coffee grinders, are generally purchased directly from their manufacturers for resale. Coffee-related accessories, including items bearing the Company's logos and trademarks, are produced and distributed through contracts with a number of different vendors.

*Competition.* The Company's primary competitors for coffee beverage sales are restaurants, coffee shops, and street carts. In almost all markets in which the Company does business, there are numerous competitors in the specialty coffee beverage business, and management expects this situation to continue. Although competition in the beverage market is currently fragmented, a major competitor with substantially greater financial, marketing and operating resources than the Company could enter this market at any time and compete directly against the Company.

The Company's whole bean coffees compete directly against specialty coffees sold at retail through supermarkets, specialty retailers, and a growing number of specialty coffee stores. Both the Company's whole bean coffees and its coffee beverages compete indirectly against all other coffees on the market. The Company believes that its customers choose among retailers primarily on the basis of product quality, service and convenience, and, to a lesser extent, on price.

Management believes that supermarkets are the most competitive distribution channel for specialty whole bean coffee, in part because supermarkets offer customers a variety of choices without having to make a separate trip to a specialty coffee store. A number of nationwide coffee manufacturers are distributing premium coffee products in supermarkets that may serve as substitutes for the Company's coffees. Regional specialty coffee companies also sell whole bean coffees in supermarkets.

In addition to the competition generated by supermarket sales of coffee, Starbucks competes for whole bean coffee sales with franchise operators and independent specialty coffee stores. In virtually every major metropolitan area where Starbucks operates and expects to expand, there are local or regional competitors with substantial market presence in the specialty coffee business. Starbucks Specialty Operations also face significant competition from established wholesale and mail order suppliers, some of whom have greater financial and marketing resources than the Company.

In addition, the Company faces intense competition from both restaurants and other specialty retailers for suitable sites for new stores and qualified personnel to operate both new and existing stores. There can be no assurance that Starbucks will be able to continue to secure adequate sites at acceptable rent levels or that the Company will be able to attract a sufficient number of qualified workers.

*Patents, Trademarks, Copyrights and Domain Names.* The Company owns and/or has applied to register numerous trademarks and service marks in the United States, Canada and in more than 125 additional

countries throughout the world. Rights to the trademarks and service marks in the United States are generally held by Starbucks U.S. Brands Corporation, a wholly-owned subsidiary of the Company, and are used by the Company under license. Some of the Company's trademarks, including "Starbucks," the Starbucks logo and "Frappuccino," are of material importance to the Company. The duration of trademark registrations varies from country to country. However, trademarks are generally valid and may be renewed indefinitely as long as they are in use and/or their registrations are properly maintained, and they have not been found to have become generic.

The Company also owns numerous copyrights for its product packaging, promotional materials, in-store graphics and training materials, among other things. The Company also holds patents on certain products, systems and designs. In addition, the Company has registered and maintains numerous Internet domain names, including "Starbucks.com" and "Starbucks.net." While valuable, individual copyrights, patents and domain names currently held by the Company are not viewed as material to the Company's business.

*Research and Development.* The Company's research and development efforts are led by food scientists, engineers, chemists and culinarians in the Research and Development department. This team is responsible for the technical development of food and beverage products and new equipment. Recent development efforts have resulted in successful flavor line extensions for latte beverages, Frappuccino blended beverages and new items for the Company's morning pastry and lunch lines. The department also introduced improvements in base ingredients and approved a new supplier to aid in the distribution of products to international markets and formulation changes to tea-based beverages. The Company spent approximately \$4.0 million during fiscal 2001 on technical research and development activities, in addition to customary product testing and product and process improvements in all areas of the Company's business.

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

*Employees.* As of September 30, 2001, the Company employed approximately 54,000 individuals, approximately 50,000 in retail stores and the remainder in the Company's regional offices and administrative, specialty, store development, roasting, and warehousing operations. At fiscal year end, employees at 12 of the Company's stores and a group of 17 maintenance mechanics and technicians at one roasting plant were represented by unions. Starbucks entered into a labor agreement governing the terms and conditions of employment for employees in the 12 stores that expired in July 2001 and is currently negotiating with the Union for a renewal of the agreement. Starbucks and the Union representing the roasting plant employees recently reached an agreement governing the terms and conditions of employment for those employees at the roasting plant. The Company believes that its current relations with its employees are good.

## **Item 2. Properties**

Starbucks currently operates three roasting and distribution facilities. In the Seattle area, the Company owns a roasting plant and distribution facility of approximately 305,000 square feet and leases two warehouse facilities totaling approximately 200,000 square feet in Kent, Washington. The Company also owns a 365,000 square foot roasting and distribution facility and a 297,000 square foot green coffee bean storage warehouse in York County, Pennsylvania. In addition, the Company leases a small roasting and storage facility in London, England that supports its operations in Europe and the Middle East. The lease for this facility expires in December 2002 unless extended by the parties. To support its growth, the Company recently acquired 100 acres of land in Minden, Nevada and has begun construction on a 330,000 square foot roasting and distribution facility. The Company is also in negotiations to build a 70,000 square foot roasting plant in The Netherlands.

The Company leases approximately 620,000 square feet of a building located in Seattle, Washington for administrative offices and has options to lease approximately 380,000 additional square feet in the same

building. The Company owns 2.36 acres of undeveloped land near its administrative offices that is used for parking.

As of September 30, 2001, Starbucks operated a total of 3,266 retail stores. All Starbucks stores are located in leased premises. The Company also leases space in approximately 75 additional locations for regional, district and other administrative offices, training facilities and storage, not including certain seasonal retail storage locations.

**Item 3. Legal Proceedings**

On June 20, 2001 and July 2, 2001, two purported class action lawsuits against the company entitled *James Carr, et al. v. Starbucks Corporation* and *Olivia Shields, et al. v. Starbucks Corporation* were filed in the Superior Courts of California, Alameda and Los Angeles Counties, respectively. Each lawsuit subsequently was removed to United States District Court, Northern District of California and Central District of California, respectively. Each of the lawsuits was filed by two plaintiffs who are current or former store managers and assistant store managers on behalf of themselves and other similarly situated store managers, assistant store managers and retail management trainees. The lawsuits allege that the Company improperly classified such employees as exempt under California's wage and hour laws and seek damages, restitution, reclassification and attorneys fees and costs. Starbucks is vigorously investigating and defending this litigation and is also pursuing alternative dispute resolution possibilities with the plaintiffs. Because the cases are in the very early stages, the financial impact to the Company, if any, cannot be predicted.

In addition to the California lawsuits described above, the Company is party to various legal proceedings arising in the ordinary course of its business, but it is not currently a party to any legal proceeding that management believes would have a material adverse effect on the financial position or results of operations of the Company.

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

No matters were submitted to a vote of security holders during the fourth quarter of fiscal year 2001.

**PART II**

**Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters**

The information required by this item is incorporated herein by reference to the section entitled "Shareholder Information" in the Company's Fiscal 2001 Annual Report to Shareholders, and is also attached in Exhibit 13 hereto.

**Item 6. Selected Financial Data**

The information required by this item is incorporated herein by reference to the section entitled "Selected Financial Data" in the Company's Fiscal 2001 Annual Report to Shareholders, and is also attached in Exhibit 13 hereto.

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

The information required by this item is incorporated herein by reference to the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's Fiscal 2001 Annual Report to Shareholders, and is also attached in Exhibit 13 hereto.

**Item 7A. Quantitative and Qualitative Disclosures about Market Risk**

The information required by this item is incorporated herein by reference to the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations — Financial Risk

Management” in the Company’s Fiscal 2001 Annual Report to Shareholders, and is also attached in Exhibit 13 hereto.

**Item 8. Financial Statements and Supplementary Data**

The information required by this item is incorporated herein by reference to the Consolidated Financial Statements and the notes thereto in the Company’s Fiscal 2001 Annual Report to Shareholders, and is also attached in Exhibit 13 hereto.

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures**

None.

**PART III**

**Item 10. Directors and Executive Officers of the Registrant**

Information concerning the directors of the Company and compliance with Section 16(a) of the Securities Exchange Act of 1934, as amended, is incorporated herein by reference to the sections entitled “Proposal 1 — Election of Directors” and “Executive Compensation — Section 16(a) Beneficial Ownership Reporting Compliance” in the Company’s definitive Proxy Statement for the Annual Meeting of Shareholders to be held on February 26, 2002 (the “Proxy Statement”). The Company intends to file the Proxy Statement within 120 days after the end of its fiscal year.

The executive officers of the Company are as follows:

| Name                    | Age | Position                                                                                                                                  | Executive Officer Since |
|-------------------------|-----|-------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|
| Howard Schultz          | 48  | Chairman of the Board of Directors and Chief Global Strategist                                                                            | 1985                    |
| Orin C. Smith           | 59  | Director, President and Chief Executive Officer                                                                                           | 1990                    |
| Howard Behar            | 57  | Director, President, North American Operations                                                                                            | 1989                    |
| Peter Maslen            | 49  | President, Starbucks Coffee International, Inc.                                                                                           | 1999                    |
| Michael Casey           | 56  | Executive Vice President, Chief Financial Officer and Chief Administrative Officer                                                        | 1995                    |
| Eduardo R. (Ted) Garcia | 54  | Executive Vice President, Supply Chain and Coffee Operations                                                                              | 1995                    |
| Shelley B. Lanza        | 45  | Executive Vice President, Partner Resources, Law and Corporate Affairs and Corporate Social Responsibility, General Counsel and Secretary | 1995                    |
| Deidra Wager            | 46  | Executive Vice President; Chief Retail Officer, Starbucks Coffee Japan, Ltd.                                                              | 1993                    |
| Wanda Herndon           | 49  | Senior Vice President, Worldwide Public Affairs                                                                                           | 1996                    |
| Darren Huston           | 35  | Senior Vice President, New Ventures                                                                                                       | 2000                    |

*Howard Schultz* is the founder of the Company and has been chairman of the board since its inception in 1985. Mr. Schultz served as chief executive officer from 1985 until June 2000, when he transitioned into the role of chief global strategist. From 1985 to June 1994, Mr. Schultz was also the Company’s president. From September 1982 to December 1985, Mr. Schultz was the director of Retail Operations and Marketing for Starbucks Coffee Company, a predecessor to the Company; and from January 1986 to July 1987, he was the

chairman of the board, chief executive officer and president of Il Giornale Coffee Company, a predecessor to the Company.

*Orin C. Smith* joined the Company in 1990 and has served as president and chief executive officer of the Company since June 2000. From June 1994 to June 2000, Mr. Smith served as the Company's president and chief operating officer. Prior to June 1994, Mr. Smith served as the Company's vice president and chief financial officer and later, as its executive vice president and chief financial officer.

*Howard Behar* joined the Company in August 1989 as vice president, Retail Stores and was promoted to senior vice president, Retail Operations in January 1991. Mr. Behar served as the Company's executive vice president, Sales and Operations from February 1993 until June 1994 when he became president, Starbucks Coffee International, Inc., a position he held until his retirement in late 1999. Mr. Behar rejoined the Company in September 2001 as president, North American Operations. Mr. Behar has served as a member of the Board of Directors since January 1996.

*Peter Maslen* joined Starbucks in August 1999 as president, Starbucks Coffee International, Inc. Prior to joining Starbucks, Mr. Maslen served in various executive positions within Asia Pacific and Europe with Mars Inc., PepsiCo, Inc. and Tricon Global Restaurants. From 1992 to 1999, as senior vice president with Tricon, he served as president of its German, Swiss, Austrian and Central Europe divisions.

*Michael Casey* joined Starbucks in August 1995 as senior vice president and chief financial officer and was promoted to executive vice president, chief financial officer and chief administrative officer in September 1997. Prior to joining Starbucks, Mr. Casey served as executive vice president and chief financial officer of Family Restaurants, Inc. from its inception in 1986. During his tenure there, he also served as a director from 1986 to 1993, and as president and chief executive officer of its El Torito Restaurants, Inc. subsidiary from 1988 to 1993.

*Eduardo R. (Ted) Garcia* joined Starbucks in April 1995 as senior vice president, Supply Chain Operations and was promoted to executive vice president, Supply Chain and Coffee Operations in September 1997. From May 1993 to April 1995, Mr. Garcia was an executive for Gemini Consulting. From January 1990 until May 1993, he was the vice president of Operations Strategy for Grand Metropolitan PLC, Food Sector.

*Shelley B. Lanza* joined Starbucks in June 1995 as senior vice president, Law and Corporate Affairs and general counsel and was promoted to executive vice president, Human Resources (now Partner Resources), Law and Corporate Affairs, Corporate Social Responsibility, general counsel and secretary in March 2000. From 1986 to 1995, Ms. Lanza served as vice president and general counsel of Honda of America Manufacturing, Inc. From 1982 to 1986, Ms. Lanza practiced law at the law firm of Vorys, Sater, Seymour and Pease in Columbus, Ohio.

*Deidra Wager* joined Starbucks in 1992 and served as the Company's senior vice president, Retail Operations from August 1993 to September 1997 when she was promoted to executive vice president, Retail. In March 1999, Ms. Wager moved to Tokyo, Japan to serve as a consultant to Starbucks Coffee International, Inc. and work with Starbucks Coffee Japan, Ltd. for which she now serves as chief retail officer. Prior to joining Starbucks, Ms. Wager held several operations positions with Taco Bell®, Inc. from 1988 to 1992.

*Wanda Herndon* joined Starbucks in July 1995 as vice president, Communications and Public Affairs and was promoted to senior vice president, Communications and Public Affairs (now known as Worldwide Public Affairs) in November 1996. From February 1990 to June 1995, Ms. Herndon held several communications management positions at DuPont Company. From November 1978 to February 1990, Ms. Herndon held several public affairs and marketing communications positions at the Dow Chemical Company.

*Darren Huston* joined Starbucks in June 1998 as vice president, Retail Strategy and New Business and was promoted to senior vice president, New Ventures in March 2000. From 1994 to 1998, Mr. Huston worked at McKinsey & Company and was a leader in McKinsey's strategy and marketing practices.

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

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### Item 11. *Executive Compensation*

The information required by this item is incorporated by reference to the section entitled “Executive Compensation” in the Company’s Proxy Statement for the Annual Meeting of Shareholders on February 26, 2002.

### Item 12. *Security Ownership of Certain Beneficial Owners and Management*

The information required by this item is incorporated by reference to the section entitled “Beneficial Ownership of Common Stock” in the Company’s Proxy Statement for the Annual Meeting of Shareholders on February 26, 2002.

### Item 13. *Certain Relationships and Related Transactions*

The information required by this item is incorporated by reference to the section entitled “Executive Compensation — Certain Transactions” in the Company’s Proxy Statement for the Annual Meeting of Shareholders on February 26, 2002.

## PART IV

### Item 14. *Exhibits, Financial Statement Schedules and Reports on Form 8-K*

(a) The following documents are filed as a part of this Annual Report on Form 10-K:

1. *Financial Statements.*

The following financial statements are incorporated by reference in Part II, Item 8 of this Annual Report on Form 10-K:

Consolidated Statements of Earnings for the fiscal years ended September 30, 2001, October 1, 2000 and October 3, 1999;  
Consolidated Balance Sheets as of September 30, 2001 and October 1, 2000;  
Consolidated Statements of Cash Flows for the fiscal years ended September 30, 2001, October 1, 2000 and October 3, 1999;  
Consolidated Statements of Shareholders’ Equity for the fiscal years ended September 30, 2001, October 1, 2000 and October 3, 1999;  
Notes to Consolidated Financial Statements; and  
Independent Auditors’ Report

2. *Financial Statement Schedules.*

Financial statement schedules are omitted because they are not required or are not applicable, or the required information is provided in the consolidated financial statements or notes thereto described in Item 14(a)(1) above.

3. *Exhibits.*

The Exhibits listed below and on the accompanying Index to Exhibits immediately following the signature page hereto are filed as part of, or incorporated by reference into, this Annual Report on Form 10-K.

| Exhibit No. | Description                                                                                                                                                                                                                                     |
|-------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3.1         | Restated Articles of Incorporation of Starbucks Corporation (incorporated herein by reference to Exhibit 3.1 to the Company’s Form 10-Q for the quarter ended April 1, 2001, filed with the Securities Exchange Commission on May 16, 2001)     |
| 3.2         | Amended and Restated Bylaws of Starbucks Corporation (incorporated herein by reference to Exhibit 3.2 to the Company’s Form 10-K for the Fiscal Year ended October 1, 2000, filed with the Securities Exchange Commission on December 22, 2000) |

## Table of Contents

| Exhibit No. | Description                                                                                                                                                                                                                                                                                                               |
|-------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.1        | Starbucks Corporation Amended and Restated Key Employee Stock Option Plan — 1994 (incorporated herein by reference to Appendix A to the Company’s Proxy Statement filed with the SEC on January 11, 2000)*                                                                                                                |
| 10.2        | Starbucks Corporation Amended and Restated 1989 Stock Option Plan for Non-Employee Directors (incorporated herein by reference to Appendix A to the Company’s Proxy Statement filed with the SEC on January 13, 1999)*                                                                                                    |
| 10.3        | Starbucks Corporation 1991 Company-Wide Stock Option Plan, as amended and restated through August 28, 2000 (incorporated herein by reference to Exhibit 10.3 to the Company’s Form 10-K for the Fiscal Year ended October 1, 2000, filed with the SEC on December 22, 2000)*                                              |
| 10.3.1      | Starbucks Corporation 1991 Company-Wide Stock Option Plan — Rules of the UK Sub-Plan, as amended and restated through August 28, 2000 (incorporated herein by reference to Exhibit 10.3.1 to the Company’s Form 10-K for the Fiscal Year ended October 1, 2000, filed with the SEC on December 22, 2000)*                 |
| 10.4        | Starbucks Corporation Employee Stock Purchase Plan — 1995, as amended and restated through June 30, 2000 (incorporated herein by reference to Exhibit 10.4 to the Company’s Form 10-K for the Fiscal Year ended October 1, 2000, filed with the SEC on December 22, 2000)*                                                |
| 10.5        | Amended and Restated Lease, dated as of January 1, 2001, between First and Utah Street Associates, L.P. and Starbucks Corporation                                                                                                                                                                                         |
| 10.6        | Special Warranty Deed, dated March 7, 1994, between Kent North Corporate Park, as grantor and Starbucks Corporation, as grantee (incorporated herein by reference to Exhibit 10.14 to the Company’s Form 10-K for the Fiscal Year ended October 2, 1994, filed with the SEC on December 23, 1994)                         |
| 10.7        | Joint Venture and Partnership Agreement, dated August 10, 1994, between Pepsi-Cola Company, a division of PepsiCo, Inc., and Starbucks New Venture Company (incorporated herein by reference to Exhibit 10 to the Company’s Form 10-Q for the Quarterly Period ended July 3, 1994, filed with the SEC on August 16, 1994) |
| 10.8        | Lease, dated August 22, 1994, between York County Industrial Development Corporation and Starbucks Corporation (incorporated herein by reference to Exhibit 10 to the Company’s Form 10-Q for the Quarterly Period Ended July 2, 1995, filed with the SEC on August 15, 1995)                                             |
| 10.9        | Starbucks Corporation Executive Management Bonus Plan (incorporated herein by reference to Exhibit 10.15 to the Company’s Form 10-K for the fiscal year ended October 3, 1999)*                                                                                                                                           |
| 10.10       | Starbucks Corporation Management Deferred Compensation Plan (incorporated herein by reference to Exhibit 4.1 to the Company’s Registration Statement on Form S-8 filed with the SEC on January 1, 1998)*                                                                                                                  |
| 10.11       | Starbucks Corporation 1997 Deferred Stock Plan (incorporated herein by reference to Exhibit 10.17 to the Company’s Annual Report on Form 10-K for the fiscal year ended October 3, 1999)*                                                                                                                                 |
| 10.12       | Purchase Agreement, dated as of June 14, 2001, between Starbucks Manufacturing Corporation and CVBP LLC                                                                                                                                                                                                                   |
| 10.12.1     | First Amendment to Purchase Agreement, dated as of November 7, 2001, between Starbucks Manufacturing Corporation and CVBP LLC                                                                                                                                                                                             |
| 13          | Portions of the Fiscal 2001 Annual Report to Shareholders                                                                                                                                                                                                                                                                 |
| 21          | Subsidiaries of the Registrant                                                                                                                                                                                                                                                                                            |
| 23          | Independent Auditors’ Consent                                                                                                                                                                                                                                                                                             |

\* Management contract or compensatory plan or arrangement.

### (b) Reports on Form 8-K.

The Company filed a Current Report on Form 8-K on September 17, 2001 announcing plans for the initial public offering of Starbucks Coffee Japan, Ltd. The Company also filed a Current Report on Form 8-K on September 18, 2001 announcing the authorization of a stock repurchase program.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

STARBUCKS CORPORATION

By: /s/ HOWARD SCHULTZ

Howard Schultz  
*Chairman of the Board of Directors and  
Chief Global Strategist*

December 17, 2001

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

| Signature                                                             | Title                                                                                                                                             | Date              |
|-----------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|
| <div>/s/ HOWARD SCHULTZ</div> <div>Howard Schultz</div>               | Chairman of the Board of Directors and Chief Global Strategist                                                                                    | December 17, 2001 |
| <div>/s/ ORIN C. SMITH</div> <div>Orin C. Smith</div>                 | Director, President and Chief Executive Officer                                                                                                   | December 17, 2001 |
| <div>/s/ HOWARD BEHAR</div> <div>Howard Behar</div>                   | Director, President, North American Operations                                                                                                    | December 17, 2001 |
| <div>/s/ MICHAEL CASEY</div> <div>Michael Casey</div>                 | Executive Vice President, Chief Financial Officer and Chief Administrative Officer (Principal Financial Officer and Principal Accounting Officer) | December 17, 2001 |
| <div>/s/ BARBARA BASS</div> <div>Barbara Bass</div>                   | Director                                                                                                                                          | December 17, 2001 |
| <div>/s/ CRAIG J. FOLEY</div> <div>Craig J. Foley</div>               | Director                                                                                                                                          | December 17, 2001 |
| <div>/s/ GREGORY B. MAFFEI</div> <div>Gregory B. Maffei</div>         | Director                                                                                                                                          | December 17, 2001 |
| <div>/s/ ARLEN I. PRENTICE</div> <div>Arlen I. Prentice</div>         | Director                                                                                                                                          | December 17, 2001 |
| <div>/s/ JAMES G. SHENNAN, JR.</div> <div>James G. Shennan, Jr.</div> | Director                                                                                                                                          | December 17, 2001 |
| <div>/s/ CRAIG E. WEATHERUP</div>                                     | Director                                                                                                                                          | December 17, 2001 |



## INDEX TO EXHIBITS

| Exhibit No. | Description                                                                                                                                                                                                                                                                                                               |
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| 21          | Subsidiaries of the Registrant                                                                                                                                                                                                                                                                                            |
| 23          | Independent Auditors' Consent                                                                                                                                                                                                                                                                                             |

## EXHIBIT 10.5

## AMENDED AND RESTATED LEASE

This Amended and Restated Lease (this "Restated Lease") is made as of the 1st day of January, 2001, (the "Restatement Effective Date") by and between FIRST & UTAH STREET ASSOCIATES, L.P., a Washington limited partnership ("Landlord"), and STARBUCKS CORPORATION, d/b/a Starbucks Coffee Company, a Washington corporation ("Tenant").

In consideration of the mutual promises and agreements set forth in the Lease, Landlord and Tenant agree as follows:

WHEREAS, Tenant is currently and has since 1993 been a tenant of Landlord pursuant to the terms of an Office Lease dated July 1, 1993 (the "Office Lease") for certain premises of that certain building known as Starbucks Center. The Office Lease was amended by that Amendment to Lease dated September 10, 1993, that Second Amendment to Office Lease dated January 1, 1995, that Third Amendment to Office Lease dated September 30, 1995, that Fourth Amendment to Office Lease dated October 31, 1997, that Fifth Amendment to Office Lease dated March 5,

1998, and that Sixth Amendment to Office Lease dated January 4, 1999 (collectively, the Office Lease and Amendments First through Sixth are referred to herein as the "Initial Amended Lease", and this Restated Lease is also referred to herein simply as the "Lease"); and

WHEREAS, the parties desire to further amend the Initial Amended Lease to add additional space in the Starbucks Center to the Premises (defined below) and for other reasons and have determined the most appropriate method to accomplish this is to Amend and Restate the Lease in its entirety.

NOW, THEREFORE, in consideration of the mutual promises and covenants contained herein, the parties agree to amend and restate the Initial Amended Lease in its entirety to read as follows:

1. Description of Premises.

a. Premises

Landlord does hereby lease to Tenant, on the terms and conditions hereinafter set forth, those certain premises (the "Initial Premises") containing approximately five hundred fifty thousand (550,000) square feet of rentable space (the "Rentable Space")(calculated as provided below) primarily located on the sixth through the ninth floors ("Floors") of the Starbucks Center at 2401 Utah Avenue South in Seattle, King County, Washington (the "Building"), which is situated on the real property legally described on Exhibit A attached hereto (the "Property"). The floors of the Building are referred to herein individually as, a "Floor", and collectively as, the "Floors". In addition, Tenant has the right hereunder, subject to the availability of additional parking as described herein, to lease up to an additional four hundred fifty thousand (450,000) square feet of Rentable Space on the second through fifth Floors of the Building (the "Additional Premises"). As used herein, the Initial Premises and any portion of Additional Premises, from and after the date Tenant elects or is required to take possession of and/or pay Rent (defined below) on such portion of the Additional Premises, are collectively referred to herein as the "Premises", provided that space on which Tenant is required to pay a Holding Fee (defined below) pursuant to Section 5.c. shall not be deemed Premises. The Building, the Parking Garage (defined below), the North Parking Garage (defined below and, collectively with the Parking Garage, the "Parking Garages"), and the Property are collectively referred to in this Lease as the "Project," and the Project is depicted on the site plan attached hereto as Exhibit A-1 (the "Site

Plan"). The larger development owned by Landlord, including Home Depot and Sears Auto Center, is referred to herein as the "Larger Development." The total area of the Building is 1,473,440 square feet of Rentable Space. The Initial Premises shall be located as shown in the space plan for the Premises attached to this Lease as Exhibit B (the "Space Plan").

b. Common Areas.

This Lease includes the right of Tenant, subject to the applicable Rules and Regulations (defined below) and the express terms of this Lease, to use the common areas and facilities of the Project in common with other tenants of the Project. For purposes of this Lease, "common areas and facilities" means all of the facilities in the Project designed and intended for use by the tenants of the Project in common with Landlord and each other, including without limitation common corridors, elevators, walkways, truck docks, restrooms, service areas, lobbies, the cafeteria, risers and all other common and service areas of the Building and parking areas and landscape areas in or on the Project.

c. Measurement.

As used in this Lease, the "square footage of Rentable Space" shall mean floor area measured in the manner described in Exhibit C ("Space Measurement") attached hereto, provided that the parties stipulate that the square footage of Rentable Space of the Initial Premises (as shown on Exhibit B) as of the Restatement Effective Date shall be those amounts shown on Exhibit B.

2. Term.

a. Term.

The "Initial Term" of this Lease commenced on or about September 17, 1993 (the "Commencement Date of the Initial Amended Lease") and shall end on September 30, 2025.

The "Term" of the Lease shall mean the Initial Term and any Extension Term (defined below) for which an Extension Option (defined below) is exercised.

b. Acceptance of Premises.

Landlord or Landlord's agents have made no representations or promises with respect to the Building, the Premises or this Lease except as herein expressly set forth. Landlord represents and warrants that all structural parts, including but not limited to the foundation, roof, exterior walls, plumbing and electrical systems, if any, of the Project, and any work constructed or caused to be constructed by Landlord in the Initial Premises or pursuant to Exhibit L of this Lease, meet and comply with all federal, state and local laws, ordinances and regulations and are in good and sanitary order, condition and repair at delivery of the Premises to Tenant. Tenant represents and warrants to Landlord that (a) Tenant's sole intended use of the Premises is for general office use, data center, training, storage, R&D Labs, test kitchen, model store, pilot plant, roaster and other related purposes, (b) Tenant does not intend to use the Premises for any other purpose, (c) prior to executing this Lease Tenant has made such investigations as Tenant deemed appropriate with respect to the suitability of the Premises for its intended use and has determined that the Premises are suitable for such intended use, and (d) subject to Landlord's warranties set forth above, Tenant's taking possession of the Premises shall be conclusive evidence that Tenant accepts the same and that the Premises were in good and satisfactory condition on such date.

3. Extension Options.

a. Grant of Option.

If Tenant is not then in default under the terms of the Lease, Tenant shall have the option to extend the Term of the Lease for three (3) additional periods of five (5) years each (each an "Extension Option" for an "Extension Term"), the first of which will commence at the end of the

Initial Term of the Lease, and the second and third of which will commence immediately after the expiration of the immediately preceding Extension Term. Each Extension Term shall be upon the same terms and conditions as contained in the Lease, except that the total Rent (exclusive of Tenant's pro rata share of Operating Expenses (defined below)) for each Extension Term shall be ninety five percent (95%) of the then-prevailing "Effective Fair Market Rent" (defined below) for the Premises. For purposes of this Section, "Effective Fair Market Rent" is hereby defined to be that flat rental rate per square foot of Rentable Space that will yield to Landlord over the applicable Extension Term in question the same net number of dollars Landlord would earn if Landlord were to put the space in question (in its then-existing condition) on the market for lease to a new office tenant, after factoring in all typical concessions and similar expense passthroughs. The Extension Options to extend the Lease for three (3) Extension Terms shall be exercised by Tenant's giving written notice thereof to Landlord at least two hundred seventy (270) days before the end of the Initial Term or the then Extension Term, respectively; provided that in no event shall any Extension Option be deemed to have expired unless Tenant fails to exercise its option within fifteen (15) days following receipt of a written reminder notice from Landlord of the deadline for exercising the Extension Option. Such reminder notice to be given not earlier than fifteen (15) days before the deadline for exercise of the applicable Extension Option. For example, if Tenant has not exercised an Extension Option two hundred seventy (270) days before the end of the then existing term, the time for exercise shall be not later than fifteen (15) days after Tenant's receipt of Landlord's reminder notice.

b. Calculation of Effective Fair Market Rent.

If Landlord and Tenant are unable to agree on the Effective Fair Market Rent within thirty (30) days following Tenant's exercise of an Extension Option (the "Exercise Date"), both

Landlord and Tenant shall submit their final estimate of the Effective Fair Market Rent to the other in writing within ten (10) days thereafter, and the Effective Fair Market Rent shall be determined by arbitration as follows:

(i) The arbitration will be by three arbitrators, all of whom must be (1) neutral parties and (2) either MAI appraisers or licensed real estate brokers who have been active, over the five (5) years ending on the date of appointment, in the brokering or appraisal of office space in the greater Seattle Central Business District. Landlord and Tenant shall each select one of the arbitrators, and such selection shall be accomplished within sixty (60) days after the Exercise Date. The third arbitrator will be selected by the two arbitrators so chosen by Landlord and Tenant. If the two arbitrators cannot agree upon the third arbitrator within ninety (90) days following the Exercise Date, the third arbitrator will be selected by application by either party to the American Arbitration Association.

(ii) Within one hundred twenty (120) days following the Exercise Date (the "Decision Date"), the arbitrators shall decide on the Effective Fair Market Rent for the Premises for a five (5) year term. (For purposes of determining the Effective Fair Market Rent for the first or second Extension Term, the existence of the second and/or third Extension Option shall also be taken into consideration.) The decision of the majority of the arbitrators shall control. If a majority of the arbitrators do not agree within the stipulated time period, then each arbitrator shall render his or her separate determination of the Effective Fair Market Rent on or before the Decision Date. In such case, the three (3) determinations shall be averaged to determine the Effective Fair Market Rent. However, if the lowest Effective Fair Market Rent and/or the highest Effective Fair Market Rent is more than ten percent (10%) lower or higher than the middle Effective Fair Market Rent, the low Effective Fair Market Rent and/or high

Effective Fair Market Rent shall be disregarded. If only one (1) Effective Fair Market Rent is disregarded, the remaining two (2) Effective Fair Market Rents will be averaged in order to establish the Effective Fair Market Rent.

(iii) Both parties may submit any information to the arbitrators for their consideration with copies to the other party. In using comparable lease rates to aid in determining Effective Fair Market Rent, the parties shall employ lease rates for comparable space only within a two (2) mile radius of the Building. A copy of the arbitrators' written decision will be given to both parties when the Effective Fair Market Rent has been determined. The determination of the Effective Fair Market Rent will be final and binding upon Landlord and Tenant. The cost of the arbitration will be paid by Tenant if the Effective Fair Market Rent is one hundred ten percent (110%) or more of the proposed Effective Fair Market Rent specified in the notice given by Tenant to Landlord, and shall be paid by Landlord if the Effective Fair Market Rent is less than ninety percent (90%) of the proposed Effective Fair Market Rent specified in the notice given by Landlord to Tenant, and otherwise shall be paid equally by the Landlord and Tenant.

(iv) With respect to the Effective Fair Market Rent for the second Extension Term, Landlord and Tenant shall attempt in good faith to agree on Effective Fair Market Rent up to one (1) year prior to expiration of the First Extension Term. If Landlord and Tenant are unable to agree, both Landlord and Tenant shall submit their final estimates of Effective Fair Market Rent to the other in writing by the tenth (10th) day of the last Lease Year (defined below) of the first Extension Term, and the Effective Fair Market Rent shall be determined in accordance with the procedures set forth in this Section 3.b. Notwithstanding anything to the contrary contained in this Section 3.b., Tenant's second Extension Option shall

not expire until the later of (1) the date set forth in Section 3.a, or (2) sixty (60) days following the determination of Effective Fair Market Rent.

#### 4. Rent.

##### a. Payment of Rent.

Tenant shall pay Landlord Rent each month in advance on the first day of each calendar month. Rent shall be payable only on the portion of the Premises in Actual Use (defined below) by Tenant as provided herein. Rent shall be payable in monthly installments throughout the Term of the Lease. Rent for any fractional calendar month, at the beginning or end of the Term of the Lease, shall be prorated based on the number of days in the month.

##### b. Adjustment of Rent.

Rent shall be adjusted from time to time based on changes in the size of the Premises. Whenever there is a change in the square footage of Rentable Space of the Premises, calculated pursuant to Exhibit C, in Actual Use by Tenant under the Lease, Landlord and Tenant shall execute a certificate (an "Expansion Certificate", which shall be in the form attached hereto as Exhibit D) setting out the then square footage of Rentable Space of the Premises and the Base Floor Rent (defined below) to be paid from the date of such change.

As used herein, the term "Lease Year" shall mean the twelve (12) month period during the Term from October 1 through the following September 30.

##### c. Rent Definition.

"Rent" as used in the Lease shall mean Base Floor Rent, Building Systems Additional Rent, Building Amenities Additional Rent, Parking Garage Base Rent, Operating Expense Additional Rent (all defined below) and any other items referred to as "Additional Rent" provided for in the Lease.

(i) Base Floor Rent. "Base Floor Rent" means a full service rent commencing October 1, 2000 (becoming applicable to the Expansion Premises (defined below) as it is added to the Premises) and is as follows:

| FL00R(S)                                            | COST PER SQUARE FOOT PER YEAR |
|-----------------------------------------------------|-------------------------------|
| 2nd, 3rd, 4th and 5th<br>(exclusive of Data Center) | \$10.02                       |
| 5th Floor Data Center and<br>6th through 9th        | \$ 5.15                       |

As used herein, the term "Data Center" refers to the 10,275 square foot area on the fifth Floor of the Building constructed as a data center for Tenant.

On October 1, 2005, October 1, 2010, October 1, 2015 and October 1, 2020, (the "Adjustment Dates"), Base Floor Rent shall be adjusted in accordance with the cumulative increase in the Index (defined below), provided that with respect to Floors 2 through 5 (exclusive of the Data Center), the initial deemed Base Floor Rent shall be Eight Dollars (\$8.00), which shall be the number used for the initial adjustment, and there shall then be added to the result (as increased on each Adjustment Date), the unadjusted amount of \$2.02). Adjusted Base Floor Rent shall be calculated by multiplying the Base Floor Rent then in effect for each Floor by a fraction, the numerator of which shall be the Consumer Price Index for all Urban Consumers--U.S. City Average--All Items, as most recently published by the U.S. Department of Labor's Bureau of Labor Statistics (the "Index") for the month immediately prior to the then current Adjustment Date, and the denominator of which shall be the Index published for the month immediately prior to the previous Adjustment Date (or, for purposes of calculating the first increase effective on October 1, 2005, the Index as of September 1, 2000); provided, however,

that the increase in Base Floor Rent for each of the Floors shall not exceed the maximum total percentages set forth below for each five (5) year period (e.g. "Years 6-10 references the 2005 adjustment).

| BASE FLOOR RENT<br>PAYABLE FOR FLOORS                           | APPLICABLE<br>FLOORS                 | YEARS<br>6-10      | YEARS<br>11-15     | YEARS<br>16-20     | YEARS<br>20-25     |
|-----------------------------------------------------------------|--------------------------------------|--------------------|--------------------|--------------------|--------------------|
| EFFECTIVE                                                       |                                      | OCTOBER 1,<br>2005 | OCTOBER 1,<br>2010 | OCTOBER 1,<br>2015 | OCTOBER 1,<br>2020 |
| Maximum total<br>percentage increase for<br>prior 5-year period | 6-9 and 5th<br>Floor Data<br>Center  | 22.25%             | 17.34%             | 17.34%             | 15.93%             |
| Maximum total<br>percentage increase for<br>prior 5-year period | 2-5<br>(exclusive of<br>Data Center) | 15.00%             | 15.00%             | 15.00%             | 15.00%             |

For example, for the first Adjustment Date, the limit on adjusted Base Floor Rent for the sixth through ninth Floors and the Data Center shall be calculated as follows:

$$\$5.15 \text{ [the current rate/s.f.] } \times 1.2225 = \$6.30$$

For the second Adjustment Date, assuming the maximum change in the Index in the previous five (5) years, the limit on adjusted Base Floor Rent for those Floors will be calculated as follows:

$$\$6.30 \times 1.1734 = \$7.39.$$

For the first Adjustment Date, the limit on Adjusted Base Floor Rent for the second through fifth Floors (exclusive of the Data Center) shall be calculated as follows:

$$\$8.00 \text{ [the deemed rate/s.f.] } \times 1.15 = \$9.20 + \$2.02 = \$11.22$$

For the second Adjustment Date the limit on adjusted Base Floor Rent for those Floors will be calculated as follows:

$$\$9.20 \times 1.15 = \$10.58 + \$2.02 = \$12.60.$$

Notwithstanding the foregoing, if any such decimal multiplier is less than one, the Base Floor Rent shall remain unchanged. If the Index is discontinued, Landlord shall substitute a similar index of consumer prices.

Base Floor Rent for the Premises has been established on a full-service basis and includes any charges or expenses for the Premises other than telephone, janitorial and any special utility or other requirements of Tenant as provided for in the Lease (which shall be paid directly by Tenant) and includes, subject to Tenant's obligations to pay for increases in Operating Expenses allocable to the Premises under Section 4.c.(v) below, Tenant's share of any charges or expenses for the Building and the Project, including without limitation, common area maintenance expenses, real property taxes and assessments, insurance, security systems, electrical service, water service, plumbing, sewer, garbage collection and common area janitorial service, but excludes all expenses of operating and maintaining the Parking Garage and, if applicable, the North Parking Garage, and also excludes all maintenance expenses which are the responsibility of Tenant under the Lease.

(ii) Building Systems Additional Rent. "Building Systems Additional Rent" shall equal the amount necessary to fully amortize, in equal monthly installments over a term of twenty (20) years at a fixed interest rate equal to nine and one-half percent (9.5%) (the "Amortization Rate"), the sum of the following items: (1) the total cost incurred by Landlord in the construction of Building Systems (defined below) required by Tenant pursuant to

Section 12.a below, excluding any allocation of costs for land (except with respect to the North Parking Garage as provided herein), overhead or Landlord/developer profit, plus (2) interest at the Amortization Rate accrued by Landlord during the Phase (defined below) of construction on funds loaned by Tenant for Building Systems, together with interest paid by Landlord during the

Phase on any other funds utilized by Landlord for construction of Building Systems at a rate not to exceed the prime interest rate established from time to time by Bank of America or its successor bank (the "Prime Rate") plus one percent (1%) (the "Construction Interest Rate") plus (3) a construction supervision fee payable to Landlord equal to three and one-half percent (3.5%) of the Hard Costs (defined below) of constructing the Building Systems; provided, however, such construction supervision fee shall be four and one-half percent (4.5%) of the Hard Costs for the construction of the North Parking Garage. Building Systems Additional Rent with respect to each Phase of the Building Systems (including Phases related to the Expansion Premises) shall be calculated separately and shall be due monthly commencing on the first (1st) day of October following completion of the particular Phase of Building Systems, and payable monthly following written notice given by Landlord to Tenant setting forth the total cost of such Phase of Building Systems and the calculation (or recalculation) of monthly Building Systems Additional Rent (with the initial payment adjusted to include Building Systems Additional Rent accrued from and after October 1 of the year the Phase is completed), and ending on the earlier to occur of (1) the expiration of the Lease, or (2) the first day of the 240th month from the date of first payment (with respect to that Phase). As used herein, "Hard Costs" shall mean direct costs incurred by Landlord and payable to third-party contractors, subcontractors or suppliers for labor, materials or equipment furnished to the Property in connection with the construction of Building Systems (or, where appropriate, Building Amenities (defined below) or the Parking Garages) including architects and engineering fees and Building Plans (defined below), but (except for the North Parking Garage) excluding any costs allocated to or incurred for land, overhead, Landlord/developer fees or profit, consultant fees, general conditions or supervision fees, financing fees, governmental or permitting fees, and taxes other than sales taxes. As of

October 1, 2000, the Building Systems Additional Rent totaled \$114,728.70 per month. With respect to Building Systems Additional Rent on the Initial Premises (including the remaining buildout of the sixth Floor), Tenant may make a one-time change to the Amortization Rate or amortization schedule for such amounts provided that no such change may increase the "unamortized" balance that would otherwise exist at the end of the Initial Term of this Lease. With respect to Building Systems Additional Rent on Required or Optional Expansion Premises (defined below), Tenant may change the Amortization Rate or amortization period used to calculate the Building Systems Additional Rent for each Phase at the time the Building Systems Additional Rent for that Phase first becomes due by giving written notice of the requested change to Landlord by not later than September 1 of such Phase, provided that no such change may increase the "unamortized" balance that would otherwise exist at the end of the Initial Term of this Lease.

(iii) Building Amenities Additional Rent. "Building Amenities Additional Rent" shall equal the amount necessary to fully amortize in equal monthly installments over a term of ten (10) years at a fixed interest rate equal to the Amortization Rate the sum of the following items: (1) the total cost incurred by Landlord in the construction of Building Amenities required by Tenant pursuant to Section 12.a. below, excluding any allocation of costs for land, overhead or Landlord/developer profit, plus (2) interest at the Amortization Rate accrued by Landlord during the Phase of construction on funds loaned by Tenant for Building Amenities, together with interest paid by Landlord during the Phase on any other funds utilized by Landlord for the construction of the Building Amenities at the Construction Interest Rate, plus (3) a construction supervision fee payable to Landlord equal to three and one-half percent (3.5%) of the Hard Costs of constructing the Building Amenities. Building Amenities

Additional Rent with respect to each Phase of the Building Amenities shall be calculated separately and shall be due monthly, commencing on the first (1st) day of October following completion of the particular Phase of Building Amenities, and payable monthly following written notice given by Landlord to Tenant setting forth the total cost of such Phase of Building Amenities and the calculation (or recalculation) of monthly Building Amenities Additional Rent (with the initial payment adjusted to include Building Amenities Additional Rent accrued from and after October 1 of the year the Phase is completed), and ending on the earlier to occur of (1) the expiration of the Lease, or (2) the first day of the 120th month from the date of first payment (with respect to that Phase). As of October 1, 2000, the Building Amenities Additional Rent totaled \$53,498.72 per month. With respect to Building Amenities Additional Rent on the Initial Premises (including the remaining build-out of the sixth Floor), Tenant may make a one-time change to the Amortization Rate or amortization schedule for such amounts provided that no such change may increase the "unamortized" balance that would otherwise exist at the end of the Initial Term of this Lease. With respect to Building Amenities Additional Rent on Required or Optional Expansion Premises, Tenant may change the Amortization Rate or amortization period used to calculate the Building Amenities Additional Rent for each Phase at the time the Building Amenities Additional Rent for that Phase first becomes due, by giving written notice of the requested change to Landlord by not later than September 1 of such Phase, provided that no such change may increase the "unamortized" balance that would otherwise exist at the end of the initial term of this Lease.

(iv) Parking Garage Base Rent. "Parking Garage Base Rent" for the Parking Garage shall equal (i) \$99,275.71 per month. Parking Garage Base Rent for the Parking Garage shall be due and payable monthly through June 30, 2016. Rent for the North Parking

Garage shall be calculated in the same manner as, and included in the Building System Additional Rent, except that the cost of the BN Parcel (defined below) and the value (determined on the same per square foot basis as the cost of the BN Parcel) of the Landlord's Garage Parcel (defined below) will be included. After Parking Garage Base Rent for the Parking Garage and for the North Parking Garage terminates as provided herein, rent for each of such Parking Garages shall be the Effective Fair Market Rent thereof, determined as provided in Section 3.b. above, provided that in calculating such Effective Fair Market Rent, one of the factors that shall be considered is the amount that the Landlord would pay to a professional garage operator (i.e. the Effective Fair Market Rent is net of all additional expenses that Landlord would incur if Landlord took over the Parking Garage or the North Parking Garage and contracted to have it operated in the open market outside of this Lease).

(v) Adjustments for Increases in Operating Expenses. Rent hereunder shall be adjusted as of January 1, 2001 and on January 1 of each year thereafter to reflect annual increases in Operating Expenses for the Project over the "Base Year" of 1995. As used herein, the tenor "Operating Expenses" shall include real estate taxes and liability and property damage insurance on the Project, excluding the Parking Garages (real estate taxes and insurance relating to the Parking Garage and North Parking Garage are charged separately, as Additional Rent, pursuant to Sections 14 and 15 below), utilities (including local telephone service charge of Landlord's building management office), common area janitorial services, security systems, facilities personnel, the management fee actually charged to the Project (Tenant's share of which pursuant to Section 4.c(v) (2) shall not to exceed four and one-half percent (4.5%) of the gross annual Rent paid by Tenant to Landlord hereunder) maintenance (including elevators, HVAC, the Building, parking areas, and landscaping) and trash removal, window washing and roof

repairs. Landlord and Tenant agree that the Operating Expenses for the Base Year (the "Operating Expense Base") are deemed to be \$2.02 per square foot of Rentable Space in the Premises for calculations of increases in Operating Expenses for periods after January 1, 2001. For the purposes of calculating the annual increases in Operating Expenses over the Operating Expense Base allocable to the Premises, the following allocation methods shall be used:

- (1) Any Operating Expenses separately allocable to the Premises will be allocated solely to the Premises; provided that in the case of any separate allocation, all tenant spaces (but not the common areas and facilities) in the Project shall either be subject to the same special allocation or the cost of providing such services to the other tenants' space shall be excluded from the Operating Expenses on which Tenant's share is based;
- (2) Building security, Building maintenance, Building staff, Building management fee (not to exceed four and one-half percent (4.5%) of the gross annual Rent paid by Tenant hereunder), real property taxes and insurance on the Property (excluding the Parking Garages), and all other Operating Expenses not specifically set forth in this Section shall be allocated on a per square foot basis using the ratio of the blended average of the total number of square feet of Rentable Space of the Premises in Actual Use during applicable periods to the total number of square feet of Rentable Space in the Building (excluding the Parking Garages).
- (3) Elevator and HVAC maintenance will be allocated as provided in Section 4.c.(v)(2) above except for any elevators serving only the Premises, which maintenance will be allocated directly to Tenant.
- (4) Electricity and gas will be metered at the Premises and will be allocated directly to Tenant.

(5) Janitorial work and supplies will be allocated based on the actual costs paid by Landlord to third parties to clean and supply the common areas and facilities of the Building. Tenant has elected to provide its own janitorial services in the Premises. The calculations of Base Floor Rent and Operating Expense Base set forth above reflect this fact, and the cost of janitorial services to the Premises and to the premises of other tenants shall not be an Operating Expense.

(6) Real property taxes for the Building (excluding the Parking Garages) will be allocated based upon the methods employed by the King County Assessor to determine the assessed value of the improvements to the Property, calculated and expressed on a cost per square foot basis. If the assessed value of the Building is established by capitalizing the net operating income from the Building, then Tenant's allocation of real property taxes will be based on a comparison of Landlord's net operating income derived from the Premises (excluding the Parking Garages) under the Lease to the total net operating income for the Building. If the assessed value of the Building is based on value of the improvements made to the Building, including the Building Improvements (defined below), Tenant's allocation of the real property taxes shall be reasonably allocated based on the level of improvements in the Premises compared to the level of improvements of the other premises in the Building.

If after Landlord's good faith application of the foregoing allocation methods Landlord and Tenant do not agree on the exact share or amount of real property taxes to be included in Operating Expenses, the dispute shall be resolved in accordance with Section 44 below.

Notwithstanding any other provision of this Lease, the following shall be excluded (or, as applicable, deducted) from the calculation of Tenant's share of Operating Expenses: (A) the cost of repairs or other work occasioned by fire, windstorm or other casualty or loss in excess of the

insurance proceeds therefor (or, if greater, the proceeds that would have been available had Landlord maintained the insurance required to be maintained by Landlord pursuant to this Lease), or by the exercise of eminent domain; (B) rental concessions or lease buy-outs; (C) the costs of renovating or otherwise improving or decorating, painting or redecorating space (exclusive of the common areas and facilities) for any tenants or other occupants of the Building, including, without limitation, Tenant; (D) the cost of any work or service performed for and electricity supplied to any tenant or occupant (other than Tenant) to the extent the cost of such work or service is "excess use" by such tenant, which shall mean the extent to which the cost exceeds the greater of (i) the cost of the standard amount or level of such work, service or electricity provided to tenants or occupants of the Building in general, or (ii) the cost of the amount or level of work, service or electricity made available by Landlord to Tenant without after hours or other special charge under this Lease; (E) depreciation; (F) overhead or profit paid to Landlord, subsidiaries or affiliates of Landlord, for services on or to the Building or common areas and facilities if and to the extent the cost therefor exceeds competitive costs for such services in comparable office buildings located within five (5) miles of the Building were they not so rendered by Landlord, or by a subsidiary or affiliate of Landlord; (G) payments of principal, interest or other payments of any kind on any deeds to secure debt, mortgages, ground or underlying leases, or other hypothecations for security of all or any part of the Building or common areas and facilities by Landlord; (H) Landlord's general overhead and any other expense not directly related to the Building or common areas and facilities, except if included in Landlord's management fee; (I) all items, services and/or goods for which Tenant or any other tenant, occupant, person or other party is obligated to reimburse Landlord or to pay third parties including all Landlord provided repair and maintenance services to any tenant space in excess of

those services provided to Tenant pursuant to Section 13.a; (J) advertising and promotional expenses with respect to leasing space in or selling the Building; (K) brokerage, legal and professional fees expended by Landlord in connection with negotiating and entering into any leases and any related instruments (including, without limitation, guaranties, surrender agreements, leasing amendments and consents to assignment or subletting) with any tenant or other occupant of any portion of the Building, and the enforcement of any such instruments; or which are expended or incurred by Landlord in connection with the negotiation and entering of sale, ground lease, financing, partnership or similar transactions pertaining to the Building, or any portion thereof, and/or of Landlord or an interest in Landlord, including without limitation, promissory notes, security deeds, mortgages, ground or master leases, purchase and sale agreements, options, and any and all similar and/or related documents, instruments and agreement; (L) estate, inheritance, gift, franchise and income taxes of Landlord (except for any such tax which is levied in lieu of or in substitution for any current or future real property taxes); (M) wages, salaries and other compensation paid to employees of the Landlord at the Building who are above the level of Property Manager, except as included in Landlord's management fee; (N) the costs and expenses of maintenance and operation of either of the Parking Garages, which are separately provided for under this Lease; (O) all items that would be capitalized under generally accepted accounting principles as of the date hereof except to the extent amortization of such item is less than the reduction in Operating Expenses achieved by such item; (P) the cost of defending against claims in regard to the existence or release of Hazardous Substances (defined below) at the Building or common areas and facilities and costs of any clean-up of any such Hazardous Substances; (Q) costs and expenses incurred in connection with compliance with or the contesting or settlement of any claimed violation of law or requirements of law if such law

was in effect and applicable to (i) the common areas and facilities as of the Commencement Date of the Initial Amended Lease or (ii) any portion of the Premises at the time the Building Systems or Building Amenities were constructed as to such portion; (R) interest, penalties or damages incurred by Landlord under any agreement to which Landlord is a party by reason of the default of Landlord; (S) expenses incurred in connection with relocating tenants in the Building; (T) the cost of installing, operating and maintaining any specialty service or special facility such as daycare, health club, cafeteria or dining facility or luncheon club, other than those facilities generally made available to tenants of the Building without costs; (U) the costs of acquiring, securing, cleaning and maintaining works of art; (V) any item or service that Landlord is specifically required by any provision of this Lease to provide at Landlord's expense, and (W) all other items for which Tenant or any other tenant, occupant or other party compensates Landlord, so that no duplication of payments by Tenant or to Landlord shall occur.

Commencing January 1, 2001, and continuing on the first day of each calendar month thereafter, Tenant shall pay to Landlord as "Operating Expense Additional Rent" hereunder, an amount equal to one-twelfth (1/12th) of the amount by which actual Operating Expenses for the calendar year in question, as estimated by Landlord and allocated to Tenant, exceed the Operating Expenses Base, as calculated, estimated and reconciled as provided herein.

Notwithstanding the foregoing, increases in Operating Expenses for the Limited Operating Expenses (defined below) shall not exceed three percent (3%) per annum, compounded but not cumulative, provided that if such Limited Operating Expenses increase by more than eight percent (8%) per annum, the increase over the eight percent (8%) will be paid by Tenant as a surcharge, which surcharge shall be included in the base calculation for increases in Limited Operating Expenses for the following year. As used herein, real property taxes, property

and liability insurance premiums and all utilities, including but not limited to electricity, water, sewer and gas are collectively referred to as "Unlimited Operating Expenses" and all Operating Expenses other than Unlimited Operating Expenses are referred to as "Limited Operating Expenses". As an example, in 1995 the Operating Expense Base (for all Operating Expenses) was \$2.5840 (including janitorial service of \$.562), and the cost of the Limited Operating Expenses was \$1.801, so that the increased rate per square foot per annum for Operating Expense Additional Rent hereunder allocable to increase in Operating Expenses for 1996 through 1999 was as follows:

#### OPERATING EXPENSES

|      | ACTUAL<br>LIMITED | ALLOWED<br>LIMITED | ACTUAL<br>UNLIMITED | ACTUAL<br>TOTAL | ALLOWED<br>PASSTHROUGH |
|------|-------------------|--------------------|---------------------|-----------------|------------------------|
| 1995 | \$1.801           | \$1.801            | \$0.784             | \$2.584         | \$2.584                |
| 1996 | \$1.905           | \$1.855            | \$0.929             | \$2.835         | \$2.784                |
| 1997 | \$2.171           | \$2.078            | \$1.096             | \$3.267         | \$3.175                |
| 1998 | \$2.195           | \$2.141            | \$1.067             | \$3.262         | \$3.208                |
| 1999 | \$2.240           | \$2.205            | \$1.016             | \$3.255         | \$3.221                |

The above table is for purposes only of illustrating the operation of the cap, as it includes the Base Year cost of janitorial service to the Premises (as per the Initial Amended Lease prior to this Restated Lease). Commencing January 1, 2001, janitorial services to the Premises and any other tenant premises is excluded from Operating Expenses.

On or before April 30 of each year, Landlord shall determine actual Operating Expenses for the immediately preceding year, and shall provide Tenant with a written statement setting forth in detail the comparison of estimated and actual Operating Expenses for such year. In the

event Tenant overpaid Operating Expenses for such year, Tenant shall have the right to offset the overpayment against Operating Expense Additional Rent falling due thereafter. In the event Tenant underpaid Operating Expenses for such year, Tenant shall pay to Landlord the amount of the underpayment within thirty (30) days following receipt of Landlord's statement.

Each notice provided by Landlord to Tenant with respect to calculations of Operating Expenses and Operating Expense Additional Rent due under this

Section 4 shall be accompanied by reasonable backup documentation supporting such calculations, and Tenant shall have the right to review and audit all pertinent information and documentation relating to these figures upon reasonable advance notice to Landlord for one (1) full calendar year following the conclusion of the calendar year in question. If Tenant's audit reveals that Landlord miscalculated the actual Operating Expenses by more than a factor of three percent (3%), Landlord shall reimburse Tenant for all third-party costs incurred by Tenant in conducting such audit. Landlord shall keep all pertinent backup information and documentation for at least three (3) years after the year in question.

## 5. Additional Premises.

### a. Required Expansion.

(i) Required Expansion Premises. Provided Landlord is able to provide the required additional parking as described in Section 15, Tenant shall lease an additional area of 200,000 square feet of Rentable Space on the third, fourth and fifth Floors of the Building (the "Required Expansion Premises") which Required Expansion Premises will be located as shown on Exhibit E ("Space Plan Required Expansion Premises") attached hereto and incorporated herein by reference. Tenant shall begin Actual Use of (or begin paying a Holding Fee as provided below) for Required Expansion Premises not later than six (6) months following

the dates shown in the agreed upon schedule for construction availability (the "Required Expansion Schedule") attached hereto as Exhibit F and incorporated herein by reference, which Required Expansion Schedule will provide for Tenant to lease at least 50,000 square feet of new space in the Required Expansion Premises each year commencing on October 1, 2001. The dates in the Required Expansion Schedule are the dates on which Landlord must be prepared to make the applicable Required Expansion Premises available for commencement of construction of Building Systems, Building Amenities and Tenant Improvements (defined below). As provided further below, such Required Expansion Premises shall thereafter be added to the Premises on Actual Use by Tenant, provided that if Actual Use has not occurred by six (6) months after the applicable Required Expansion Premises are made available for construction, then the Holding Fee may become applicable as provided in Section 5.c.

(ii) Timing and Construction. Tenant has given Landlord notice of takedown of the 4th Floor space currently occupied by Olympic West Sportswear, Inc. ("Olympic West") (as shown on Exhibit E as floor location 4th NE), with an availability for commencement of construction date of December 1, 2000. Tenant has given Landlord notice of takedown of the northeast corner of the 5th Floor (as shown on Exhibit E as floor location 5th NE) with an availability for commencement of construction date of April 1, 2001. Tenant shall give Landlord at least nine (9) months notice (an "Expansion Notice") in the form attached as Exhibit G of Tenant's intent to takedown any other Required Expansion Premises. The space described in any Expansion Notice shall be referred to as the "Designated Expansion Premises". Each Expansion Notice will set out the location, the proposed date of construction commencement (not earlier than the date designated on the Required Expansion Schedule) and proposed date of Tenant's Actual Use of the space, and will be for a minimum of 25,000 square

feet of Rentable Space in the Building. Upon receipt of Tenant's Expansion Notice, Landlord shall confirm the availability of the Designated Expansion Premises. Following the giving of an Expansion Notice, Tenant shall provide Landlord, not later than sixty (60) days prior to the scheduled availability for commencement of construction, permit ready plans and specifications approved by Tenant, and Landlord shall promptly apply for all necessary building permits for construction of improvements to the Designated Expansion Premises and shall work diligently using its best efforts to promptly obtain such permits and to construct such improvements as are required to be constructed by Landlord under this Lease. Each time the Premises are expanded by the inclusion of Required Expansion Space and upon the request of either, Landlord and Tenant shall execute an Expansion Certificate.

b. Optional Expansion.

Provided Landlord is able to provide the required additional parking as described in Section 15, after Tenant is in Actual Use of all of the Required Expansion Premises, as provided herein, Tenant shall have the option to lease an additional 250,000 square feet of space in the Building (the "Optional Expansion Premises" and collectively with the Required Expansion Premises, "the Expansion Premises") which Optional Expansion Premises will be located as shown on Exhibit H attached hereto and incorporated herein by reference (the "Space Plan Optional Expansion Premises"). The timing for commencement of construction of the Optional Expansion Premises is set forth in a schedule (the "Optional Expansion Schedule" and collectively with the Required Expansion Schedule, an "Expansion Schedule") attached hereto as Exhibit I and incorporated herein by reference. Tenant shall give Landlord an Expansion Notice a minimum of nine (9) months prior to Tenant's proposed date of availability for commencement of construction of any of the Optional Expansion Premises. Each such Expansion Notice will

designate the location of the proposed Optional Expansion Space and the proposed date of commencement of construction (not earlier than the date designated on the Optional Expansion Schedule) and of proposed date of Actual Use, and will be for a minimum of 25,000 square feet. Upon receipt of Tenant's Expansion Notice, Landlord shall confirm the availability of the Designated Expansion Premises. Following the giving of an Expansion Notice, Tenant shall provide Landlord, not later than sixty (60) days prior to the scheduled date of availability for commencement of construction, permit ready plans and specifications approved by Tenant, and Landlord shall promptly apply for all necessary building permits for construction of improvements to the Designated Expansion Premises and shall work diligently using its best efforts to promptly obtain such permits and to construct such improvements as are required to be constructed by Landlord under this Lease. Each time the Premises are expanded by the inclusion of Optional Expansion Space and upon the request of either, Landlord and Tenant shall execute an Expansion Certificate. If Tenant is not in Actual Use of the Designated Expansion Premises within six (6) months after the scheduled date of availability for commencement of construction as set forth in Tenant's Expansion Notice, a Holding Fee shall be paid if and to the extent provided in Section 5.c.

c. Tenant's Failure to Occupy Premises.

In the event Tenant has not commenced Actual Use of the amount of square footage of Rentable Space as is required to satisfy (i) the requirements of the Required Expansion Schedule in the case of Required Expansion Premises or (ii) the Actual Use date of Optional Expansion Premises based on the Optional Expansion Premises Expansion Notice (calculated in each case on the basis that applicable Expansion Premises are scheduled to be in Actual Use by six (6) months after the scheduled date it is to be available for the commencement of construction),

then Tenant shall pay a Holding Fee on the amount by which Tenant's Actual Use of such Expansion Premises is less than the Designated Expansion Premises; provided that (i) this provision shall not apply to any such Expansion Premises where all of the Building Systems and Building Amenities, if any, and Tenant Improvements have been substantially completed (because after substantial completion the Expansion Premises must be placed in Actual Use or be placed in a Space Pocket), and (ii) no Holding Fee or other charge shall be due for any period in which the lack of substantial completion or Actual Use is due to Landlord-caused delay (and Tenant shall not receive any credit for any rent received by Landlord for such space during such period). There are two levels of Holding Fee. First, to the extent the delay in substantial completion is not due to the fault of either Landlord or Tenant, the Holding Fee shall be at a rate equal to the total storage rent per square foot of Rentable Space per annum (including expense pass throughs) Landlord is then charging to third parties for similar space (the "Total Storage Rent") payable monthly until the date Tenant is in Actual Use of such space (with proration for any partial month). Second, to the extent the delay in substantial completion is caused by the fault of Tenant in not meeting required timelines or otherwise, the Holding Fee shall be at a rate equal to \$1.50 per square foot of Rentable Space per annum plus the Total Storage Rent for such space, payable monthly until the date Tenant is in Actual Use of such space (with proration for any partial month). In either situation in which a Holding Fee is due, Tenant shall receive as a credit against such Holding Fee any sums that Landlord receives as rent (including expense pass throughs) for such space from any third party.

d. Landlord's Obligation to Provide Space Prior to the Agreed Upon Option Dates and to Accommodate Substitutions.

(i) Required Expansion Premises. If Tenant wishes to take down Required Expansion Premises prior to date provided in the Required Expansion Schedule, Landlord shall use its best efforts to accommodate such accelerated take down unless to do so would cause Landlord to breach an existing lease of such space. If Landlord may make such space available by refusing to extend a lease, terminating a month-to-month tenancy, or exercising a termination clause, Landlord shall do so, so long as Tenant pays any rent lost as a result of Landlord's termination of such lease prior to the scheduled date of availability for commencement of construction. Landlord shall notify Tenant of the potential lost rent prior to terminating the applicable lease. In leasing (or renewing leases of) Required Expansion Premises to third parties after January 1, 2001, Landlord shall either limit the term of new or renewal leases or include a termination clause such that any new or renewal lease of Required Expansion Space may be terminated without charge on not more than nine (9) months notice. If Tenant wishes to accelerate take down of Required Expansion Space that is subject to a non-terminable lease, Landlord agrees to use its best efforts to relocate the tenants in the desired Required Expansion Space to another location in the Building. Landlord shall, prior to making such relocation, notify Tenant of any unavoidable additional costs Landlord will incur in implementing such relocation, and if there are such costs, the relocation shall be subject to Tenant agreeing to pay such costs.

(ii) Optional Expansion Premises. Landlord is not obligated to provide Optional Expansion Premises until the dates listed in the Optional Expansion Schedule. Landlord agrees, however, to use its best efforts to relocate and/or exercise termination clauses

of other tenants that are in the desired Optional Expansion Premises if Tenant's needs for Optional Expansion Space accelerate. Landlord shall, prior to making any such relocation or termination, notify Tenant of any unavoidable additional costs Landlord will incur in implementing such action, and if there are such costs, the relocation or termination shall be subject to Tenant agreeing to pay such costs. If the third party tenant can't be or isn't moved and the lease is not otherwise terminable, Landlord agrees not to extend such third party's lease beyond its existing term.

(iii) Substitutions. Landlord agrees to use its reasonable best efforts to accommodate Tenant's requests for modifications of the Required Expansion Schedule and Optional Expansion Schedule in which one designated space is substituted for another, so long as the total square footage required to be taken by any given time within the applicable category (i.e. Required or Optional) is not thereby reduced, and Landlord receives the same total rentals as it would have received but for the substitution.

(iv) Revision of Applicable Schedules. If Tenant makes a request for accelerated take down of Expansion Premises and/or modifications of the Required Expansion Schedule or Optional Expansion Schedule in which one designated space is substituted for another, Landlord shall use reasonable best efforts to respond to such request within twenty-one (21) days after the request, and the parties shall work in good faith to resolve any issues as expeditiously as possible. Upon establishment of a modification to the Required Expansion Schedule or Optional Expansion Schedule, the parties shall initial, date and attach to this Lease such revised schedule, and such modified schedule shall thereafter govern the rights of the parties hereunder.

e. Right of First Refusal.

Tenant shall have a right of first refusal to lease any space designated as Required Expansion Premises and Optional Expansion Premises, provided Tenant has first given Landlord written notice that Tenant needs to accelerate its expansion in the Building, which notice will include the amount of additional space needed by Tenant. In addition, Tenant shall have a right of first refusal to lease the space currently occupied by Sears in the Building at the expiration or earlier termination of the current Sears lease. These rights of first refusal shall be exercised by Tenant giving Landlord written notice of its intent to so lease such space within ten (10) days of written notice from Landlord as to the availability of such space. The Rent for the Required and Optional Expansion Premises will be as provided herein, and Rent for the space currently rented to Sears will be (1) until the date the Sears lease would have expired according to its terms, the greater of the scheduled rent under the Sears lease or the Base Floor Rent then being paid by Tenant on the second through fifth Floors, and (2) after the date the Sears lease would have expired according to its terms, the fair market value for similar retail space in its then existing condition, determined as provided for Effective Fair Market Rent in Section 3.b. above.

f. Additional Premises.

For the purposes of this Lease, any portion of the Required Expansion Premises and Optional Expansion Premises in Actual Use by Tenant and the Sears space, if leased by Tenant as provided herein, shall be considered to be Additional Premises for all purposes hereof.

6. Space Pockets.

a. Definition.

"Space Pockets" are office/workstations within the Required or Optional Expansion Premises built out for Tenant's future use, on which rent is not paid by Tenant until (i) such

office/workstations are placed in Actual Use, or (ii) a specific date as specified below, whichever occurs first.

b. Measurement.

The square footage of Rentable Space of the Space Pockets shall be a fixed amount based on the size of the Additional Premises on which the improvements have been constructed, as the case may be, and the number of offices/workstations, if any, in such space as measured in accordance with Exhibit C. This fixed amount shall be the average size of each office/workstation, if any, and its pro rata share of "Circulation Space" (hallways, copy rooms, conference rooms and other non-office areas) in the designated Additional Premises.

For example, if the designated Additional Premises total 60,000 square feet and contain 200 office/workstations per the applicable space plan for the Additional Premises, then the average office/workstation and its pro rata share of Circulation Space totals 300 square feet (60,000 square feet divided by 200 office/workstations = 300 square feet).

Accordingly if Tenant designated 50 office/workstations as Space Pockets, then the total square feet of Space Pockets would be 15,000 square feet (50 offices x 300 square feet / office = 15,000 square feet of Space Pockets). In this example, an office/workstation, regardless of its actual size, is deemed to be a 300 square feet Space Pocket for purposes of measuring the designation of or Actual Use of Space Pockets.

The actual number of office/workstation as shown on the applicable space plan and the square footage of Rentable Space of the designated Additional Premises as measured in accordance with Exhibit C is conclusive and final.

c. Actual Use.

"Actual Use" of any of the Additional Premises and/or Space Pockets is defined as when Tenant moves into and uses the offices/workstations, if any, in such designated Additional Premises including those that Tenant had previously designated as Space Pockets for any purpose other than inactive storage or when Tenant moves into and uses any of such designated Additional Premises which does not contain office/workstations. Once offices/workstations that were previously Space Pockets are in Actual Use, then the square footage of Rentable Space added to the Premises to calculate the Rent equals the deemed square feet of Rentable Space of those Space Pockets offices/workstations in Actual Use.

For example, using the same Space Pocket per office/workstation number as set out in the example in Section 6.b. above, if Tenant placed 10 additional offices/workstations in Actual Use, then Tenant would start paying Rent on 3,000 additional square feet of Rentable Space. The calculation is 10 offices/workstations times 300 square feet of Space Pocket per office/workstation equals 3,000 square feet of Rentable Space of total Space Pockets now in Actual Use.

The use of Circulation Space around offices/workstations that are designated as Space Pockets is not deemed to be Actual Use. The setup or storage of furniture in offices/workstations is also not deemed to be Actual Use.

d. Maximum Amount of Space Pockets.

Tenant shall have the right to Space Pocket up to twenty five percent (25%) of any Required or Optional Expansion Premises included in any Designated Expansion Premises. All Space Pockets designated in Designated Expansion Premises shall be deemed to be in Actual

Use six (6) months from the date of Tenant's first occupancy of any of the Designated Expansion Premises in which such Space Pockets are located.

The sizes, locations, and configurations of the Space Pockets shall be determined by Tenant prior to Tenant's occupancy of any of the Designated Expansion Premises in which such Space Pockets are located and Landlord shall be given written notice, in the form attached hereto as Exhibit J ("Space Pocket Designation") of the sizes, locations and configurations of the Space Pockets prior to the date Tenant takes occupancy of any such Designated Expansion Premises.

Tenant shall give Landlord five (5) days prior written notice when Tenant desires to place in Actual Use any portion of the Space Pockets, provided such Actual Use shall occur only on the first or fifteenth of a month and the minimum square footage of Space Pockets that Tenant can place in Actual Use at any given time is 2,000 square feet. For example, using the example set forth in Section 6.b., if Tenant only needed to occupy 6 offices totaling 1,800 square feet of Space Pockets, Tenant would have to place into Actual Use one more office/workstation such that the Space Pockets put in Actual Use would equal 2,100 square feet (7 offices x 300 square feet).

e. Right to Relocate Space Pockets.

Subject to the provisions of this Section 6, Tenant shall have the right to "relocate" Space Pockets to accommodate growth, shrinkage or reshuffling of various departments and/or support areas in the Designated Expansion Premises; provided, following such relocation, the total area of the Space Pockets in a specific Designated Expansion Premises may not be greater than the total area of the Space Pockets in such Designated Expansion Premises prior to such relocation. For example, Tenant's employees may vacate work stations and relocate into Space Pockets totaling equal or more square footage than those vacated, and the vacated work stations shall

become Space Pockets; provided that Tenant shall not reduce its Rent by relocating Space Pockets. Tenant shall notify Landlord in writing when such relocation is to occur, and any of Tenant's cost of relocating shall be paid by Tenant.

#### 7. Use of Premises.

Tenant will use the Premises for general office use, data center, training, storage, R&D Labs, test kitchen, model store, pilot plant, roaster and other related purposes and for no other purposes without Landlord's prior written consent, which consent shall not be unreasonably withheld or delayed. Tenant shall comply with all statutes, rules, ordinances, orders, codes and regulations which are applicable to Tenant's use and manner of use of the Premises, provided that Tenant shall not be responsible to make any structural repairs, improvements, replacement or alterations to the Premises, the Building and/or the Project in order to comply with requirements of this Section 7 unless caused by a change in Tenant's use of the Premises. Tenant shall not use or permit the Premises to be used in any manner which would increase the existing rate of insurance on the Building or cause the cancellation of any insurance policy covering the Building, nor shall Tenant permit to be kept, used or sold anywhere in or about the Premises or the Building any equipment, machinery, apparatus or device which may be prohibited by the provisions of the standard form fire insurance policies in use in the State of Washington, unless Tenant, at its sole expense, obtains an endorsement to the policy allowing such activity. Tenant, shall not during the term of this Lease, (a) commit or allow to be committed any waste upon the Premises, or any public or private nuisance or other act or thing which materially disturbs the quiet enjoyment of any other tenant in the Building, (b) allow any sale by auction upon the Premises, (c) place any loads upon the floor, walls, or ceiling of the Premises which endanger the Building, (d) use any machinery which will adversely affect the structure of the Building or any

Building system, (e) place any harmful liquids in the drainage system or in the soils surrounding the Building or (f) unreasonably interfere with other tenants of the Building. Tenant shall not, without the prior written consent of Landlord, use any apparatus, machinery, equipment or device in or about the Premises which will cause any substantial noise or vibration. If any of Tenant's office machines and equipment should disturb the quiet enjoyment of any other tenant in the Building, then Tenant shall provide adequate insulation, or take such other action as may be necessary to eliminate the disturbance, all at Tenant's sole cost and expense. Tenant shall not cause or permit any waste material or refuse to be dumped upon or remain upon any part of the Building or the Property outside the Premises, except in designated receptacles, nor shall Tenant cause or allow any materials, supplies, equipment, finished products or semi-finished products or articles of any nature to be stored upon or remain upon the Building or the Property outside the Premises.

#### 8. Food Service Operator.

Landlord covenants and agrees to use its best efforts to provide, whether through lease or operating arrangement, a food service operator for the Building cafeteria reasonably acceptable to Tenant; provided, however, that in no event shall Landlord be obligated to breach or terminate any lease agreement with any existing tenant. Landlord shall consent to Tenant's operation, subject to applicable statutes and regulations, of a private cafeteria within the Premises, subject to obtaining appropriate governmental permits, which Landlord agrees to use its best efforts in assisting Tenant to obtain. In the event of the expiration or earlier termination of the existing lease between Landlord and Pioneer Human Services ("Pioneer") on the third Floor of the Building (the "Pioneer Lease"), Tenant shall have the right to lease the premises vacated by Pioneer (the "Pioneer Space") on the same terms and conditions as set forth in the Pioneer Lease,

except that the term shall be the Term of this Lease, and rent for the Pioneer Space shall be the greater of (a) One Thousand Dollars (\$1,000.00) per month; or

(b) the average rent paid by Pioneer under the Pioneer Lease for the last twelve

(12) full months prior to the expiration or earlier termination of the Pioneer Lease which will be increased thereafter on an annual basis based on changes in the Index. Tenant shall have the right and option to sublease the Pioneer Space without Landlord's consent for the operation of a retail food service facility of similar or better quality; provided, however, that in the event that net rents received by Tenant from subleases of the Pioneer Space exceed the rent paid by Tenant for the Pioneer Space, fifty percent (50%) of such excess shall be paid to Landlord. Landlord shall have the right to audit the records regarding any such subleases on the same basis as provided in Section 4.c.(v) regarding Operating Expenses.

#### 9. Rules and Regulations.

Tenant and its agents, employees, and servants will at all times observe, perform and abide by all of the reasonable, nondiscriminatory rules and regulations (the "Rules and Regulations") of Landlord relating to the Building. Attached hereto as Exhibit K are the current Rules and Regulations of the Building. Landlord may change or add the Rules and Regulations, from time to time, provided that Landlord agrees that any additions or amendments to the Rules and Regulations of the Building shall not be inconsistent with the terms and conditions of this Lease or impose any additional financial burdens on Tenant. Any additions or amendments to the Rules and Regulations which are inconsistent with this Lease or increase the financial burdens on Tenant shall be null and void with respect to Tenant.

#### 10. Care and Surrender of Premises.

Tenant shall take good care of the Premises as provided in the Lease except for repairs required herein to be made by Landlord. On the expiration or sooner termination of this Lease, Tenant, without notice, will immediately and peacefully quit and surrender the Premises in good order, condition and repair (reasonable wear and tear, damage by fire or other casualty or matters which are Landlord's obligations hereunder excepted) and will clean the surface of interior walls of the Premises, floors, suspended ceilings and carpeting therein. Nothing herein shall be deemed to impose any obligation on Tenant for repair or maintenance of any elements of the Building structure or the plumbing, mechanical or electrical systems of the Building, or for any restorations, alterations, replacements or repairs required to be made by Landlord pursuant to the provisions of this Lease unless caused by the negligence or intentional act or omission of Tenant or its agents, employees or invitees.

#### 11. Tenant Improvements; Alterations.

##### a. Tenant Improvements.

Landlord will deliver the Premises, and will continue to deliver the Additional Premises as provided herein, to Tenant in sound structural condition with all Building systems which service the Premises in good order and repair, and with the improvements ("Tenant Improvements") shown and/or described in Exhibit L ("Landlord's Work") and Exhibit M ("Tenant's Work") in accordance with the drawings approved by Landlord and Tenant. Landlord shall complete Landlord's Work at Landlord's sole cost and expense. Landlord shall complete Tenant's Work at the sole cost and expense of Tenant. Tenant shall have the right to participate in the bid process and to review and approve all construction contracts for Tenant's Work. Landlord and Tenant shall each appoint one (1) person to review invoices for Tenant's Work.

Those invoices, if approved by the fifth of a month, shall be paid by Tenant by the twentieth of the month. Landlord will notify Tenant when in Landlord's opinion Landlord's Work and Tenant's Work are substantially complete. Within three (3) business days after receiving such notice, Landlord and Tenant shall inspect the Premises for any deficiencies in Landlord's Work or Tenant's Work, and Tenant will provide Landlord with a "punchlist" describing any deficiencies in Landlord's Work or Tenant's Work. Landlord will correct defective items stated in the punchlist promptly, but in no event later than twenty (20) business days after receiving Tenant's punchlist.

All of Landlord's Work and Tenant's Work shall be completed in a workman-like manner in conformance with all applicable building codes, laws, rules and regulations. Tenant shall, subject to the provisions of Section 11.b. below, also have the right to construct and install at its sole cost and expense such additional improvements in the Premises as are in its judgment necessary or convenient for its use of the Premises.

b. Alterations.

After completion of Tenant's Work, Tenant shall not make any alterations or improvements in or additions to the Premises or make any changes to locks on doors or add to, disturb or in any way change any of the wiring, HVAC or plumbing in the Premises or the Building, without first obtaining the written consent of Landlord which consent shall not be unreasonably withheld, delayed or conditioned. All such alterations, additions and improvements shall be performed by contractors or mechanics approved by Landlord which consent shall not be unreasonably withheld or delayed. All work with respect to any such alterations, additions or improvements shall be performed in a good and workmanlike manner, shall be of a quality equal to or exceeding the then existing construction standards for the

Building and must be of a type, and the floors and ceilings must be finished in a manner, customary for general office use and other uses common to similar office buildings in the vicinity. Such alterations shall be diligently prosecuted to completion to the end that the Premises shall be at all times a complete unit except during the period necessarily required for such work. All such alterations, additions and improvements shall be made strictly in accordance with all laws, regulations and ordinances relating thereto, and no interior improvements installed by Landlord in the Premises (including Tenant's Work) may be removed unless the same are promptly replaced with interior improvements of the same or better quality. Landlord hereby reserves the right to require any contractor or mechanic working the Premises to provide lien waivers and liability insurance covering such alterations, additions or improvements to the Premises. Except as provided below, Tenant shall pay, when due, all claims for labor or materials furnished to or for Tenant at or for use in the Premises, and Tenant shall not permit any mechanic's or materialmen's liens to be recorded against the Premises or the Property for any labor or material furnished to Tenant or Tenant's agents or contractors in connection with work of any character performed on the Premises by or at the direction of Tenant. Tenant shall not be required to pay or otherwise satisfy such claims or discharge such liens so long as it shall, in good faith, at its own expense, contest the same or the validity thereof by appropriate proceedings, provided that Tenant shall, at its cost, post a bond to remove the lien from the Premises or the Property within twenty (20) days if such dispute can not be resolved within the said time period. Tenant shall give Landlord ten (10) days' prior written notice of the commencement of any alterations, additions or improvements and agrees to allow Landlord and Landlord's Lender (defined below) to enter the Premises and post appropriate notices to avoid liability to contractors or material suppliers for payment for such alterations, additions or

improvements. All alterations, additions or improvements, except special equipment specific to Tenant's use, shall remain in and be surrendered with the Premises as a part thereof at the expiration or earlier termination of this Lease, without disturbance, molestation or injury, provided that Landlord may, together with the written notice consenting to the construction of any such alterations, additions or improvements, notify Tenant that such alterations, additions or improvements be removed upon the expiration or earlier termination of this Lease. In such event, all expenses to remove such alterations, additions or improvement and to restore said space to normal building standards shall be borne by Tenant. Notwithstanding the foregoing, upon the expiration or termination of this Lease, Tenant shall remove from the Premises all identifying insignia which are characteristic of Tenant's business, and Tenant shall repair any damage to the Premises or the Building caused by the removal of the same. Notwithstanding anything contained herein to the contrary, Tenant may, upon prior written notice to Landlord, make any nonstructural interior alterations or additions that do not adversely affect the value of the Premises, the structural integrity of the Building or any Building system, without Landlord's consent.

All articles of personal property and all business and trade fixtures, machinery and equipment, furniture and movable partitions owned by Tenant or installed by Tenant at its expense in the Premises shall be and remain the property of Tenant and shall be removed by Tenant at any time during the Lease Term when Tenant is not in default hereunder. If Tenant shall fail to remove all of such property from the Premises at the expiration of the Term hereof or within ten (10) business days after any earlier termination of this Lease for any cause whatsoever, Landlord may, at its option, remove the same in any manner that Landlord shall choose, and store such property without liability to Tenant for loss thereof. In such event,

Tenant agrees to pay Landlord upon demand any and all expenses incurred in such removal, including court costs and attorneys' fees and storage charges on such property for any length of time that the same shall be in Landlord's possession. Landlord may, at its option, without notice, sell said property or any of the same, at private sale and without legal process, for such price as Landlord may obtain and apply the proceeds of such sale to any amounts due under this Lease from Tenant to Landlord and to the expense incident to the removal and sale of said property.

## 12. Additional Building Improvements.

### a. Construction; Building Systems and Building Amenities.

In addition to completing Landlord's Work and Tenant's Work, Landlord agrees to construct certain capital improvements to the Building for the sixth Floor and the Required and Optional Expansion Premises ("Building Improvements") if and when requested by Tenant and approved by Landlord, which approval shall not be unreasonably withheld, delayed or conditioned in accordance with plans and specifications to be prepared by or on behalf of Landlord (the "Building Plans"). The Building Plans shall be prepared at Landlord's expense (but included in the cost of such Building Improvement as provided below) based upon conceptual designs and other comments and information provided by Tenant or its agents in a timely manner. The Building Improvements shall include those improvements more particularly described on Exhibit N attached hereto and incorporated herein by reference as "Building Systems" and "Building Amenities." Landlord and Tenant shall agree in writing as to the allocation of the cost of Building Improvements (and North Parking Garage costs, if appropriate), between Building Systems and Building Amenities based upon the following criteria: For purposes of determining whether additional Building Improvements not identified in this Lease are Building Systems or Building Amenities, it is understood and agreed that

Building Systems shall be improvements that (i) involve the structural, mechanical and electrical elements of the Building and the Property, or (ii) are necessary to cause the Building and the Property to be in compliance with applicable building and land use laws and codes, or (iii) permit interior spaces in the Building to be exposed to natural light (to include windows but not skylights), or (iv) protect the Building or the Property from the effects of weather, heat, pollution or other external influences, or (v) are made for the purpose of creating standard office shell and core conditions in the Premises, and converting the Premises or the Building to, and maintaining the Premises and the Building for, office and retail use as contemplated by the Lease; including but not limited to roof, floors, walls, foundations, windows, HVAC, utilities, elevators, including architect's and engineering fees required to design and oversee construction or implementation of such improvements. Building Amenities shall be improvements that (i) involve aesthetic or design elements (including skylights), or (ii) are made primarily for the purpose of enhancing interior or exterior environments or appearances of the Building or the Property, all of which are made in order to accommodate Tenant specifically in its occupancy of the Premises. Upon completion of the Building Plans for cumulative Phases, Landlord and Tenant shall agree on a contractor or Landlord shall entertain competitive bids from the three (3) reputable general contractors unless Landlord and Tenant agree to entertain bids for a specific project from fewer than three (3) contractors. Tenant shall be furnished copies of all bids, and the construction contract or contracts for the additional Building Improvements shall be awarded to the low bidder, unless Landlord and Tenant reasonably believe such bidder is incapable of timely performing the Building Improvements for the amount of the bid.

b. Phasing of Building Improvements.

For purposes of calculating Additional Rent relating to Building Improvements and Landlord's repayment obligations under the Notes (defined below), Building Systems and Building Amenities shall be grouped in one-year "Phases." Each "Phase" of Building Systems and Building Amenities shall be the cost of improvements in that classification completed in the fifty-two (52) week year ending on September 30; provided that for the purposes of this Section 12, the costs actually paid by Landlord for any Building Improvements commenced but not completed over two (2) Phases will be included in the appropriate Note for the second Phase of the work (with any subsequent costs included in subsequent Phases).

c. Cost of Building Improvements; Building Improvement Loan.

In order to fund Building Improvements as provided herein, Tenant shall, at its sole discretion, agree either to fund directly (either through borrowed funds, capital leases or the contribution of Tenant's equity funds in which case the costs funded directly by Tenant shall not be deemed "costs incurred by Landlord") or to lend Landlord additional funds in accordance with the terms of the Building Improvement Loan as provided in Section 12.d. below. In no event shall Landlord be obligated to fund the cost of Building Improvements, either directly or through the Building Improvement Loan, after September 30, 2015.

d. Building Improvement Loan.

The Building Improvement Loan shall be governed by the terms of a separate Loan Agreement between Tenant, as Lender, and Landlord, as Borrower, and shall be evidenced by two (2) series of promissory notes (each a "Note"), one series in the principal amount of the portion of the Building Improvement Loan allocable to Building Systems (the "Systems Note"),

and the second series in the principal amount of the portion of the Building Improvement Loan allocable to Building Amenities (the "Amenities Note").

Following an event of default under the Building Improvement Loan, in addition to any other remedies available to Tenant, Tenant shall have the right to offset the amounts due under the Building Improvement Loan, in the following order, Building Systems Additional Rent, and then Building Amenities Additional Rent, due to Landlord under this Lease.

e. Electrical Upgrade.

Landlord has increased the amperage in the Building electrical system in order to provide electrical service reasonably necessary to properly and adequately supply and serve the Premises. If additional transformers or other electrical upgrades are needed for any expansion of the Premises beyond the sixth through ninth floors or for Tenant's use of the Premises, Landlord shall install the additional transformers and upgrades. The entire cost of the additional transformers and upgrades shall be paid by Landlord, at its election either at its own expense or with loan proceeds from the Building Improvement Loan, and shall be amortized as "Building Systems" and paid for as Building Systems Additional Rent.

f. HVAC System.

Landlord installed a centralized HVAC system for the sixth, seventh and ninth Floors, including all duct work and delivery systems to the "VAV" boxes serving the Premises and the installation of HVAC operating units on the roof of the Building, all of which were included as part of Building Systems. All internal distribution systems from the VAV boxes are part of Tenant's Work. Landlord agrees to repair and maintain all system elements necessary to keep the hydronic HVAC system serving the eighth Floor, including the cooling tower located on the roof of the Building, in good condition and repair. Any additional changes to the HVAC system

required for the Additional Premises or for Tenant's use of the Premises will be installed by Landlord and paid in the same manner as for electrical upgrades in Section 12.e. above.

g. Life Safety Systems.

All costs and expenses incurred by Landlord prior to the Restatement Effective Date for the installation, maintenance and upgrade of life safety systems for the Building, including but not limited to the fire control center and associated hardware for the Building fire alarm system, shall be deemed to be Landlord's Work to be provided at Landlord's sole cost and expense. From and after the Restatement Effective Date, any cost of installing new or upgrading existing life safety systems serving Designated Expansion Premises as required to bring such life safety systems from the condition required to serve the existing Building to the condition required for office occupancy of the Designated Expansion Premises shall be paid by Tenant as a Building Improvement Loan and shall be amortized as "Building Systems" and paid for as Building Systems Additional Rent; provided, however, that (i) any costs and expenses of upgrading the panels in the fire control center shall be Landlord's Work and paid for by Landlord, and (ii) any costs and expenses required for the installation of fire alarm systems running from detection points in the Premises to the fire control center, including alarm devices, speakers and associated wiring, shall be deemed to be Tenant's Work and paid for by Tenant.

13. Repairs and Maintenance.

a. Landlord's Obligations.

Except where repairs are required to be made by Tenant or when caused by the negligence or intentional acts or omissions of Tenant or its agents, employees or invitees, but subject to Section 23 of this Lease, Landlord shall perform the following maintenance and repairs, restorations or replacements to the Premises, and to the Building and the Project to the

extent required for Tenant's use of the Premises: Landlord shall maintain, repair and replace, as necessary, and keep in good order, safe and clean condition (i) the plumbing, sprinkler, HVAC, electrical and mechanical lines and equipment associated therewith (except such portions thereof which were specifically installed for Tenant other than Landlord's Work and Tenant's Work), elevators and boilers, broken or damaged glass, and damage by vandals; (ii) fluorescent lighting fixtures and bulbs, both within the Premises and in the common areas and facilities, (iii) utility and trunk lines, tanks and transformers and the interior and exterior structure of the Building, including the roof, exterior walls, bearing walls, support beams, floor slabs, foundation, support columns and window frames; (iv) any walls, ceilings and, subject to ordinary wear and tear, floor coverings (including carpets and tiles) in the common areas and facilities, and maintenance of walls, ceilings and floor coverings within the Premises if and to the extent such maintenance is performed by Landlord under Landlord's Building-wide maintenance and repair program for tenant premises; (v) improvements to the Property, including landscaping and fencing; and (vi) the common areas and facilities located within or outside the Building, including the common entrances, corridors, interior and exterior doors and windows, loading docks, elevators, stairways, laboratory facilities and parking areas and access thereto. Tenant shall perform all other maintenance and repairs in the Premises; provided Tenant may request that Landlord perform such maintenance in which event Tenant shall pay Landlord directly for the cost thereof but such cost shall not be deemed an Operating Expense.

b. Common Area Maintenance.

Landlord shall continue to be responsible for the maintenance and repair of the Building lobby, front parking lot and exterior common areas and facilities and landscaping for the Building, in good order and condition consistent with standards commensurate with a well-

maintained office and/or mixed use buildings in the greater Seattle, Washington area. Notwithstanding the foregoing, Tenant shall be directly responsible for payment of costs incurred by Landlord in maintaining and repairing the wood doors into the main Building lobby, including those near the coffee bar.

c. Landlord's Failure to Make Repairs.

If after notice by Tenant, Landlord fails or refuses to make any repairs, restorations or replacements which it is required to make under this Section 13 or elsewhere in this Lease, within ten (10) days after written notice from Tenant, Tenant may make the repairs, restorations or replacement on Landlord's behalf; provided if the repairs, restorations or replacements reasonably will require more than ten (10) days to complete, such ten (10) day period shall be extended for such additional period of time as may be necessary for Landlord to make the repairs, provided Landlord commences the repairs, replacements or restoration within the initial ten (10) day period and thereafter diligently prosecutes the same to completion and in good faith. If Tenant makes any repairs, restorations or replacements on behalf of Landlord pursuant to this Section 13.c., Landlord shall reimburse Tenant within thirty (30) days after Landlord receives Tenant's invoice, for the actual costs incurred by Tenant in so doing, together with interest thereon at an interest rate two percent (2%) above the Prime Rate as the same may be adjusted from time to time. If by reason of any emergency, repairs, restorations or replacements become necessary which by the provisions hereof are the responsibility of Landlord, Tenant may make such repairs, restorations or replacements which, in Tenant's reasonable opinion, are necessary for the preservation of the Premises, or of the safety or health of the occupants in the Building or Tenant's property or required by law; provided, Tenant shall first make reasonable efforts to inform Landlord of the need for the repairs and give Landlord a reasonable opportunity to make

the necessary repairs, restorations or replacements. Landlord will reimburse Tenant as provided above for any costs incurred by Tenant in making any such emergency repairs, restorations or replacements.

#### 14. Parking.

##### a. Existing On Site Parking.

Tenant's customers, guests and invitees shall have a right to park on an unreserved basis in the main parking lot on the Property east of the Building (the "East Lot"), subject to any restrictions generally applicable, from time to time, to the use of the East Lot. Landlord will provide five (5) visitor stalls marked for Tenant's exclusive use in the East Lot at a mutually agreed upon location. All administration and management of these stalls will be the responsibility of Tenant.

##### b. Parking Garage.

(i) Construction of Parking Garage. Landlord has constructed in that existing building located immediately adjacent to the northerly wall of the Building, commonly known as the "Section 10 Warehouse," a parking garage containing parking stalls for approximately six hundred (600) cars (the "Parking Garage"), which was constructed in accordance with plans prepared at Landlord's expense by a licensed architect chosen by Landlord and Tenant based upon schematic designs prepared by Tenant's architect.

(ii) Leasing of Existing Parking Garage. Tenant agrees to lease the Parking Garage as provided herein. Tenant shall at all times have the right at its sole discretion to sublease parking stalls in the Parking Garage. Tenant shall have the right to reserve all parking stalls for use by Tenant's employees in a separate designated area of the Parking Garage having a separate entrance to be used solely by Tenant and its employees, customers and

invitees. The Parking Garage shall be available for use by Tenant's employees and visitors twenty-four (24) hours per day, seven (7) days per week, including holidays. Tenant shall operate and maintain the nonstructural elements of the Parking Garage at its sole cost and expense in a clean, safe and secure condition. Landlord shall be responsible at its expense for the repair and maintenance of the structural elements of the Parking Garage. Tenant shall reimburse Landlord for the cost of any services furnished by Landlord and shared jointly by the Parking Garage and the Building which shall be equitably allocated to the Parking Garage. If Tenant, its employees or guests are not able to use the Parking Garage and access ways because of unauthorized use thereof by others, Tenant shall have the right to take whatever steps are necessary to end such unauthorized use, including posting signs, distributing parking stickers and towing away unauthorized vehicles.

(iii) Parking Garage Taxes and Insurance. Tenant shall pay to Landlord within thirty (30) days following receipt of an invoice from Landlord, as Additional Rent hereunder, all ad valorem real property taxes allocable to the Parking Garage and the land on which the Parking Garage is constructed, together with the cost of all insurance for the Building equitably allocable to the Parking Garage. Unless Tenant requests to maintain its own policies of insurance for the Parking Garage, Landlord's policies of insurance with respect to the Building, which policies shall otherwise satisfy the requirements of the Lease, shall calculate and designate a separate and discrete portion of the premium to the Parking Garage.

(iv) Olympic West Parking. Until the earlier to occur of

(a) January 31, 2003, or (b) the earlier termination of Olympic West's lease, Tenant shall agree to lease to Olympic West thirty (30) stalls on the south end of the second floor of the Parking Garage for Forty Dollars (\$40) per stall per month plus increases in the operating expenses for

the Parking Garage from the first year of operation of the Parking Garage apportioned pro rata on a per stall basis.

## 15. Additional Parking.

### a. Requirement for Additional Parking.

The amount of Additional Premises that may be added to the Premises may be subject to additional parking being available for use by Tenant. The three options available for such additional parking are the (i) acquisition of adjacent land from the Burlington Northern Santa Fe Railroad (the "BN Parcel") shown on Exhibit O hereto for surface parking for the Premises and/or, together with the "Landlord's Garage Parcel" (as defined below), for the construction of a new parking garage (the "North Parking Garage") or (ii) the dedication of Tenant's current parking lot of 8th and Holgate ("Tenant's Lot") as parking for the Premises; provided the City of Seattle approves the use of Tenant's Lot as parking in conjunction with the expansion of the office use of the Building; or (iii) the use of the BN Parcel for surface parking and the dedication of Tenant's Lot as parking for the Premises. As used herein, "Landlord's Garage Parcel" shall mean that portion of the property shown as "Landlord's Garage Parcel" on Exhibit O that coincides with the footprint of the North Parking Garage as designed and constructed.

(i) Landlord agrees to use its best efforts to acquire the BN Parcel, including as much land as is available for sale in order to maximize the use of the BN Parcel for surface parking or the construction of the North Parking Garage. If the BN Parcel is so acquired, Landlord will use its best efforts to obtain a Master Use Permit ("MUP") from the City of Seattle for the construction of the North Parking Garage on the BN Parcel and Landlord's Garage Parcel. Tenant agrees to cooperate with Landlord in obtaining the MUP.

(ii) In the event Landlord acquires the BN Parcel and obtains the MUP, the additional parking required for Tenant's expansion in the Building shall be met, at Tenant's option, through the construction of the North Parking Garage or, if allowed by the City of Seattle, through the use of surface parking on the BN Parcel together with the possible dedication of the Tenant's Lot to parking for the Building (which surface parking dedication may be superseded and replaced by Tenant's subsequent election to construct the North Parking Garage as provided herein).

(iii) In the event Landlord acquires the BN Parcel but is unable to obtain the MUP, then the required parking for Tenant's expansion in the Building may be through surface parking on the BN Parcel and/or, if allowed by the City of Seattle, the possible dedication of the Tenant's Lot for parking for the Building and Landlord shall have no obligation to find other parking for the Building.

(iv) In the event Tenant elects, in its discretion, to use the Tenant Lot to provide required parking for Tenant's expansion in the Building, and if the North Parking Garage has not been constructed as of the expiration or earlier termination of the Lease, then at the expiration or earlier termination of the Lease, Tenant agrees to sell Tenant's Lot, or land holding the equivalent number of parking stalls located no further from the Building than Tenant's Lot, to Landlord for a price equal to fifty percent (50%) of the then fair market value of the property, in the event that Landlord obtained the MUP, or ninety-five percent (95%) of the then fair market value for such property in the event Landlord did not obtain the MUP. If the parties cannot agree on the fair market value, the same procedure outlined in Section 3.b. above for the determination of Effective Fair Market Rent will be followed.

b. Funding for Additional Parking.

In the event additional parking is acquired for the Tenant's expansion in the Building, Tenant agrees to pay for the costs involved in obtaining such parking as follows:

(i) In the event Landlord acquires the BN Parcel, obtains the MUP and Tenant elects to have the North Parking Garage constructed on the BN Parcel and Landlord's Garage Parcel, Tenant agrees to fund the full cost of the acquisition of BN Parcel, the value of the Landlord's Garage Parcel as provided in Section 4.c.(iv), the cost of obtaining the MUP, and the cost of construction of the North Parking Garage by way of a Building Improvement Loan for Building Systems as provided herein.

(ii) In the event Landlord acquires the BN Parcel and obtains the MUP, but Tenant elects not to have the North Parking Garage constructed as provided herein, then Tenant shall fund the full acquisition cost of the acquisition of the BN Parcel, the cost of obtaining the MUP and, if Tenant uses the BN Parcel for parking, the cost of any improvements to the BN Parcel to provide for surface parking, all by way of a Building Improvement Loan for Building Systems as provided herein.

(iii) In the event Landlord acquires the BN Parcel but is unable to obtain the MUP, then Tenant shall fund fifty percent (50%) of the cost of attempting to obtain the MUP and, if Tenant uses the BN Parcel for parking, the cost of any improvements to the BN Parcel to provide for surface parking, all by way of a Building Improvement Loan for Building Systems as provided herein.

c. Lease of Additional Parking.

In the event Landlord acquires the BN Parcel, Tenant agrees to lease such BN Parcel for parking at a rate which will amortize the Building Improvement Loan for Building Systems

described in Sections 15.b.(i), (ii) or (iii) above plus, in the situation described in Section 15.b.(iii), an amount equal to the amortization of the cost of the acquisition of the BN Parcel over the Initial Term of the Lease in equal monthly payments at the Amortization Rate.

d. Leasing of North Parking Garage.

If the North Parking Garage is built, Tenant agrees to lease the North Parking Garage as provided herein. Tenant shall at all times have the right at its sole discretion to sublease parking stalls in the North Parking Garage. Tenant shall have the right to reserve all parking stalls for use by Tenant's employees in a separate designated area of the North Parking Garage. The North Parking Garage shall be available for use by Tenant's employees and visitors twenty-four (24) hours per day, seven (7) days per week, including holidays. Tenant shall operate the North Parking Garage and shall maintain the nonstructural elements of the North Parking Garage at its sole cost and expense in a clean, safe and secure condition. Landlord shall be responsible at its expense for the repair and maintenance of the structural elements of the North Parking Garage. Tenant shall reimburse Landlord for the cost of any services furnished by Landlord and shared jointly by the North Parking Garage and the Building which shall be equitably allocated to the North Parking Garage. If Tenant, its employees or guests are not able to use the North Parking Garage and access ways because of unauthorized use thereof by others, Tenant shall have the right to take whatever steps are necessary to end such unauthorized use, including posting signs, distributing parking stickers and towing away unauthorized vehicles.

e. North Parking Garage Taxes and Insurance.

Tenant shall pay to Landlord within thirty (30) days following receipt of an invoice from Landlord, as Additional Rent hereunder, all real property taxes allocable to the North Parking Garage and the land on which the North Parking Garage is constructed, together with the cost of

all insurance for the Building equitably allocable to the North Parking Garage. Unless Tenant requests to maintain its own policies of insurance for the North Parking Garage, Landlord's policies of insurance with respect to the Building, which policies shall otherwise satisfy the requirements of the Lease, shall calculate and designate a separate and discrete portion of the premium to the North Parking Garage.

#### 16. Representations Regarding Title and Use.

Landlord represents and warrants to Tenant that Landlord possesses good and marketable fee title to the Property, the Building and the Premises, subject only to the title exceptions listed on Exhibit P ("Title Exceptions") attached; Landlord is authorized to enter into this Lease without the consent of any third party other than Landlord's Lender; the provisions of this Lease do not and will not conflict with or violate the provisions of existing or future agreements between Landlord and any third party (including any lender holding a security interest in the Property, Building or Project ("Landlord's Lender")); the certificate of occupancy for the Building allows, or, with respect to any Required or Optional Expansion Premises not later than the addition of such Required or Optional Expansion Premises to the Premises, will allow Tenant to use and enjoy the Premises and the common areas and facilities of the Project for the purposes set forth in this Lease; the Premises and the common areas and facilities of the Project and the uses thereof for the purposes specified in this Lease are in conformity with all applicable laws; and Landlord will deliver the Premises to Tenant, free of all tenants and occupants and claims thereto.

#### 17. Tenant's Signs.

On floors less than twenty-five percent (25%) leased by Tenant, Tenant may place its signs on entrance doors to the Premises and, at Landlord's expense, Landlord shall place signs in

the elevator lobbies and in the hallways leading to the Premises which give directions to the Premises, based on Building standards. Tenant shall not erect or install or otherwise utilize signs, lights, symbols, canopies, awnings, window coverings or other advertising or decorative matter on the windows, walls and exterior doors or otherwise visible from the exterior of the Premises, including any signs on the tower of the Building, except those currently located in the Building, without (i) first submitting its plans to Landlord and obtaining Landlord's written approval thereof (such plans must be professionally designed and call for first-class materials to be used in construction) and (ii) obtaining any required approval of the City of Seattle and of any other applicable governmental authority. Landlord shall have the right to promulgate from time to time additional reasonable rules, regulations and policies relating to the style and type of said advertising and decorative matters which may be used by any occupant, including Tenant, in the Building, and may change or amend such rules and regulations from time to time as in its reasonable discretion it deems advisable, provided that such rules and regulations shall not impose any financial burdens on Tenant to comply with any such new or amended rules and regulations referred to in this section. Tenant agrees to abide by such rules, regulations and policies. At the expiration or earlier termination of this Lease, all such signs, lights, symbols, canopies, awnings or other advertising or decorative matter attached to or painted by Tenant upon the Premises or the Building, whether on the exterior or interior thereof, which are not included in Building Amenities, shall be removed by Tenant at its own expense, and Tenant shall repair any damage or injury to the Premises or the Building and correct any unsightly condition, caused by the maintenance and removal of said signs, lights, symbols, canopies, awnings window coverings or other advertising or decorative matter.

Landlord and Tenant agree that all of Tenant's identity signage installed by Landlord as Building Amenities (the "Tenant Identity Signage") are and shall remain the personal property of Landlord. Upon expiration or earlier termination of the Lease, Tenant shall have the right, but not the obligation, to purchase the Tenant Identity Signage from Landlord by paying to Landlord an amount equal to the unamortized balance of the total costs and expenses incurred by Landlord in the purchase and installation of the Tenant Identity Signage, including the cost of removing Landlord's existing signage in connection therewith, amortized on a straight-line basis over a term of ten (10) years at the Amortization Rate.

Tenant, at Tenant's sole cost and expense, shall be responsible for the repair and maintenance of the tower icon (the "Starbucks" icon on the Main Building tower) and the Tenant Identity Signage above the main entrance to the Building lobby. Landlord shall be responsible for maintaining all other Building identity signs as well as directional signage on the light poles in the Building parking lot, the cost of which shall be included as Operating Expenses. Landlord shall, however, be responsible for providing all necessary electricity for the Tenant Identity Signage and shall insure the Tenant Identity Signage in accordance with the insurance requirements under the Lease, such costs and expenses to be included as part of Operating Expenses. Landlord shall maintain the poles used for Tenant's banners in the sidewalk east of the Building and Tenant shall be solely responsible for maintaining and replacing the banners as appropriate.

#### 18. Access by Landlord.

Landlord and its agents shall have the right to enter the Premises, to examine the same and to show the Premises to prospective and current purchasers or lenders and, within the last twelve (12) months of the Lease Term only, to prospective tenants. Except in emergency

situations, or to provide normal services to be provided by Landlord hereunder, Landlord will give Tenant at least twenty-four (24) hours' advance notice prior to entering the Premises. Landlord at all times shall have and retain a key with which to unlock all of the doors in, upon or about the Premises, excluding Tenant's vaults and safes, and Landlord shall have the right to use any and all means which Landlord may deem proper to open said doors in an emergency in order to obtain entry to the Premises. Entry to the Premises shall be at Landlord's risk and Landlord shall respect and protect the confidentiality of information about Tenant and Tenant's business learned as a result of such entry. Tenant, at its option, may designate certain portions of the Premises (such as the file room and computer room) as being "off limits," and except in an emergency, neither Landlord nor its employees, agents or contractors shall have any access to such off limits areas of the Premises unless accompanied by an employee of Tenant. If Tenant elects to designate areas of the Premises as "off limits" Tenant may install separate locks on such areas provided Landlord is provided keys to such locks as required by the fire code. Landlord shall conduct its activities in or about the Premises at a time and in a manner so as to minimize disruption of or interference with Tenant's business or access to the Premises.

#### 19. Services.

##### a. Basic Services.

Except as otherwise specifically provided herein, Landlord shall maintain and repair the Premises, the exterior of the Building and the public and common areas and facilities of the Project, in good order and condition consistent with maintenance standards for well maintained office and/or other mixed-used (i.e., office, warehouse and retail) buildings in the City of Seattle.

b. Access.

Landlord shall provide security for the Building and the Premises which restricts access to the Premises other than during "normal business hours" (i.e., 7:00 a.m. to 6:00 p.m., Monday through Friday, and 8:00 a.m. to 1:00 p.m. on Saturday, excluding holidays). Tenant shall have access to the Premises and the parking areas (for Tenant's customers, guests and invitees) serving the Building twenty-four (24) hours per day, seven (7) days per week, holidays included, without having to give prior notice to Landlord or Landlord's agent. The elevators serving any Floor(s) on which the Premises are located shall be locked off after normal business hours but at least one (1) elevator shall allow access to the Premises when a valid cardkey or code is used. A guard will be available in the lobby at all times after hours to let Tenant's employees into the Premises if the elevators are locked off.

c. Building Services.

Landlord shall provide Tenant with standard building services normally provided in well maintained buildings, and Landlord shall furnish the Premises with electricity for lighting and operation of low power office machines (including but not limited to PC's, printers, file servers, and copiers) heat, air-conditioning (the HVAC System shall function so that Tenant may maintain a temperature within 2 degrees of 72 degrees F at all times subject to needed adjustment, during normal business hours, hot and cold water, and elevator services, holidays included, at no cost to Tenant other than the Base Floor Rent. After hours electrical service will be separately metered, with meters installed as part of Tenant's Work, for the actual cost of such after hours electricity which will be paid for by Tenant within thirty (30) days of receipt of an invoice from Landlord. All electrical service to the Premises above standard use will be metered and billed directly to and be paid by Tenant.

d. Security and Safety System.

Landlord shall supply an electronic security system in the Building which shall be in operation twenty-four (24) hours per day, and which will include at least twenty (20) exterior and interior video security cameras and an after hours electronic entry/exit system to the Building. In addition, Building security personnel shall be on duty within the Project twenty-four (24) hours per day. Landlord shall also supply a life safety and detection system in the Building to provide maximum protection against fires and other life safety risks with public announcement capacity and in compliance with the standards of all applicable laws.

e. Elevator Services.

Tenant shall have the right to use all elevators servicing the main lobby of the Building. At least one lobby elevator shall, subject to all applicable fire department or other governmental rules and regulations, be dedicated exclusively to Tenant's Floors of the Building, for the Term of the Lease (but will be built so as to be able to open on other Floors) and shall be controlled after hours by a "card key" security system. At the request of Tenant, Landlord shall use its best efforts to remove or relocate existing tenants in the Building in order to provide space for the construction of up to three (3) new elevators which shall serve the central portion of the Building, including the Premises, and shall be accessible from the existing main lobby of the Building. Any such additional elevators shall be constructed by Landlord and included as Building Systems.

f. Interruption of Services.

Landlord shall not be liable to Tenant for any loss or damage caused by or resulting from any variation, interruption or any failure of the services to be provided by Landlord pursuant to this Lease due to force majeure as the same is defined hereunder in Section 35. Except as

provided below, no temporary interruption or failure of such services incident to the making of repairs, alterations or improvements, or due to accident or strike or conditions or events not under Landlord's control, shall be deemed an eviction of Tenant or relieve Tenant from any of Tenant's obligations hereunder. Landlord shall exercise its best efforts to restore such services and utilities as soon as is reasonably practicable and to the extent reasonably practicable, to provide temporary replacement services and utilities if deemed necessary by Tenant for the continued operations of its business on the Premises. If any services to be provided by Landlord pursuant to this Lease are not provided for periods in excess of forty-eight (48) hours after written notice to Landlord, and the interruption renders all or a portion of the Premises untenable for Tenant's use, Rent shall thereafter be abated in the same ratio as to that portion of the Premises which Tenant reasonably determines is not usable for Tenant's business purposes, shall bear to the whole of the Premises for the period in excess of forty-eight (48) hours until the interruption in services is remedied and full service to the Premises is restored.

g. After Hours.

All references herein to "after hours" means hours other than normal business hours specified above in Section 19.b.

## 20. Assignment.

Tenant shall not directly or indirectly, voluntarily or by operation of law, sell, assign, encumber, pledge or otherwise transfer or hypothecate all or any part of its interest in or rights with respect to the Premises or Tenant's leasehold estate hereunder (collectively, an "Assignment"), or permit all or any part of the Premises to be occupied by anyone other than Tenant or sublet all or any portion of the Premises or transfer a portion of its interest in or rights

with respect to Tenant's leasehold estate hereunder (collectively, "Sublease") except as noted under Sections 20.a. and 20.b. below.

Any Assignment or Sublease in violation of this Section 20 shall be void. The acceptance of Rent or additional charges by Landlord from a purported assignee or sublessee shall not constitute the waiver by Landlord of the provisions of this Section 20 with respect to such attempted Assignment or Sublease. Tenant agrees to pay Landlord's reasonable legal and accounting costs of reviewing any proposed Assignment or Sublease which shall, in no event, exceed Fifteen Hundred and No/100 Dollars (\$1,500.00) per request in 1995 dollars to be adjusted annually by changes in the Index.

a. Right to Assign or Sublease.

Without Landlord's consent, Tenant may (i) assign this Lease in its entirety (including all extension rights, expansion rights and other rights provided herein) or (ii) Sublease all or any portion of the Premises, provided the assignee or sublessee (i) will use the space in question for general office and related purposes consistent with Section 7 above, (ii) is an affiliate of Tenant (including without limitation a parent corporation, subsidiary corporation, "brother-sister" corporation or affiliated partnership), an entity resulting from a merger or consolidation with Tenant or any affiliate of Tenant, an entity succeeding to the business and assets of Tenant, or an entity resulting from the reorganization of Tenant or its affiliates provided any such entity has a net worth equal to or greater than that of Tenant as of the Restatement Effective Date. In the event of such an Assignment or Sublease, and provided that the assignee or sublessee assumes in writing all of the obligations of Tenant under the Lease, Tenant shall be released of all obligations under the Lease. If any such assignee or sublessee under this Section has a net worth greater than Fifty Million Dollars (\$50,000,000.00), but less than the net worth of the Tenant as

of the execution date of this Lease, Tenant agrees to guarantee the performance of such assignee or sublessee under the Lease for a period of one (1) year after the effective date of the Assignment or Sublease as provided herein; provided further that no such Assignment or Sublease effective prior to October 1, 2010, shall release Tenant of its obligations under this Restated Lease.

b. Other Assignments or Subleases.

Any other Assignment of this Lease or Sublease of all or any part of the Premises shall be made only as follows:

If Tenant desires at any time to enter into an Assignment of this Lease or a Sublease of the Premises or any portion thereof, it shall first give written notice to Landlord (the "Assignment Notice") of its desire to do so, which Assignment Notice shall contain, without limitation, (i) the name of the proposed assignee, subtenant or occupant, (ii) the nature of the proposed assignee's, subtenant's or occupant's business to be carried on in the Premises, (iii) the annual rent, and any adjustments in rent to be paid by the proposed assignee, subtenant or occupant, (iv) a list of the deductions proposed to be taken from Tenant's proceeds from the Assignment or Sublease to be used to calculate the fifty percent (50%) to be paid to Landlord as provided herein, (v) the term of the proposed Assignment or Sublease, and (vi) the area of the Premises subject to the proposed Assignment or Sublease. In addition, Tenant shall also provide Landlord within five (5) business days of Landlord's request therefore, such financial information as Landlord may reasonably request concerning the proposed assignee, subtenant or occupant.

At any time within five (5) business days after Landlord's receipt of the Assignment Notice, and any financial information requested by Landlord, Landlord shall, by written notice to

Tenant, elect in writing to (i) consent to the Sublease or Assignment, or (ii) disapprove the Sublease or Assignment; provided, however, Landlord shall not unreasonably withhold or condition its consent to the Assignment or Sublease. Failure to respond shall be deemed consent. As a condition for granting its consent to any Assignment or Sublease, however, Tenant agrees to pay to Landlord fifty percent (50%) of all Tenant's proceeds in connection with such Assignment or Sublease which exceed the Rent payable by Tenant to Landlord hereunder (or a proportionate amount thereof representing the portion of the Premises subject to a Sublease or Assignment, if less than the entire Premises is subject to a Sublease or Assignment), less (i) Tenant's reasonable leasing commissions; (ii) payment attributable to the amortization (over the sublease term) of the cost of tenant improvements made to the Premises at Tenant's expense for the assignee or sublessee, if any; (iii) payment attributable to the remaining amortization (if any) of Tenant Work paid for by Tenant which are within the portion of the Premises subject to the Assignment or Sublease and which will remain therein during the term of the Assignment or Sublease, amortized from date of installation on the same basis as if such work had been amortized as Building Amenities; and (iv) any other reasonable direct out-of-pocket costs related to Tenant's securing an assignee or sublessee, such as attorney's fees. If Landlord consents to the Sublease or Assignment within the time periods set forth herein, Tenant may within one hundred (120) days after Landlord's consent, but not later than the expiration of said one hundred twenty (120) days, enter into such Assignment of the Lease or Sublease of the Premises or portion thereof, but only upon the terms and conditions set forth in the Assignment Notice. All property management responsibilities regarding any assignees or sublessees of Tenant, which increase the cost to Landlord over and above that which was provided to Tenant, will be the responsibility of

Tenant and paid for by Tenant or its assignee or sublessee, unless otherwise agreed, in writing, by Landlord.

No consent by Landlord to any Assignment or Sublease by Tenant shall relieve Tenant of any obligation to be performed by Tenant under this Lease, whether arising before or after the Assignment or Sublease except as provided under Section 20.a. hereof. The consent by Landlord to any Assignment or Sublease shall not relieve Tenant from the obligation to obtain Landlord's express written consent to any other or further Assignment or Sublease.

Notwithstanding the foregoing, if Tenant seeks to Sublease, in the aggregate, more than fifty percent (50%) of the Premises pursuant to this Section 20.b (other than Subleases for less than one year), Landlord shall be entitled to terminate this Lease as to such portion of the Premises under Sublease (or proposed Sublease) as may be required to cause no more than fifty percent (50%) of the Premises to be under Sublease. Such termination right (referred to herein as "Recapture" and Landlord's "Right of Recapture") shall operate as follows: (1) As used herein the "50% Maximum" shall mean a constant number equal to fifty percent (50%) of the maximum amount of Premises under lease to Tenant prior to any Recapture (i.e. if Tenant had under lease 800,000 Square Feet of Rentable Area, the 50% Maximum will be a constant 400,000 Square Feet, even if Landlord Recaptured 200,000 Square Feet so that only 600,000 Square Feet remained under lease). (2) Tenant shall notify Landlord (the "Excess Sublease Notice") of the date on which Tenant intends to begin marketing any space that would exceed the 50% Maximum (the "Excess Sublease Marketing Date"), and the projected date of Sublease of such space (the "Projected Sublease Date"). (3) The Excess Sublease Notice shall include Tenant's designation of a commercially reasonable portion of the Premises (which may include areas other than the area proposed for sublease) which, if recaptured, would bring the total proposed

Sublease under the 50% Maximum (such space being referred to as "Premises Available for Recapture"). Landlord may, within five (5) business days of receipt of Tenant's Excess Sublease Notice, inform Tenant whether Landlord elects to Recapture that portion of the Premises Available for Recapture. If Landlord elects to exercise its Right of Recapture, Tenant may nullify that election by withdrawing its Excess Sublease Notice by notice given to Landlord within ten (10) days after Landlord's exercise of its Right of Recapture. If Landlord exercises its Right of Recapture and Tenant does not withdraw its Excess Sublease Notice, then on the Projected Sublease Date, this Lease shall be deemed terminated as to the portion of the Premises Available for Recapture. Landlord and Tenant shall split equally the cost of any demising walls or systems segregation necessary to make the Premises Available for Recapture commercially leasable as a separate tenant premises.

Except as to space as to which Landlord has exercised its Right of Recapture as provided above, in the event that Tenant proposes to Sublease space pursuant to this Section 20.b (the "Proposed 20.b Sublease Space") such that the Proposed 20.b Sublease Space plus all space then under Sublease pursuant to this

Section 20.b exceeds the 50% Maximum (in which case the entire amount of such Proposed 20.b Sublease Space, whether or not such entire amount is in excess of the 50% Maximum, shall be referred to as "Excess 20.b Sublease Space"), then in addition to the otherwise existing requirements of this Section 20.b, the following procedures shall apply:

a. For a period beginning on the Excess Sublease Marketing Date and ending on the first annual anniversary of the Excess Sublease Marketing Date, both Tenant and Landlord may market the Excess 20.b Sublease Space. During such period, if Tenant proposes a sublessee,

Landlord may withhold its consent in its sole discretion, but if Landlord proposes a sublessee, Tenant's consent shall not be unreasonably withheld.

b. From and after the first annual anniversary of the Excess Sublease Marketing Date, if a Sublease for the Excess 20.b Sublease Space has not otherwise been executed, neither party shall unreasonably withhold consent to a Sublease proposed by the other party.

## 21. Hazardous Substances.

Without Landlord's consent, Tenant shall not keep, use, release or dispose of any substances designated as, or containing components now or hereafter designated as, hazardous, dangerous, toxic or harmful and/or subject to regulation under any federal, state or local law, regulation or ordinance ("Hazardous Substances") on or about the Premises, the Building or the Property; provided, the foregoing, shall not preclude Tenant from keeping and using in or about the Premises and the Building, office supplies, ordinary cleaning products and the like which are normally found in business offices or in connection with the operation of a roaster or food service operations, and which contain or may contain Hazardous Substances, so long as Tenant uses, stores and disposes of any such products and supplies in compliance with all applicable environmental laws. Landlord hereby agrees to defend, indemnify and hold Tenant harmless from any and all clean up costs and expenses (including, without limitation, attorneys fees and costs) and any and all other charges, expenses, fees, fines, penalties (both civil and criminal) and costs relating to any remedial action or clean up suffered or incurred by Tenant arising out of or related to the presence of asbestos or other Hazardous Substances in, on or under the Premises, the Building or the Property, unless caused by Tenant, its employees, agents or contractors. Tenant hereby, agrees to defend, indemnify and hold Landlord harmless from any and all clean up costs and expenses and any and all other charges, expenses, fees, fines, penalties (both civil

and criminal) and costs relating to any remedial action or clean up suffered or incurred by Landlord and caused by Tenant's use of the Premises. Landlord shall not allow any tenant or occupant of the Building to use any premises in the Building, for any business in which any toxic, infectious, Hazardous Substances are produced, stored or disposed in, on or about the Project except in accordance with all applicable laws.

## 22. Insurance: Indemnification.

### a. Indemnities.

Tenant shall indemnify, defend and hold Landlord, its officers, agents, employees and contractors harmless from all losses, damages, fines, penalties, liabilities and expenses (including reasonable attorneys' fees and costs) resulting from any actual injury to any person or from any actual loss of or damage to any property, attributable to Tenant's use of the Premises or caused by or resulting from any negligent or intentional act or omission of Tenant or any employee, agent, contractor or invitee. Landlord shall indemnify, defend and hold Tenant, its officers, agents, employees and contractors harmless from all losses, damages, fines, penalties, liabilities and expenses including reasonable attorneys, fees and costs resulting from any actual injury to any person or from any actual loss of or damage to any property attributable to Landlord's operation of the Project or caused by or resulting from any negligent or intentional act or omission of Landlord or any employee, agent, contractor of Landlord; provided that in no event shall Landlord be liable for interference with Tenant's light, air or view in or from the Premises. The foregoing indemnities specifically cover actions brought by each party's own employees and shall survive the expiration or earlier termination of this Lease. The foregoing indemnities are specifically and expressly intended to constitute waivers with respect to the other party of each party's immunity, if any, under Washington's Industrial Insurance Act, RCW Title 51, to the

extent necessary to provide the other party with a full and complete indemnity from claims made by the waiving party and its employees, to the extent of their negligence. LANDLORD AND TENANT ACKNOWLEDGE THE FOREGOING INDEMNIFICATION PROVISIONS WERE SPECIFICALLY NEGOTIATED AND AGREED UPON BY THEM.

b. Concurrent Negligence.

In the event of concurrent negligence of Tenant, its agents, employees, sublessees, licensees, contractors or invitees on the one hand, and that of Landlord, its agents, employees, licensees or contractors on the other hand, which concurrent negligence results in injury or damage to persons or property in relation to the construction, alteration, repair, addition to, subtraction from, improvement to or maintenance or use of the Premises or the Building, each party's obligation to indemnify the other party as set forth in this Lease shall be limited to the extent of the negligence of the indemnifying party, and that of its agents, employees, sublessees, licensees, invitees or contractors, including its proportionate share of costs and attorneys, fees and expenses incurred in connection with any claim, action or proceeding brought with respect to such injury or damage.

c. Tenant's Insurance.

(i) Tenant shall, during the entire term of this Lease and any other period of occupancy, at its sole cost and expense, keep in full force and effect the following insurance:

(1) Standard form policy of property insurance insuring against the perils of fire, extended coverage, vandalism, malicious mischief, special extended coverage ("Special Cause of Loss") and sprinkler leakage. This insurance policy shall be upon all property owned by Tenant, for which Tenant is legally liable and/or that was installed at Tenant's expense,

and which is located in the Building including, without limitation, Tenant's Work, furniture, fittings, installations, fixtures and any other personal property, in an amount not less than one hundred percent (100%) of the full replacement cost thereof. In the event that there shall be a dispute as to the amount which comprises full replacement cost, such dispute shall be resolved through consultation between Landlord and Tenant. This insurance policy shall also insure the direct or indirect loss of Tenant's earnings attributable to Tenant's inability to use fully or obtain access to the Premises or the Building in the amount as will properly reimburse Tenant. Such policy shall name Landlord and any Landlord's Lender as loss payee, as their interests may appear from time to time with respect to the Four Dollars (\$4.00) contribution made by Landlord toward Tenant's Work in the Initial Premises which was required in the Initial Amended Lease.

(2) Commercial General Liability Insurance insuring Tenant against any liability arising out of the lease, use, occupancy, or maintenance of the Premises and all areas appurtenant thereto. Such insurance shall be in the minimum amount of Three Million Dollars (\$3,000,000.00) per occurrence with an umbrella coverage of not less than Ten Million Dollars (\$10,000,000.00) Combined Single Limit for injury to or death of one or more persons in an occurrence, and for damage to tangible property (including loss of use) in an occurrence, with such liability amount to be adjusted from year to year as reasonably required by Landlord. The policy shall insure the hazards of premises and operations, independent contractors, contractual liability and shall (A) name Landlord and any Landlord's Lender as an additional insured, and (B) contain a cross-liability provision.

(3) Workers' Compensation and Employer's Liability Insurance (as required by state law).

(4) Any other form or forms of insurance as Tenant or Landlord or any Landlord's Lender may reasonably require from time to time (not more than once per year) in form, amounts and for insurance risks against which a prudent tenant would protect itself.

(ii) All policies referred to in Section 22.c.(i) above shall be primary and noncontributory, shall be written in a form satisfactory to Landlord and shall be taken out with insurance companies qualified to issue insurance in the State of Washington and holding a General Policyholder's Rating of "A" and a Financial Rating of "IX" or better, as set forth in the most current issue of Best's Insurance Guide. Within ten (10) days after the execution of this Restated Lease, Tenant shall deliver to Landlord certificates evidencing the existence of the amounts and forms of coverage in accordance with the provisions as provided in this subsection. No such policy shall be cancelable or reducible in coverage except after thirty (30) days prior written notice to Landlord. Tenant shall, within ten (10) days prior to the expiration of such policies, furnish Landlord with renewals or "binders" thereof. If Tenant fails to obtain such insurance policy, Landlord, after ten (10) days prior written notice to Tenant, may obtain such insurance. If Landlord obtains any insurance that is the responsibility of Tenant under this Section 22, Landlord shall deliver to Tenant a written statement setting forth the cost of any such insurance and showing in reasonable detail the manner in which it has been computed, and Tenant will pay such cost within thirty (30) days after its receipt of the statement.

d. Landlord's Insurance.

So long as Tenant is lessee of at least 500,000 Square Feet of Rentable Area in the Building, Landlord shall consult with Tenant in placing the Landlord's insurance required hereunder. Landlord shall maintain at all times during the Lease Term a policy or policies of

property insurance with extended coverage endorsement covering the Building in an amount equal to one hundred percent (100%) of the replacement cost of the Building (including costs required to comply with codes and ordinances in effect at the time of repair) as determined by the insurer based on the Marshall Swift (or similar) valuation estimates. In addition, Landlord may maintain at all times during the Lease Term a policy or policies of DIC (Difference in Conditions) insurance to cover flood and earthquake damage in an amount at the minimum equal to the Potential Maximum Loss ("PML") as determined by the insurer(s) (with such endorsements as are necessary to prevent co-insurance), provided such DIC insurance is then commonly carried by institutional owners of similar multi-tenant buildings in the area. If such insurance is not commonly carried, Landlord will notify Tenant in writing and Tenant may thereafter require Landlord to obtain such coverage; provided in such event Tenant shall pay the premium for the DIC insurance coverage. Further, Landlord shall maintain at all times during the Lease Term a policy or policies of commercial general liability, or a combination of commercial general liability and umbrella or excess liability insurance naming Tenant as an additional insured thereunder, with combined limits of not less than Ten Million Dollars (\$10,000,000). The liability insurance required hereunder shall cover all of Landlord's operations and activities and all contingent liability of Landlord for all operations performed at the Building on Landlord's behalf by Landlord's contractors or subcontractors, and shall specifically include contractual liability coverage. The liability coverage required hereunder shall provide that Landlord's insurance applies separately to each named insured or additional insured against whom a claim is made or suit is brought, except with respect to the limits of the insurer's liability. Landlord's property insurance policy shall include Tenant as a loss payee as respects its interest, as lender, in Building Systems and Building Amenities, provided Landlord's

Lender shall also be named as a loss payee as respect Landlord's Lender's interest in the Project. The deductibles for any insurance carried by Landlord hereunder shall be at Landlord's discretion and will reflect then current market conditions; provided that if the deductible is greater than \$100,000 per occurrence for property insurance (excluding DIC coverage), Landlord shall consult with Tenant, and will obtain insurance with a lower deductible as directed by Tenant provided Tenant agrees to pay the difference in premium between the insurance with a deductible proposed by Landlord and the insurance with the deductible elected by Tenant.

### 23. Waiver of Subrogation.

Landlord and Tenant each hereby waive any and every claim which arises or may arise in its favor and against the other party during the term of this Lease or any extension or renewal, for any and all losses resulting from the peril of any casualty (or other causes which could be insured against under the terms of a broad form property insurance policy with an extended coverage endorsement) to any of its real and personal property located within or upon, or constituting a part of, the Premises, the Building the Property or the Project. Said mutual waivers shall be in addition to, and not in limitation or derogation of, any other waiver or release contained in this Lease with respect to any loss or damage to property of the parties hereto. Inasmuch as said waivers will preclude the assignment of any aforesaid claim by way of subrogation (or otherwise) to an insurance company (or any other person), each party agrees, if not previously arranged with insurance company, immediately to give each insurance company which has issued to it, policies of property insurance covering the peril of any casualty (or other causes could be insured under the terms of a broad form property insurance policy with an extended coverage endorsement) written notice of the terms of said mutual waivers, or to have such

insurance policies properly endorsed, if necessary, to prevent the invalidation of said insurance coverage by reason of said waivers.

#### 24. Subordination.

Landlord represents and warrants to Tenant that Landlord is the fee owner of the Building and the Property, subject only to the Title Exceptions, including that certain Deed of Trust dated and recorded in the records of King County, Washington under Recording No. 980415-0720, in which Teachers Insurance and Annuity Association is the beneficiary, Transamerica Title Insurance Company is the trustee and Landlord is the grantor. Upon any permitted refinancing of such loan, Landlord, Landlord's Lender and Tenant will execute a Subordination and Nondisturbance Agreement (the "SND Agreement") substantially in the form attached hereto as Exhibit Q for Landlord's Lender's benefit in which Tenant (i) confirms that this Lease is subordinate to the Deed of Trust, (ii) agrees to attorn to Landlord's Lender if such Lender becomes the owner of the Property or the Building, (iii) agrees to give Landlord's Lender copies of whatever notices of default Tenant may give Landlord hereunder, (iv) agrees to accept a cure by Landlord's Lender of any of Landlord's defaults, provided such cure is completed within the cure period set forth in the SND Agreement, and (v) agrees not to pay Rent more than one (1) month in advance. Tenant agrees to subordinate its interests in this Lease to any subsequent Landlord's Lender having an interest in the Property if such Landlord's Lender executes for Tenant's benefit a nondisturbance agreement which is substantially identical to the one described above for such Landlord's Lender's execution, or otherwise reasonably acceptable to Tenant, provided that Tenant's rights under the Lease shall not be abridged nor its obligations under the Lease enlarged thereby.

## 25. Casualty or Condemnation.

### a. Casualty.

If the Premises or the Building are destroyed or damaged by fire, earthquake or other casualty to the extent that they are untenable in whole or in part, then Landlord shall, to the extent of the available insurance proceeds plus (except in the case of flood or earthquake) the deductible, proceed with reasonable diligence to rebuild and restore the Premises and the Building or such part thereof as may be damaged as aforesaid, provided that within twenty (20) days after such destruction or damage Landlord will notify Tenant of Landlord's intention to do so and the time period within which such work will be accomplished. If Landlord is to rebuild and/or repair the Premises and/or the Building as provided in the preceding sentence, Tenant agrees to release such insurance proceeds received by Tenant from its insurance carrier with respect to insurance carried by Tenant on the Tenant's Work pursuant to

Section 22.c. above. Landlord shall restore and/or repair the Premises and/or the Building (with improvements substantially comparable in quality to the improvements to the Premises existing prior to the casualty) as rapidly as possible, subject to delays beyond Landlord's control. During the period of such rebuilding and restoration the Rent shall be abated in the same ratio as that portion of the Premises rendered untenable by the damage bears to the whole of the Premises. If Landlord shall fail to notify Tenant, as required by this Section, this Lease shall, at Tenant's option, at the expiration of the time for the giving of the notice required above, terminate. If Tenant is deprived of elevator access to the Premises as a result of a casualty, Rent shall be abated in the same ratio as that portion of the Premises which Tenant reasonably determines is not usable for Tenant's business purposes shall bear to the whole of the Premises during the duration of the period during which such access is unavailable. If the casualty giving rise to the damage is

uninsured, or substantial completion of the restoration of any damage will take longer than three hundred sixty (360) days from the date of the damage or destruction, either party shall have the right to terminate this Lease by giving the other party written notice thereof within sixty (60) days after the casualty causing the damage. In the event that the Lease is terminated as provided in this paragraph, Tenant and Landlord agree that each party will make every effort to release the insurance proceeds to the party entitled thereto under the Lease to the other party as its respective interest may appear from time to time.

b. Condemnation.

If the Premises or any portion thereof are taken under the power of eminent domain, or sold by Landlord under the threat of the exercise of said power (all of which is herein referred to as "condemnation"), which taking materially interferes with Tenant's use of the Premises, this Lease shall terminate as to the part so taken as of the date the condemning authority takes possession of the Premises or the portion thereof. Upon receipt of the condemnor's notice of intention to take by either party, such party shall immediately give written notice of such receipt to the other party. If more than twenty-five percent (25%) of the Premises, the Building, or the Property is taken by condemnation, and if the effect of such condemnation is to render the Premises untenable for Tenant's uses, then either Landlord or Tenant may terminate this Lease, by written notice to the other party, at any time following the date the condemnor gives notice of its intention to take, and such termination shall be effective on the date the condemning authority shall have taken title or possession. If this Lease is not terminated by either Landlord or Tenant then it shall remain in full force and effect as to the portion of the Premises remaining, provided the Rent shall be reduced in the same proportion that the area taken bears to the total area of the Premises prior to taking. In the event this Lease is not so terminated, then Landlord

agrees, at Landlord's sole cost, as soon as reasonably possible to restore the Premises to a complete unit of like quality, character and utility for Tenant's purposes as existed prior to the condemnation. Nothing contained herein shall be deemed or construed to prevent Landlord or Tenant from enforcing and prosecuting a claim or claims for the value of its respective interest or rights in connection with any condemnation proceedings, whether partial or complete.

#### 26. Insolvency.

If Tenant becomes insolvent, or makes an assignment for the benefit of creditors, or a receiver is appointed for the business or property of Tenant, or a petition is filed in a court of competent jurisdiction to have Tenant adjudged bankrupt, then Landlord at Landlord's option may terminate this Lease, provided if the bankruptcy petition filed with respect to Tenant is involuntary, Tenant shall have ninety (90) days in which to cause such petition to be discharged before Landlord shall have such termination right. Said termination shall reserve unto Landlord all of the rights and remedies available under Section 27 below, and Landlord may accept rents from such assignee or receiver without waiving or forfeiting said right of termination.

#### 27. Default.

##### a. By Tenant.

If any Rent is in arrears for a period of ten (10) days after a written notice from Landlord to Tenant, or if Tenant shall fail at any time to keep or perform any of the covenants or conditions of this Lease other than a covenant for the payment of the monthly Rent for a period of more than thirty (30) days after written notice thereof from Landlord (unless the cure cannot reasonably be completed within such thirty (30) day period, and Tenant commences to cure such default within such thirty (30) day cure period and diligently pursues such cure to completion), then, and in either or any of such events Landlord, may, at its option, cancel this Lease upon

giving the notice required by law, and/or may re-enter said Premises, but notwithstanding such re-entry by the Landlord, the liability of the Tenant for the Rent provided for herein shall not be extinguished for the balance of the Term of this Lease, and Tenant covenants and agrees to make good to the Landlord any deficiency arising from a re-entry and/or a reletting of the Premises at a lesser rental than herein agreed. The Tenant shall pay such deficiency each month as the amount thereof is ascertained by the Landlord. Landlord shall have an affirmative obligation to use its best efforts to relet the Premises or any portion of such Premises, and Tenant shall pay the cost for reletting including but not limited to the cost of tenant improvements, any of Landlord's reasonable attorneys' fees and the real estate commission for such reletting. If Landlord relets for a period of time longer than the current Lease Term, then any such costs shall be allocated throughout the entire reletting term to not unduly reduce the amount of consideration received by Landlord during the remaining period of Tenant's Lease Term. No remedy or election by Landlord hereunder shall be deemed exclusive, but shall, wherever possible, be cumulative with all other remedies at law or in equity.

If any payment due from Tenant to Landlord hereunder is more than ten

(10) days late, Tenant shall pay Landlord interest on such late payment at an interest rate of two percent (2%) above the Prime Rate.

b. By Landlord.

If Landlord fails to perform any covenant or condition of this Lease, requiring the payment of money on the part of Landlord and such failure is not cured within ten (10) days after written notice from Tenant to Landlord, or if Landlord shall fail to keep or perform any of the covenants or conditions of this Lease other than a covenant or condition requiring payment of money by Landlord and such failure is not cured within thirty (30) days after written notice of

the failure from Tenant to Landlord, then, in addition to all other rights or remedies available to Tenant under this Lease, at law or in equity, Tenant may perform the covenant or condition which Landlord failed to perform and Landlord shall, upon receipt of an invoice from Tenant, pay Tenant the actual costs incurred by Tenant in so doing, together with interest thereon at an interest rate two percent (2%) above the Prime Rate provided, however, if Landlord commences curative efforts of a nonmonetary failure within the thirty (30) day cure period and is diligently prosecuting the cure in good faith, then the thirty (30) day period shall be extended so long as Landlord is diligently prosecuting the cure to completion. In addition to the foregoing rights and remedies of Tenant, if Tenant has also given notice of the failure to Landlord's Lender as provided in the SND Agreement, and the default is not cured within the applicable time periods, Tenant shall, in addition to all other rights and remedies at law or in equity, also have the right to terminate the Lease on written notice to Landlord and Landlord's Lender, provided that such termination right shall only be applicable with respect to uncured defaults which have a material adverse impact on Tenant's occupancy or use of the Premises or on Tenant's current or future parking requirements.

#### 28. Storage Space.

During the entire term of this Lease, Tenant may lease available storage space in the Building at the then market rates charged to third parties. Tenant shall have access to the storage space twenty-four (24) hours per day, seven (7) days per week, including holidays. Landlord does not guarantee the availability, location or amount of storage space which may be available at any time. Once Tenant has notified Landlord that Tenant desires to lease storage space in the Building and for so long as such notice is applicable, as storage space becomes available for lease (including space previously declined by Tenant), Landlord shall make such space available

on a first offer basis. If Tenant does not agree to lease such space within ten (10) days of notice from Landlord that this space will be available, Landlord may lease such space to third parties.

#### 29. Building Name.

The name of the Building is the Starbucks Center, and Landlord agrees not to change the name of the building during the Lease Term except as provided below. So long as Tenant occupies at least 25% of the Building, Tenant may direct Landlord to rename the Building to any new trade name that Tenant adopts for at least 70% of its retail outlets (e.g. by way of merger), or may direct Landlord to restore the SODO Center name of the Building; provided Tenant pays all costs reasonably attributable to such name change.

If Tenant directs the restoration of the SODO Center name, then Tenant agrees not to use the name or designation of the Building except as may be permitted in writing by Landlord which consent shall not be unreasonably withheld or delayed. If any such use is permitted, Tenant shall promptly discontinue the use of upon termination or expiration of this Lease. Tenant shall have no property right or interest in any name or designation which may become associated with Tenant's business to the extent that such name or designation contains any reference to the name or designation of the Building. If Tenant by operation of law or otherwise is deemed to have acquired any title or other right to any such name or designation of the Building, Tenant shall forthwith assign the same to Landlord or Landlord's designee without consideration other than the consideration of this Lease.

#### 30. Building Directory.

Sufficient space shall be provided under Tenant's name on the building directory in the main lobby of the Building to list the departments of Tenant. Such list shall be updated from

time to time (no more frequently than once per month), at Tenant's cost, when requested by Tenant.

31. Commission.

A commission shall be paid by Landlord pursuant to the Commission Agreement approved by Landlord and Craig Kinzer & Co. The parties agree that Craig Kinzer & Co. represented Tenant in the negotiation of this Lease. Each party represents that it has no agreement to pay a commission to any other third party and will hold the other party harmless from any such claims for commissions made by third parties.

32. Binding Effect.

Each of the provisions of this Lease shall extend to and shall, as the case may require, bind and inure to the benefit of Landlord and Tenant, and their respective heirs, legal representatives, successors and assigns, subject, however, to the provisions of Section 20 above. No waiver by Landlord or Tenant of a breach by the other of any covenant or condition of this Lease shall be construed to be a waiver of any subsequent breach of the same or any other covenant or condition.

33. Holding Over.

If Tenant holds possession of the Premises after the term of this Lease, Tenant shall be deemed to be a month-to-month tenant upon the same terms and conditions as contained herein, except Rent, which shall be the then current fair market rent for the Premises or one hundred fifty percent (150%) of the Base Floor Rent for the period immediately preceding the end of the Lease Term, whichever is greater.

34. Attorneys' Fees.

If either party to this Lease commences a legal action in order to enforce this Lease, the prevailing party in such action shall be entitled to recover from the nonprevailing party the prevailing party's reasonable costs and attorneys' fees, including any such costs and attorneys' fees as are incurred in bankruptcy court or on appeal.

35. Force Majeure.

The occurrence of any of the following events shall excuse such obligations of Landlord or Tenant as are thereby rendered impossible or reasonably impracticable for so long as such event continues: strikes; lockouts; third-party labor disputes; acts of God; governmental restrictions, regulations or controls; judicial orders; results of hostile governmental action; civil commotion, fire or other casualty; and other causes beyond the reasonable control of the party obligated to perform. Notwithstanding the foregoing, the occurrence of such events shall not excuse Tenant's obligations to pay Rent.

36. Quiet Enjoyment.

So long as Tenant pays the Rent and performs the covenants contained in this Lease, Tenant shall hold and enjoy the Premises peaceably and quietly, subject to the provisions of this Lease.

37. Recordation.

Tenant shall not record this Lease without the prior written consent of Landlord; however, at Tenant's request, Landlord shall execute for recording a memorandum of this Lease in the form attached hereto as Exhibit R ("Memorandum of Lease").

#### 38. Governing Law.

This Lease shall be governed by, construed and enforced in accordance with the laws of the State of Washington.

#### 39. Entire Agreement, Amendments and Severability.

This is the entire agreement between Landlord and Tenant with respect to the leasing of the Premises. This Lease supersedes all prior discussions and agreements with respect to the leasing of the Premises, and may not be waived or modified except by a written instrument signed by both parties. If any provision of this Lease is finally adjudicated to be invalid, illegal or unenforceable, in whole or in part, it will be deemed deleted to that extent and all other provisions of this Lease shall remain in full force and effect. This Lease is the result of substantial negotiations between Landlord and Tenant. Consequently, this Lease shall be construed in accordance with the fair intent of the language contained herein in its entirety and not for or against either party, regardless of which party was responsible for the preparation of this Lease. The parties represent and warrant to each other that each has consulted with its own legal counsel in connection with the preparation of this Lease.

#### 40. Notices.

Any notice, consent, approval or other communication required or given pursuant to this Lease shall be in writing and must be personally delivered, delivered by facsimile with electronic confirmation of delivery or mailed by United States certified mail, return receipt requested, postage prepaid. If mailed, notices shall be deemed received on the second (2nd) day following the date of mailing. Notices shall be sent to the receiving party at the address set forth below or such other address as either party may designate in writing to the other party:

by a chain-link fence and secured by a padlock. Tenant shall at all times have access to the Premises from the loading dock and Shipping Area through the freight corridor and freight elevator "C."

#### 44. Dispute Resolution.

##### a. Mediation.

In the event of any dispute between the parties arising under the Lease with respect to (a) the payment of Rent (other than determination of Effective Fair Market Rent under Section 3.b), (b) identification of subsequent Building Improvements as Building Systems or Building Amenities, (c) Operating Expenses, (d) Expansion Options, (e) rights of first refusal, or (f) any other dispute that the parties agree to resolve pursuant to this Section 44, the party desiring to resolve the dispute shall first request that the dispute be mediated and mediate the dispute. The requested mediation shall take place in Seattle, Washington within twenty (20) business days after written notification to the other party. The mediator shall be selected by agreement of the parties or by the American Arbitration Association (or any successor organization thereto) in Seattle, Washington and shall have at least five (5) years of experience in commercial office and industrial real estate management in the Seattle, Washington area.

##### b. Arbitration.

In the event any dispute mediated pursuant to Section 44.a. above is not resolved by mediation within ten (10) business days after commencement of the mediation or, if earlier, at such time as the mediator determines in good faith that a resolution cannot be achieved through mediation, the mediator shall submit the dispute to binding arbitration. The arbitrator shall be selected by agreement of the parties or by the American Arbitration Association (or any successor organization thereto) in accordance with its rules then prevailing and shall have five

(5) years of experience in commercial office and industrial real estate management in the Seattle, Washington area. The arbitrator shall have the authority to fashion such just, equitable and legal relief as the arbitrator shall, in its sole discretion, determine; provided, however, that the arbitrator shall be required to enforce the attorney fee provisions set forth in Section 34 above. Each party shall bear all of its own expenses of arbitration. All arbitration proceedings shall be conducted in Seattle, Washington. The decision of the arbitrator shall be binding upon the parties and may be enforced in the application of either party by the order or judgment of a court of competent jurisdiction. The duty to arbitrate shall survive the cancellation or termination of this Lease.

#### 45. Right of Second Refusal on Sale of Building.

Home Depot currently holds a right of first refusal on Landlord's sale of the Larger Development. In the event Landlord places the Larger Development or any portion thereof on the market, Landlord agrees to give Tenant a right of second refusal to purchase the Project in the event Home Depot does not exercise its right of first refusal. Tenant shall have thirty (30) days from its receipt of written notice from Landlord that Home Depot has not exercised its right of first refusal to exercise Tenant's right of second refusal, which exercise must be in writing.

#### 46. Rooftop Area.

Landlord acknowledges that Tenant may improve the rooftop of the Parking Garage as Building Amenities, subject to all applicable laws and regulations.

#### 47. Rooftop Communications Equipment.

Tenant may, at its option and expense have the right to put communications receiving/sending equipment on the rooftop of the Building and/or the Parking Garages for its

own use and not for lease to third parties, which equipment may be operated throughout the Lease Term and any renewals or extensions thereof. Tenant shall ensure that communications equipment installed on such roofs conforms to guidelines set forth by the City of Seattle and is consistent and compatible with the Building's design and other systems. Such equipment shall be maintained at Tenant's cost and at Tenant's risk. Landlord shall have no obligations regarding the maintenance or insurance of such equipment. Landlord recognizes the importance of rooftop communications equipment to Tenant, will fully cooperate with Tenant in developing reasonable screening requirements for such equipment, to be effected by Tenant at Tenant's expense, and shall not unreasonably withhold its approval of Tenant's proposed installation of any such equipment.

Landlord will make every effort not to allow any other tenant to install any systems or device that would interfere with the operation of Tenant's communication system and Tenant shall make every effort such that its communication system will not interfere with those of existing tenants in the Building.

#### 48. Daycare.

Landlord agrees that, subject to Tenant's compliance with all applicable laws and regulations, Tenant may install in the Premises a licensed day care facility. Such day care facility shall have the right to use the park area in the parking lot east of the Building.

#### 49. Generator.

The Premises shall include space in the Project for the installation of one (1) generator for use by Tenant in the location shown on Exhibit T attached hereto ("Location of Generator"). Tenant shall be responsible for the installation, maintenance and repair of this generator.

50. East Lot.

Landlord agrees not to construct any structures in the East Lot without Tenant's prior written approval which approval will not be unreasonably withheld, delayed or conditioned; provided that if Landlord desires to erect a structure in the East Lot, Tenant shall have the right of first refusal to lease such area for a Starbucks retail store. Tenant must exercise such right of first refusal by written notice to Landlord within thirty (30) days of Tenant's receipt of written notice of Landlord's desire to erect a structure in the East Lot and the terms of the lease for such retail store shall be negotiated in good faith by the parties.

IN WITNESS WHEREOF, the parties have executed this Amended and Restated Lease the day and year first above written.

**LANDLORD:**  
**FIRST AND UTAH STREET ASSOCIATES,**  
L.P., a Washington limited  
partnership  
By: SODO Center, Inc., its general  
partner

By /s/ KEVIN DANIELS  
-----  
Its Vice President  
-----

**TENANT:**  
  
STARBUCKS CORPORATION, a Washington  
corporation

By /s/ MICHAEL CASEY  
-----  
Its Exec. V.P.  
-----

STATE OF WASHINGTON                    )  
                                                  )ss.  
COUNTY OF KING                        )

I certify that I know or have satisfactory evidence that Kevin Daniels, to me known to be the Vice President of SODO CENTER, INC., which is the General Partner of FIRST AND UTAH STREET ASSOCIATES, L.P., a Washington limited partnership, signed this instrument and acknowledged said instrument to be the free and voluntary act and deed of said corporation on behalf of said partnership, for the uses and purposes therein mentioned, and on oath stated that he was authorized to execute said instrument.

WITNESS my hand and official seal hereto affixed this 13th day of February, 2001.

/s/ LINDA PIERATT  
-----  
(Signature of Notary)

Linda Pieratt  
-----  
(Print or stamp name of Notary)  
NOTARY PUBLIC in and for the State  
of Washington  
My Appointment Expires: 8-19-04.

STATE OF WASHINGTON                    )  
                                                  )ss.  
COUNTY OF KING                        )

I certify that I know or have satisfactory evidence that Michael Casey signed this instrument, on oath stated that he/she was authorized to execute the instrument as the Exec. V.P. OF STARBUCKS CORPORATION and acknowledged it to be the free and voluntary act and deed of said corporation, for the uses and purposes mentioned in the instrument.

WITNESS my hand and official seal hereto affixed this 14th day of February, 2001.

/s/ NANCY M. KENT  
-----  
(Signature of Notary)

**Nancy M. Kent**  
(Print or stamp name of Notary)

NOTARY PUBLIC in and for the State  
of Washington  
My Appointment Expires: 11/01/01.

**EXHIBIT 10.12**

**PURCHASE AGREEMENT  
CARSON VALLEY BUSINESS PARK**

**PURCHASE AGREEMENT**

THIS PURCHASE AGREEMENT is made and entered into as of this 14 day of June, 2001 (the "Effective Date"), by and between STARBUCKS MANUFACTURING CORPORATION, a Washington corporation ("Purchaser"), and CVBP, LLC, a Nevada limited liability company ("Seller").

IN CONSIDERATION of the respective agreements hereinafter set forth, Seller and Purchaser hereby agree as follows:

**1. Purchase and Sale.**

(a) Seller agrees to sell and convey to Purchaser, and Purchaser agrees to purchase from Seller, on the terms and conditions set forth in this Agreement, the Property. As used herein, the term the "Property" shall mean, collectively: (i) that certain parcel of land located within the Carson Valley Business Park, Minden, Nevada, which park is shown on the attached map (the "Park"), and containing approximately fifty (50) acres of land and more particularly described on EXHIBIT A attached hereto (the "Land"), or any portion thereof, in accordance with the terms set forth in Section 1(b) hereof, together with all of Seller's right, title and interest in all rights, easements and interests appurtenant thereto including, but not limited to, any streets or other public ways adjacent to the Land and any development rights, mineral rights owned by, or leased to, Seller; (ii) any and all structures, and systems associated with the Property (all such improvements being referred to herein as the "Improvements"); (iii) all personal property owned by Seller, located on or in the Land or Improvements and used in connection with the operation and maintenance of the Property (the "Personal Property"); including, without limitation, any personal property listed on EXHIBIT B attached hereto; and (iv) all trademarks, tradenames, permits, approvals, and entitlements and other intangible property used in connection with the foregoing, including, without limitation, all of Seller's right, title and interest in any and all warranties and guaranties relating to the Property (the "Intangible Personal Property").

(b) On the closing of the purchase and sale contemplated hereunder (the "Closing"), Seller agrees to sell and convey to Purchaser either (i) the entire Property, or (ii) a portion of the Property, provided that such portion shall not be less than thirty (30) acres of the Property, the size and location of which shall be designated by Purchaser (the "Partial Parcel"), on the terms and conditions set forth herein. On or before the last day of the first Due Diligence Period, as such term is defined herein, Purchaser shall provide Seller written notice of its intent to either purchase the Property or purchase the Partial Parcel (the "Notice of Parcel Size Date") In the event that Purchaser fails to give such written notice to Seller by the end of the Notice of Parcel Size Date and Purchaser is electing to proceed with the acquisition of the Property, then Purchaser shall be deemed to have elected to purchase the entire Property. If applicable, during the five (5) year period commencing on the Closing Date (the "Five Year Period"), Purchaser shall have the option to purchase the remaining portion of the Property (the "Remaining Parcel")

by providing at least thirty (30) days' prior written notice to Seller, on the same financial terms and conditions as the initial purchase of the Partial Parcel.

(c) Seller and Purchaser hereby acknowledge that Purchaser intends to use the Property to construct and erect on the Land a coffee roasting facility and distribution center and related improvements ("Purchaser's Project").

## 2. Purchase Price.

(a) The Purchase Price shall be determined by multiplying either

(i) One Dollar Five Cents (\$1.05), if Purchaser elects to purchase at Closing the entire portion of the Property and the entire portion of the Option Land (as defined below) (collectively, the "100 Acre Parcel"), (ii) One Dollar Thirty Three Cents (\$1.33), if Purchaser elects to purchase between forty one (41) and fifty (50) acres of the Property, (iii) One Dollar Thirty Seven Cents (\$1.37), if Purchaser elects to purchase between thirty five (35) and forty (40) acres of the Property, or (iv) One Dollar Forty Cents (\$1.40), if Purchaser elects to purchase between thirty (30) and thirty four (34) acres of the Property, times the total gross square footage, which square footage shall be determined by the area within the Property or shown on the ALTA Survey, as defined below, and shall exclude any land or easements which has been or will be dedicated to public authorities in connection with the development of the Property or in connection with the subdivision thereof. The total gross square footage shall be determined by a survey approved and prepared by Purchaser, at Seller's sole cost, which survey shall be certified by a duly licensed surveyor or surveyors showing all physical conditions affecting the Property sufficient for deletion of the survey exception from the Title Policy (the "ALTA Survey"). The Purchase Price shall be paid to Seller at Closing, minus any applicable Option Deposits amounts, as such term is defined below, if applicable, the Infrastructure Deposit, as defined below, and any applicable credit against the Purchase Price at the Closing in accordance with Sections 15(b) and 8(f)(i) hereof with respect to the costs of the Phase I environmental report and the Geotechnical report, and plus or minus prorations and other adjustments hereunder, in the manner set forth in Section 2(b) below.

(b) The Purchase Price shall be paid as follows:

(i) Within three (3) business days after the mutual execution and delivery hereof, Purchaser shall deposit a note in the amount of One Hundred Fifty Thousand Dollars (\$150,000) (the "Note") with a title company mutually acceptable to the parties hereto (the "Title Company"), to secure Purchaser's performance hereunder (the Note shall hereinafter be referred to as the "Deposit"). Prior to the expiration of the Due Diligence Period, the Title Company shall return the Deposit and, if applicable, the Infrastructure Deposit (for the purposes of this Section 2(b)(i), the term "Infrastructure Deposit" shall not include any amounts which have already been distributed or allocated to Seller in accordance with Section 2(b)(iii) hereof), to Purchaser on Purchaser's notification that this Agreement has terminated. Thereafter, if Purchaser instructs Title Company to return the Deposit, and, if applicable, the Infrastructure Deposit, then Title Company shall notify Seller of Purchaser's demand, and, unless Title Company receives within seven (7) days of the date of Title Company's notice an affidavit from Seller stating that there is a genuine dispute as to which party is entitled to the proceeds of the Deposit, and, if applicable, the Infrastructure Deposit, and describing the basis of Seller's claim

thereto, Title Company shall return the Deposit, and if applicable, the Infrastructure Deposit, to Purchaser, without any further instructions or authorizations from Seller. Except as provided to the contrary hereinbelow, if Purchaser makes a demand for return of the Deposit, and if applicable, the Infrastructure Deposit, and Title Company does receive such an affidavit from Seller within seven (7) days after Title Company's notice, then Title Company shall hold the Deposit, and, if applicable, the Infrastructure Deposit, in escrow until the dispute as to which party is entitled to the proceeds of the Deposit, and, if applicable, the Infrastructure Deposit, is resolved. If the Closing (i) does not occur for any reason other than a breach by Purchaser, then the Deposit, and, if applicable, the Infrastructure Deposit, shall be returned to Purchaser in accordance with the provisions of Section 7 hereof, or (ii) does occur, the Deposit, and, if applicable, the Infrastructure Deposit, shall be returned to Purchaser at the Closing.

(ii) If Purchaser exercises any of its Due Diligence Extension Options, as described below, Fifty Thousand Dollars (\$50,000) in cash shall be deposited into an interest bearing account on or before the commencement date of each such applicable Due Diligence Extension Option (collectively, the "Option Deposits"), and the amount of the Note shall be reduced by Fifty Thousand Dollars (\$50,000). Any interest on the Option Deposits shall belong to Purchaser. The Option Deposits and all interest thereon shall be applied against the Purchase Price at the Closing. The Option Deposits shall be nonrefundable to Purchaser for any reason other than a breach by Seller or a failure of any of the conditions described in Section 5(a) or 6 below.

(iii) Purchaser shall have the option, in Purchaser's sole discretion, to require Seller to proceed with Seller's obligations set forth in Sections 15 (b) and 15(f), in accordance with Purchaser's reasonable instructions, at any time prior to the Closing Date (the "Early Infrastructure Obligations") by depositing in an interest bearing account with the Title Company an additional amount, in cash, which amount shall be determined by Purchaser in Purchaser's sole discretion (the "Infrastructure Deposit"). If Purchaser deposits the Infrastructure Deposit, Seller shall proceed with such portion of the Early Infrastructure Obligations at such time that the Title Company receives the Infrastructure Deposit. The Infrastructure Deposit shall be paid to Seller as follows: in accordance with mutually acceptable escrow instructions to be agreed to by the parties hereto within ten (10) days after the execution and delivery hereof, Seller shall be reimbursed from the Infrastructure Deposit for sums which it has actually paid to unaffiliated third parties prior to Closing, in connection with the Early Infrastructure Obligations, within five (5) business days after Seller delivers proof of such payments to Purchaser and Purchaser approves such payments and the work performed therefor. In the event that the Closing contemplated hereunder does not occur for any reason whatsoever, Purchaser shall be fully refunded any amount remaining in the Infrastructure Deposit which has not already been distributed or allocated to Seller in accordance with the terms hereof. Any interest on the Infrastructure Deposit shall belong to Purchaser. The Infrastructure Deposit and all interest thereon (including any amounts paid or allocated to Seller) shall be applied against the Purchase Price at the Closing. The Infrastructure Deposit shall be fully refundable to Purchaser in the event of any breach by Seller or a failure of any of the conditions described in Section 5(a) or 6 below. Notwithstanding anything contained herein, in the event that the Infrastructure Deposit is refunded to Purchaser in accordance with the preceding sentence, such refund shall include any and all amounts which have already been paid or been allocated to Seller under this Section 2(b)(iii) and Seller shall immediately pay such amounts to Purchaser.

(iv) The balance of the Purchase Price shall be paid to Seller at the Closing in immediately available funds.

### 3. Title to the Property.

(a) At Closing, the Title Company shall issue to Purchaser an ALTA Owner's Policy of Title Insurance (Form B, rev. 10/17/70) in the amount of the Purchase Price, insuring fee simple title to the Land or, if applicable, the 100 Acre Parcel and the Improvements in Purchaser, subject only to the Permitted Exceptions (as hereinafter defined) (the "Title Policy"). The Purchaser's obligation to consummate the Closing shall be conditioned upon the Title Policy providing full coverage against mechanics', materialmen's and brokers' liens arising out of the construction, repair or alteration of the Improvements, if any, and shall contain such special endorsements as Purchaser may require (the "Endorsements"). Seller shall execute and deliver to Title Company an owner's affidavit sufficient to support the issuance of the Title Policy. As used herein, the term "Permitted Exceptions" shall mean, collectively: (i) the standard printed exceptions on an ALTA Owner's Policy of Title Insurance (Form B, rev. 10/17/70), (ii) nondelinquent liens for general real estate taxes and assessments, (iii) matters disclosed by a current survey of the Property and approved by Purchaser hereunder, and (iv) any exceptions disclosed by the Preliminary Reports (as defined below) or any Supplements (as defined below) and approved by Purchaser hereunder. Notwithstanding the foregoing, the term "Permitted Exceptions" shall not include (x) any monetary liens, including, without limitation, the liens of any deeds of trust or other loan documents secured by the Property, other than current real estate taxes, or (y) any mechanics', materialmen's and brokers' liens.

### 4. Due Diligence and Time for Satisfaction of Conditions.

Purchaser shall have the right to commence Due Diligence with respect to the Property following the Effective Date and the due diligence period ("Due Diligence Period") shall expire on either (i) the date that is ninety (90) days after the Effective Date or (ii) on such earlier date that Purchaser shall designate. Purchaser shall have three (3) options to extend the Due Diligence Period for a period of thirty (30) days each (collectively, the "Due Diligence Period Extension Options"). Purchaser must provide written notice to Seller of its intent to exercise a Due Diligence Period Extension Option, in the case of the first such Due Diligence Period Extension Option, on or before the expiration of the Due Diligence Period, or, in the case of the second or third such Due Diligence Period Extension Option, on or before the expiration of the previous Due Diligence Period Extension. As used herein, the Due diligence Period shall mean the Due Diligence Period as extended pursuant to the terms hereof. Seller shall make available to Purchaser and its employees, representatives, counsel and consultants access to all of its books, records and files relating to the Property in Seller's possession or reasonable control, including, without limitation, all of the items set forth on said Exhibit C other than the Delivery Items (collectively, the "Due Diligence Items"), and Seller agrees, to the extent reasonably feasible, to allow Purchaser to make copies at Seller's office or the property management office of such items as Purchaser reasonably requests. Notwithstanding the foregoing, Seller shall not be required to make available or provide to Purchaser any Due Diligence Items that are attorney-client privileged.

## 5. DILIGENCE PERIOD CONDITIONS.

The following conditions are precedent to Purchaser's obligation to purchase the Property and to deliver the Purchase Price (the "Diligence Period Conditions"):

(a) Purchaser's review and approval of title to the Property, as follows. Seller shall deliver to Purchaser at Seller's sole cost and expense, within five (5) days after the Effective Date, or at such other time as specified below, the following:

(i) a current standard coverage preliminary title report with respect to all of the Land, or, if applicable, the 100 Acre Parcel, issued by Title Company, accompanied by copies of all documents referred to in the report (the "Preliminary Report"), provided, however, that notwithstanding anything contained herein, immediately after Seller receives a copy of the ALTA Survey, Seller shall order the Preliminary Report and deliver the same to Purchaser and its counsel within forty eight (48) hours of receiving the Preliminary Report;

(ii) copies of all existing and proposed easements, covenants, restrictions, agreements or other documents which affect title to the Property that are actually known by Seller and that are not disclosed by the Preliminary Reports;

(iii) the ALTA Survey (notwithstanding anything contained herein, the ALTA Survey shall be delivered to Purchaser within 10 business days of the date hereof), the Phase I environmental report, and the Geotechnical report (as described in Section 5(b) hereof),

(iv) copies of the most recent property tax bills for the Property,

(v) copies of all documents relating to actions, suits, and legal or administrative proceedings affecting the Property;

(vi) financial information concerning income and expenses relating to the ownership and operation of the Property; and

(vii) copies of any leases or other occupancy agreements, if any, (the "Leases") affecting the Property (any such Leases shall be terminated on or before Closing).

Purchaser shall deliver written notice (the "Objection Notice") to Seller, prior to the end of the Due Diligence Period, if any of the exceptions to title disclosed by the Preliminary Report, the ALTA Survey, any surveys provided by Seller or any surveys obtained by Purchaser during the Due Diligence Period are objectionable to Purchaser ("Objections"). Seller shall have three

(3) days after receipt of the Objection Notice to give Purchaser: (i) written notice that Seller shall use all reasonable efforts to remove all Objections from title on or before the Closing Date, or (ii) written notice that Seller elects not to cause the Objections to be removed. If Seller shall fail to give Purchaser written notice of its election under clause (i) or (ii) of the preceding sentence within said three (3) days, Seller shall have deemed to have elected not to cause the Objections to be removed. If Seller gives Purchaser notice under clause (ii), Purchaser shall have ten (10) days to elect to proceed with the purchase or terminate this Agreement. If Purchaser shall fail to give Seller written notice of its election within said ten (10) days, Purchaser shall be deemed to have elected to terminate this Agreement. If Seller gives notice

under clause (i) above and fails to remove all the Objections prior to the Closing Date and Purchaser is unwilling to accept title subject to such Objections in its sole and absolute discretion, Purchaser shall have, as its sole right and remedy on account of such failure by Seller, the right to terminate this Agreement. In the event that Purchaser terminates this Agreement pursuant to this paragraph, the Deposit, if applicable, the Infrastructure Deposit and the Option Deposits, if any, shall be immediately returned to Purchaser and neither party shall have any further obligations hereunder except to the extent set forth in Sections 12, 16(b), 16(g), 16(k) and 16(l) hereof.

In the event the Title Company issues any supplement ("Supplement") to the Preliminary Report during the term of this Agreement, Purchaser shall have until the later of the end of the Due Diligence Period and ten (10) days following delivery of such Supplement to Purchaser to deliver an Objection Notice to Seller setting forth any Objections to any exceptions contained therein and not disclosed in the Preliminary Report, or any prior Supplement thereto. Thereafter, Seller shall have three (3) days after receipt of such Objection Notice to give Purchaser: (x) written notice that Seller shall use all reasonable efforts to remove all Objections from title on or before the Closing Date; or (y) written notice that Seller elects not to cause the Objections to be removed. If Seller shall fail to give Purchaser written notice of its election under clause (x) or (y) of the preceding sentence within said three (3) days, Seller shall have deemed to have elected not to cause the Objections to be removed. If Seller gives Purchaser notice under clause (y), Purchaser shall have five (5) days to elect to proceed with the purchase or terminate this Agreement. If Purchaser shall fail to give Seller written notice of its election within said five (5) days, Purchaser shall be deemed to have elected to terminate this Agreement. If Seller gives notice under clause (x) above and fails to remove all the Objections prior to the Closing Date and Purchaser is unwilling to accept title subject to such Objections in its sole and absolute discretion, Purchaser shall have, as its sole right and remedy on account of such failure by Seller, the right to terminate this Agreement. In the event that Purchaser terminates this Agreement pursuant to this Section, the Deposit, if applicable, the Infrastructure Deposit and the Option Deposits, if any, shall be immediately returned to Purchaser and neither party shall have any further obligations hereunder except to the extent set forth in Sections 12, 16(b), 16(g), 16(k) and 16(l) hereof.

Notwithstanding anything to the contrary provided herein, Seller shall be obligated to remove from title prior to the Closing (a) any delinquent taxes and assessments, (b) any mechanics', materialmen's and broker liens (other than any mechanics, materialmen's and broker liens for which Purchaser is responsible under the terms of this Agreement), (c) any other monetary liens, and (d) any exceptions caused by Seller's voluntary acts after the Effective Date and not approved by Purchaser hereunder.

(b) Purchaser's review and approval in its sole and absolute discretion, prior to the expiration of the Due Diligence Period, of all aspects of the Property, including, without limitation, all of the Due Diligence Items and the results of Purchaser's examinations, inspections, testing, and or investigations of the Property (collectively, "Purchaser's Due Diligence Investigations"). Purchaser's Due Diligence Investigations shall include an examination for the presence or absence of Hazardous Material (as defined below) on, under or in the Property. In connection therewith, Purchaser shall have prepared, at Purchaser's sole cost and expense, except to the extent that such cost shall be credited against the Purchase Price at the

Closing in accordance with section 8(f)(i) hereof, a current Phase I Environmental report and a current Geotechnical report covering soils and related matters, as designated by Purchaser. Any sums in excess of such amount shall be paid by Purchaser. Purchaser shall deliver copies of all such reports to Seller prior to the Closing without any warranty or representation as to the accuracy thereof. In addition, in Purchaser's discretion and at Purchaser's sole cost and expense, it may choose to engage in or otherwise conduct any additional environmental studies or environmental testing or sampling with respect to the Property or with respect to the soils or ground water. Seller or its representative may be present to observe any testing performed on the Property by Purchaser or its representatives. As used herein, the term, "Hazardous Material" shall mean any substance, chemical, waste or other material which is listed, defined or otherwise identified as "hazardous" or "toxic" under any federal, state, local or administrative agency ordinance or law, including, without limitation, the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. Sections 9601 et seq.; and the Resource Conservation and Recovery Act, 42 U.S.C. Sections 6901 et seq.; or any regulation, order, rule or requirement adopted thereunder, as well as any formaldehyde, urea, polychlorinated biphenyls, petroleum, petroleum product or by-product, crude oil, natural gas, natural gas liquids, liquefied natural gas, or synthetic gas usable for fuel or mixture thereof, radon, asbestos, and "source," "special nuclear" and "by-product" material as defined in the Atomic Energy Act of 1985, 42 U.S.C. Sections 3011 et seq.

(c) Purchaser's review and approval, prior to the expiration of the Due Diligence Period, of a schedule prepared by Seller and delivered to Purchaser on or before the Effective Date, identifying all of the service contracts and similar agreements that Seller intends to assign to Purchaser at Closing (the "Schedule of Agreements"). Purchaser shall have the right, in its sole discretion, to require the termination of any service contract or other agreement identified on the Schedule of Agreements effective as of the Closing Date, by delivering to Seller written notice (the "Contract Termination Notice") on or before the expiration of the Due Diligence Period (collectively "Terminable Agreements"). If Purchaser fails to deliver the Contract Termination Notice within such time period, Purchaser shall be deemed to have elected to assume all of the agreements identified on the Schedule of Agreements. Under all circumstances, Seller shall cause to be terminated as of the Closing all property management agreements and leasing agreements, if any, with respect to the Property. Those service contracts and agreements identified on the Schedule of Agreements that are not terminated by Purchaser pursuant to this Section 5(c) are referred to herein as the "Assumed Contracts."

(d) Purchaser's review and approval, prior to the expiration of the Due Diligence Period, of reports by engineers and/or architects selected by Purchaser to inspect the Property.

(e) Purchaser's review and approval, prior to the expiration of the Due Diligence Period, of all documents evidencing or securing the existing encumbrances, all certificates of occupancy, permits, environmental, soil, traffic, subdivision and zoning reports, studies or documents, insurance policies, warranties, any other agreements, reports, studies, inspections or investigations of the Property, and any other contracts, documents or items of significance to the Property.

(f) Purchaser's review, prior to the expiration of the Due Diligence Period, of all actions, suits, and legal or administrative proceedings affecting the Property.

(g) Purchaser's review and approval, prior to the expiration of the Due Diligence Period, of evidence satisfactory to Purchaser and its legal counsel that the Property complies with all applicable zoning, subdivision, land use, redevelopment, energy, environmental and other governmental requirements, including but not limited to current height, setback, floor-to-area ratio and Federal Aviation Administration restrictions and regulations, applicable to the use, maintenance and occupancy of the Property and of Purchaser's Project.

(h) Review and approval, prior to the expiration of the Due Diligence Period, by Purchaser and its legal counsel of all documentation relating to contracts, service agreements, closing documentation, title, and all other legal matters related to the Property and its acquisition by Purchaser.

(i) Purchaser's review and approval, prior to the expiration of the Due Diligence Period, of the physical condition of the Property, including, without limitation, of all improvements located thereon, if any, and the confirmation that the Property does not contain any asbestos containing materials or hazardous materials.

(j) Purchaser's review and approval, prior to the expiration of the Due Diligence Period, of written agreements from governmental agencies and other third parties obtained by Purchaser, in forms acceptable to Purchaser, which specify and define all tax, economic and other benefits that will be available and/or provided to Purchaser in connection with Purchaser's project, and any and all air quality/pollution credits, permits or approvals necessary in connection with Purchaser's project on the Property, including without limitation the operation of twelve (12) roasters. Seller shall exercise its best efforts to cooperate with and assist Purchaser in Purchaser's efforts to obtain such tax, economic and other benefits, and shall use its contacts and relationships with governmental agencies and other parties to facilitate Purchaser's efforts to obtain such tax, economic, and other benefits, and in the event that Seller is able to obtain any such air quality pollution credits or permits, Seller shall convey such credits or permits to Purchaser at the Closing, at no cost to Purchaser, and pursuant to documents and instruments required by Purchaser.

(k) Purchaser's review and approval, prior to the expiration of the Due Diligence Period, of any and all off-site mitigation, improvement and assessment requirements which will be imposed in connection with Purchaser's Project on the Property.

(l) Receipt by Purchaser of a certificate, prior to the expiration of the Due Diligence Period, in form satisfactory to Purchaser, confirming that all state and local real property and business taxes pertaining to the Property (including, without limitation, all corporate, sales, and withholding taxes) have been paid in full by Seller.

Prior to the end of the Due Diligence Period, Purchaser shall deliver written notice (the "Approval Notice") to Seller informing Seller whether or not Purchaser has approved or waived all of the Due Diligence Period Conditions. Notwithstanding anything in this Agreement to the contrary, Purchaser shall have the right to terminate this Agreement at any time prior to the end

of the Due Diligence Period, in its sole and absolute discretion and for any or for no reason whatsoever. If, by the end of the Due Diligence Period, Purchaser shall not have delivered the Approval Notice to Seller approving or waiving all of the Due Diligence Period Conditions, then this Agreement shall automatically terminate. In the event that this Agreement is terminated pursuant to this Section, the Deposit and the Infrastructure Deposit (excluding any amounts which have already been distributed or allocated to Seller in accordance with Section 2(b)(iii) hereof) shall be immediately returned to Purchaser and neither party shall have any further obligations hereunder except to the extent set forth in Sections 12, 16(b), 16(g), 16(k) and 16(l) hereof.

#### 6. Conditions to Closing.

The following conditions are precedent to Purchaser's obligation to acquire the Property and to deliver the Purchase Price (the "Conditions Precedent"). If any Conditions Precedent are not satisfied as determined by Purchaser in Purchaser's sole discretion, Purchaser may elect by written notice to Seller to terminate the Agreement and receive a refund of the Deposit, if applicable, the Infrastructure Deposit and the Option Deposits, if any. Upon such termination, neither party shall have any further obligations hereunder except as provided in Sections 12, 16(b), 16(g), 16(k) and 16(l) hereof.

(a) This Agreement shall not have terminated pursuant to any other provision hereof, including, without limitation, Section 5 above.

(b) The physical condition of the Property shall be substantially the same on the day of Closing as on the date of Purchaser's execution of this Agreement, reasonable wear and tear and loss by casualty excepted (subject to the provisions of Section 11 below), and, as of the day of Closing, there shall be no litigation or administrative agency or other governmental proceeding of any kind whatsoever, pending or threatened, which after Closing would materially adversely affect the value of the Property or the ability of Purchaser to operate the Property in the manner in which it is currently being operated or the ability of Purchaser to construct and operate Purchaser's Project, and no proceedings shall be pending or threatened which could or would cause the redesignation or other modification of the zoning classification of, or of any buildings code requirements applicable to the Property or any portion thereof, which after Closing would materially adversely affect the value of the Property or the ability of Purchaser to operate the Property in the manner in which it is currently being operated or the ability of Purchaser to construct and operate Purchaser's Project.

(c) Title Company shall be irrevocably and unconditionally committed to issue to Purchaser the Title Policy as described in Section 3(a) above (subject only to payment of its premiums therefor).

(d) All of Seller's representations and warranties contained herein shall be true and correct on the Closing Date.

(e) Prior to the end of the Due Diligence Period Seller and Purchaser shall have agreed, in each party's reasonable discretion, upon the changes, if any, in the covenants, conditions, restrictions and easements which are to be recorded with respect to the Land at or

prior to the Closing from the current form of that certain Declaration of Covenants, Conditions and Restrictions of Carson Valley Business Park as of December 8, 1993 (the "CC&Rs"), provided, however, that Purchaser shall only be subject to a maximum assessment (as such term is defined herein) amount under the CC&Rs of Two Thousand Dollars (\$2,000) per year, for a period of five (5) years from the Closing Date. This Section 6(e) shall survive the Closing

(f) Promptly following the mutual execution of this Agreement and at least ten (10) business days prior to Closing, Seller, at Seller's cost, (i) shall file an appropriate and complete application with Douglas County for Douglas County's approval of parcel maps ("Parcel Maps") in form and substance reasonably approved by Purchaser in order to subdivide the Property, the Remaining Parcel (if applicable, and the Option Land (as such term is defined herein) as separate legal parcels, (ii) shall diligently process such applications and (iii) shall otherwise exercise its best efforts to obtain Douglas County's approval of the Parcel Maps and to cause the Parcel Maps to be duly filed.

(g) During the Due Diligence Period, at Purchaser's Option, Purchaser shall acquire water and sewer rights for water and sewer utility services in capacities deemed by Purchaser, in Purchaser's sole discretion, to be sufficient to serve Purchaser's Project from Douglas County. In the event that Purchaser attempts to purchase such rights from Douglas County, Seller shall be obligated to diligently and actively assist Purchaser with the acquisition of such rights. In addition, upon the Closing, at no cost to Purchaser, Seller shall convey to Purchaser 19.89 acre feet of water rights, any additional water rights that Seller has the right to acquire, and approximately 2.87 equivalent domestic units of sewer rights pursuant to instruments and documents approved by Purchaser.

(h) Seller has performed all of its covenants hereunder.

## 7. Remedies.

(a) In the event the sale of the Property is not consummated because of the failure of any condition or any other reason except a default under this Agreement solely on the part of Purchaser, the Deposit, and, if applicable, the Infrastructure Deposit, shall immediately be returned to Purchaser. If said sale is not consummated solely because of a default under this Agreement on the part of Purchaser, Seller shall be excused from further performance hereunder and the Deposit shall be paid to and retained by Seller as liquidated damages. The parties have agreed that Seller's actual damages, in the event of a default by Purchaser, would be extremely difficult or impracticable to determine. THEREFORE, BY PLACING THEIR INITIALS BELOW, THE PARTIES ACKNOWLEDGE THAT THE DEPOSIT HAS BEEN AGREED UPON, AFTER NEGOTIATION, AS THE PARTIES' REASONABLE ESTIMATE OF SELLER'S DAMAGES AND AS SELLER'S EXCLUSIVE REMEDY AGAINST PURCHASER, AT LAW OR IN EQUITY, IN THE EVENT OF SUCH A DEFAULT UNDER THIS AGREEMENT ON THE PART OF PURCHASER. THE PARTIES ACKNOWLEDGE THAT THE PAYMENT OF SUCH LIQUIDATED DAMAGES IS NOT INTENDED AS A FORFEITURE OR PENALTY, BUT IS INTENDED TO CONSTITUTE LIQUIDATED DAMAGES TO SELLER.

INITIALS: Seller [Initials Illegible] Purchaser [Initials Illegible]

(b) In the event the sale of the Property is not consummated because of a default under this Agreement on the part of Seller, Purchaser may either (1) terminate this Agreement by delivery of written notice of termination to Seller, whereupon (A) the Deposit, if applicable, the Infrastructure Deposit and all Option Deposits shall be immediately returned to Purchaser, and (B) Seller shall pay to Purchaser any out-of-pocket title, survey, environmental report or study, escrow, legal and inspection fees, costs and expenses actually incurred by Purchaser and any other out-of-pocket fees, costs and expenses actually incurred by Purchaser in connection with the performance of its due diligence review of the Property and the negotiation and performance of this Agreement, including, without limitation, environmental and engineering consultants' fees and expenses, and neither party shall have any further rights or obligations hereunder except to the extent set forth in Sections 12, 16(b), 16(g), 16(k) and 16(l) hereof, or (2) continue this Agreement and bring an action for specific performance hereof.

#### 8. Closing and Escrow.

(a) Upon mutual execution of this Agreement, the parties hereto shall deposit an executed counterpart of this Agreement with Title Company and this Agreement shall serve as instructions to Title Company for consummation of the purchase and sale contemplated hereby. Seller and Purchaser agree to execute such additional escrow instructions as may be appropriate to enable the title company to comply with the terms of this Agreement; provided, however, that in the event of any conflict between the provisions of this Agreement and any supplementary escrow instructions (other than joint escrow instructions), the terms of this Agreement shall control.

(b) The parties shall conduct an escrow Closing pursuant to this Section 8 on either (i) the date that is thirty (30) days after the expiration of the Due Diligence Period, (ii) on such other earlier date as designated by Purchaser, or (iii) or on such later date as Purchaser and Seller may agree in their sole and absolute discretion (the "Closing Date"). In the event the Closing does not occur on or before the Closing Date, the Title Company shall, unless it is notified by both parties to the contrary within five (5) days after the Closing Date, return to the depositor thereof items which were deposited hereunder. Any such return shall not, however, relieve either party of any liability it may have for its wrongful failure to close.

(c) At or before the Closing, Seller shall deliver to Title Company (for delivery to Purchaser upon Closing) the following (other than the materials described in clause (xi) below, which shall be delivered directly to Purchaser by Seller substantially concurrent with the Closing):

(i) a duly executed and acknowledged grant, bargain and sale deed in the form attached hereto as EXHIBIT E (the "Deed");

(ii) an assignment of service contracts, warranties and guaranties and other intangible property in the form attached hereto as EXHIBIT F (the "Assignment of Intangible Property");

- (iii) originals of all Assumed Contracts and all other material documents, agreements and correspondence and items relating to the ownership, operation, maintenance or management of the Property;
  - (iv) a "FIRPTA Affidavit" pursuant to Section 1445
  - (b)(2) of the Internal Revenue Code duly executed by Seller which Affidavit shall indicate that no federal withholding shall be required;
  - (v) such resolutions, authorizations, bylaws or other corporate and/or partnership documents relating to Seller as shall be required by Title Company;
  - (vi) the certificate certifying as to Seller's representations and warranties as required by Section 9(b) below;
  - (vii) all personal property described in the Bill of Sale to the extent in Seller's possession or reasonable control; and
  - (viii) any other closing documents reasonably requested by Title Company. Purchaser may waive compliance on Seller's part under any of the foregoing items by an instrument in writing.
- (d) At or before the Closing, Purchaser shall deliver to Title Company (for delivery to Seller upon Closing) the following:
- (i) the duly executed Assignment of Intangible Property;
  - (ii) such resolutions, authorizations, bylaws or other corporate and/or partnership documents or agreements relating to Purchaser as shall be required by Title Company;
  - (iii) the duly executed and acknowledged affidavit of real property value;
  - (iv) any other customary and/or reasonable closing documents requested by Title Company or Purchaser (provided that in no event shall any such documents increase the liability of Purchaser); and
  - (v) the balance of the Purchase Price in cash or other immediately available funds, subject to prorations and adjustments as set forth herein.
- (e) Seller and Purchaser shall each deposit such other instruments as are reasonably required by the title company or otherwise required to close the escrow and consummate the acquisition of the Property in accordance with the terms hereof (provided that in no event shall any such documents increase the liability of Purchaser or Seller). Seller and Purchaser hereby designate Title Company as the "Reporting Person" for the transaction pursuant to Section 6045(e) of the Internal Revenue Code and the regulations promulgated thereunder and agree to execute such documentation as is reasonably necessary to effectuate such designation.

(f) The following are to be apportioned as of the Closing Date as follows, with Purchaser being deemed to be the owner of the Property during the entire day on which the Deed is recorded and being entitled to receive all income of the Property, and being obligated to pay all expenses of the Property, with respect to such day:

(i) Other Apportionments; Closing Costs. Amounts payable under the Assumed Contracts, annual or periodic permit and/or inspection fees (calculated on the basis of the period covered), and liability for other Property operation and maintenance expenses and other recurring costs shall be apportioned as of the Closing Date. Seller shall pay all transfer taxes with respect to the Property, any recording fees and one-half (1/2) of the escrow fee. Seller shall pay the premium for the Title Policy that is properly allocable to the CLTA or standard coverage portion thereof and all endorsements, and Purchaser shall pay the portion for such premium that is properly allocable to the ALTA or extended coverage portion and one-half (1/2) of the escrow fee. Seller shall be responsible for all costs incurred in connection with the prepayment or satisfaction of any loan secured by the Property, including, without limitation, any prepayment fees, penalties or charges. At the Closing, all costs associated with updating and/or preparing the Phase I environmental report and the Geotechnical report, up to the maximum amount of Twenty Thousand Dollars (\$20,000), shall be credited, for the benefit of Purchaser, against the Purchase Price. All other costs and charges of the escrow for the sale not otherwise provided for in this Subsection 8(f)(i) or elsewhere in this Agreement shall be allocated in accordance with the applicable closing customs for the county in which the Property is located as determined by the Title Company.

(ii) Real Estate Taxes and Special Assessments. All delinquent real estate taxes and assessments shall be paid by Seller at or before Closing. Non-delinquent real estate taxes and assessments shall be prorated between Purchaser and Seller as of the Closing Date using the actual current tax bill, but if such tax bill is not available at Closing, then such proration shall use an estimate calculated to be 102% of the amount of the previous year's tax bill, subject to a post-Closing reconciliation using the actual current tax bill when received pursuant to Subsection 8(f)(iv) below. In the proration(s), Purchaser shall be credited with an amount equal to the real estate taxes and assessments applicable to the period prior to the Closing Date, to the extent such amount has not been actually paid by Seller. In the event that Seller has paid prior to Closing any real estate taxes or assessments applicable to the period after the Closing Date, Seller shall be entitled to a credit for such amount. If, after Closing, any additional real estate taxes or assessments applicable to the period prior to the Closing Date are levied for any reason, including back assessments, escape assessments or any assessments under, then Seller shall pay all such additional amounts.

(iii) Preliminary Closing Adjustment. Seller and Purchaser shall jointly prepare a preliminary Closing adjustment on the basis of any sources of income and expenses, and shall endeavor to deliver such computation to Title Company at least two (2) days prior to Closing.

(iv) Post-Closing Reconciliation. If any of the aforesaid prorations cannot be calculated accurately on the Closing Date, then they shall be calculated as soon after the Closing Date as feasible. Either party owing the other party a sum of money based on such

subsequent proration(s) shall promptly pay said sum to the other party, from the Closing Date to the date of payment if payment is not made within ten (10) days after delivery of a bill therefor.

(v) Survival. The provisions of this Section 8(f) shall survive the Closing.

#### 9. Representations and Warranties of Seller.

(a) Seller hereby represents and warrants to Purchaser as follows:

(i) Seller has not, and as of the Closing Seller shall not have (A) made a general assignment for the benefit of creditors, (B) filed any voluntary petition in bankruptcy or suffered the filing of any involuntary petition by Seller's creditors, (C) suffered the appointment of a receiver to take possession of all, or substantially all, of Seller's assets, which remains pending as of such time, (D) suffered the attachment or other judicial seizure of all, or substantially all, of Seller's assets, which remains pending as of such time, (E) admitted in writing its inability to pay its debts as they come due, or (F) made an offer of settlement, extension or composition to its creditors generally.

(ii) Seller is not, and as of the Closing shall not be, a "foreign person" as defined in Section 1445 of the Internal Revenue Code of 1986, as amended (the "Code") and any related regulations.

(iii) This Agreement (A) has been duly authorized, executed and delivered by Seller, and (B) does not, and as of the Closing shall not, violate any provision of any agreement or judicial order to which Seller is a party or to which Seller or the Property or the 100 Acre Parcel is subject.

(iv) Seller has full and complete power and authority to enter into this Agreement and to perform its obligations hereunder, subject to the terms and conditions of this Agreement.

(v) There are no Leases affecting the Property or the 100 Acre Parcel.

(vi) To Seller's knowledge, there is no litigation pending or threatened with respect to the Property or the 100 Acre Parcel or the transactions contemplated hereby.

(vii) To Seller's knowledge, there are no violations of any applicable buildings codes or any applicable environmental, zoning or land use law, or any other applicable local, state or federal law or regulation relating to the Property or the 100 Acre Parcel, including, without limitation, the Americans with Disabilities Act of 1990.

(viii) To Seller's knowledge, Seller has not failed to obtain any material governmental permit necessary for the operation of the Improvements in the manner in which they are presently being operated.

(ix) To Seller's knowledge, Purchaser's Project complies with all zoning, land use and Environmental laws and regulations, and any and all such laws and regulations are final and non-appealable.

(x) To Seller's knowledge, there are no condemnation, zoning, environmental or other governmental proceedings pending or threatened that would affect the Property or the 100 Acre Parcel, or Purchaser's Project. Seller has not received any written notice of any special assessment proceedings affecting the Property or the 100 Acre Parcel, that is not disclosed on the Preliminary Reports.

(xi) Seller has not granted any option or right of first refusal or first opportunity to any party to acquire any fee or ground leasehold interest in any portion of the Property or the 100 Acre Parcel.

(xii) To the best of Seller's knowledge, there are no physical defects applicable to the Property or the 100 Acre Parcel.

(xiii) The Due Diligence Items and documents delivered to Purchaser pursuant to this Agreement will be all of the relevant documents, materials, reports and other items pertaining to the condition and operation of the Property or the 100 Acre Parcel, will be true and correct copies, and will be in full force and effect, without default by any party and without any right of set-off except as disclosed in writing at the time of such delivery.

(xiv) Neither Seller, nor to the best of Seller's knowledge, any third party has used, manufactured, stored or disposed of, on under or about the Property or the 100 Acre Parcel or transported to or from the Property or the 100 Acre Parcel, any Hazardous Materials.

(xv) No detention ponds shall be required on the Property or the 100 Acre Parcel in connection with any third party user on the Park or in connection with the Park generally.

(xvi) Except for those portions of the Park which have been sold to users who have constructed buildings in the Park, Seller owns the entire Park, and Seller holds a title insurance policy insuring Seller that Seller owns the Park.

(b) It shall be a condition precedent to Purchaser's obligation to purchase the Property or the 100 Acre Parcel and to deliver the Purchase Price that all of Seller's representations and warranties contained in or made pursuant to this Agreement shall have been true and correct when made and shall be true and correct as of the Closing Date. At the Closing, Seller shall deliver to Purchaser a certificate certifying that each of Seller's representations and warranties contained in Section 9(a) above are true and correct as of the Closing Date in a form reasonably acceptable to Purchaser.

(c) All representations and warranties by the respective parties contained herein or made in writing pursuant to this Agreement shall be deemed to be material and shall survive the execution and delivery of this Agreement and the Closing for a period of twenty-four (24) months. In the event that a claim is not made with respect to a breach of a representation or

warranty set forth herein or made in writing pursuant to this Agreement within such twenty-four(24) month period, such claim shall be deemed waived.

10. Representations and Warranties of Purchaser. Purchaser hereby represents and warrants to Seller as follows:

(a) Purchaser is a duly organized and validly existing limited liability company in good standing under the laws of the State of Washington; this Agreement and all documents executed by Purchaser which are to be delivered to Seller at the Closing are or at the time of Closing will be duly authorized, executed and delivered by Purchaser, and do not and at the time of Closing will not violate any provisions of any agreement or judicial order to which Purchaser is subject.

(b) Purchaser has not, and as of the Closing Purchaser shall not have (i) made a general assignment for the benefit of creditors, (ii) filed any voluntary petition in bankruptcy or suffered the filing of any involuntary petition by Purchaser's creditors, (iii) suffered the appointment of a receiver to take possession of all, or substantially all, of Purchaser's assets, which remains pending as of such time, (iv) suffered the attachment or other judicial seizure of all, or substantially all, of Purchaser's assets, which remains pending as of such time, (v) admitted in writing its inability to pay its debts as they come due, or (vi) made an offer of settlement, extension or composition to its creditors generally.

11. Risk of Loss.

(a) Purchaser shall be bound to purchase the Property for the full Purchase Price as required by the terms hereof, without regard to the occurrence or effect of any damage to the Property or destruction of any improvements thereon or condemnation of any portion of the Property provided that (i) the cost to repair any such damage or destruction, or the diminution in the value of the remaining Property as a result of a partial condemnation, does not exceed \$100,000, (ii) in the case of any such damage or destruction, the repair can be completed within ninety (90) days, and (iii) upon the Closing, there shall be a credit against the Purchase Price due hereunder equal to the amount of any insurance proceeds or condemnation awards collected by Seller as a result of any such damage or destruction or condemnation, less any sums reasonably expended by Seller toward the restoration or repair of the Property, and, if all of the proceeds or awards have not been collected as of the Closing, then such proceeds or awards shall be assigned to Purchaser, and Purchaser shall also be entitled to a credit against the Purchase Price in the amount of any deductible or uninsured loss.

(b) If the amount of the damage or destruction or condemnation as specified in Section 11(a) above exceeds \$100,000, or, in the case of any such damage or destruction, the repair cannot be completed within ninety (90) days, then Purchaser may, at its option to be exercised within twenty (20) days of Seller's written notice of the occurrence of the damage or destruction or the commencement of condemnation proceedings, either terminate this Agreement or consummate the purchase for the full Purchase Price as required by the terms hereof. If Purchaser elects to terminate this Agreement or fails to give Seller written notice within such 20-day period that Purchaser will proceed with the purchase, then the Deposit and Infrastructure Deposit shall be immediately returned to Purchaser and neither party shall have any further rights.

or obligations hereunder except to the extent set forth in Sections 12, 16(b), 16(g), 16(k) and 16(1) hereof. If Purchaser elects to proceed with the purchase, then upon the Closing, there shall be a credit against the Purchase Price due hereunder equal to the amount of any insurance proceeds or condemnation awards collected by Seller as a result of any such damage or destruction or condemnation, less any sums reasonably expended by Seller toward the restoration or repair of the Property, and, if all of the proceeds or awards have not been collected as of the Closing, then such proceeds or awards shall be assigned to Purchaser, and Purchaser shall also be entitled to a credit against the Purchase Price in the amount of any deductible or uninsured loss.

## 12. Access; Indemnity; Possession.

(a) Commencing on the Effective Date and through the Closing Date or the earlier termination of this Agreement, Seller shall afford authorized representatives of Purchaser reasonable access to the Property for purposes of satisfying Purchaser with respect to the representations, warranties and covenants of Seller contained herein and with respect to satisfaction of any Diligence Period Condition or any Condition Precedent, provided (a) such access does not interfere in any material respect with the operation of the Property, and (b) Seller shall have the right to pre-approve in its reasonable discretion and be present during any physical testing of the Property. Purchaser hereby agrees to indemnify, defend and hold Seller harmless from and against any and all claims, judgments, damages, losses, penalties, fines, demands, liabilities, encumbrances, liens, costs and expenses (including reasonable attorneys' fees, court costs and costs of appeal) actually suffered or incurred by Seller and to the extent arising out of or resulting from damage or injury to persons or property caused by Purchaser or its authorized representatives during their investigation of, entry onto and/or inspections of the Property prior to the Closing. If this Agreement is terminated, Purchaser shall repair the damage caused by Purchaser's entry onto and/or inspections of the Property, provided the foregoing shall not require Purchaser to repair or remediate any conditions that are discovered by Purchaser. The foregoing indemnity shall survive the Closing, or in the event that the Closing does not occur, the termination of this Agreement.

(b) Possession of the Property shall be delivered to Purchaser on the Closing Date.

## 13. Seller Covenants.

(a) At the time of Closing, Seller shall cause to be paid in full all obligations under any outstanding written or oral contracts made by Seller for any improvements to the Property or 100 Acre Parcel, and Seller shall cause to be discharged all mechanics', materialmen's and brokers' liens arising from any labor or materials furnished to the Property or the 100 Acre Parcel or broker's services prior to the time of Closing (other than any mechanics', materialmen's and broker liens for which Purchaser is responsible under the terms of this Agreement).

(b) Between the Effective Date and the Closing, Seller shall promptly notify Purchaser of any condemnation, environmental, zoning or other land-use regulation proceedings of which Seller obtains knowledge, between the Effective Date and the Closing, as well as any notices of violations of any Laws relating to the Property or the 100 Acre Parcel of which Seller

obtains knowledge, and any litigation of which Seller obtains knowledge, between the Effective Date and the Closing, that arises out of the ownership of the or the Option Land.

(c) Through the Closing Date, Seller shall maintain or cause to be maintained, at Seller's sole cost and expense, all policies of insurance currently in effect with respect to the (or comparable replacements thereof).

(d) Seller shall deliver to Purchaser copies of all copies of any bills for real estate taxes and personal property taxes and copies of any notices pertaining to real estate taxes or assessments applicable to the Property or, if applicable, the 100 Acre Parcel that are received by Seller after the Effective Date, even if received after Closing. The obligations set forth in this Section 13(d) shall survive the Closing.

(e) No off-site mitigation, improvement requirements and/or assessments (including but not limited to any fees in connection with Purchaser's Project such as impact, tap or development fees) (collectively, "Assessments") have been imposed on the Property or the 100 Acre Parcel, except for those listed in the Preliminary Report and those listed in Section 6(e) above, nor shall any such Assessments be imposed on the Property or, if applicable, the 100 Acre Parcel, for a period of ten (10) years after the Closing Date, except as specifically provided for herein. In addition, Seller shall be, at all times, solely responsible for paying any such Assessments requirements imposed on the Property and the Option Land, including but not limited to any Assessments in connection with Purchaser's Proposed Project such as impact, tap or development fees, and shall keep the Property and the Option Land free and clear of any and all liens and encumbrances in connection therewith. In connection with this Paragraph 13(e), Seller agrees to indemnify Purchaser and hold harmless and defend Purchaser from and against any and all claims, damages, liabilities, losses, costs and expenses (including, without limitation, reasonable attorneys' fees) resulting from any such Assessments. The obligations set forth in this Section 13(e) shall survive the Closing.

(f) Seller hereby agrees to indemnify and hold harmless Purchaser, its directors, officers, employees, and agents, and any successors to Purchaser's interest in the chain of title to the Property and the Option Land, their directors, officers, employees, and agents, from and against any and all liability including, without limitation, all foreseeable and all unforeseeable consequential damages, directly or indirectly arising out of (i) the use, generation, storage, or disposal of Hazardous Materials by Seller or any prior owner or operator of the Property and the Option Land, including without limitation the cost of any required or necessary repair, cleanup, or detoxification and the preparation of any closure or other required plans, and (ii) the environmental conditions described in EXHIBIT J attached hereto, whether any such action is required or necessary prior to or following transfer of title to the Property or the Option Land, to the full extent that such action is attributable, directly or indirectly, to the presence or use, generation, storage, release, threatened release, or disposal of Hazardous Materials by any person on the Property or the Option Land prior to the transfer of title thereto by Purchaser. Seller's obligations set forth in this Section 13(f) shall survive the Closing.

14. Purchaser's Consent to New Contracts Affecting the Property or the Option Land; Termination of Existing-Contracts.

(a) Seller shall not, after the Effective Date, enter into any contract, or any amendment thereof with respect to the Property or the Option Land, without obtaining Purchaser's prior written consent thereto, and which consent shall not be unreasonably withheld by Purchaser (provided that Purchaser may withhold or condition its consent in its sole and absolute discretion following the end of the Due Diligence Period). Seller shall be entitled, without the consent of Purchaser, to enter into, amend or otherwise deal with service contracts and similar agreements that are not Assumed Contracts in the ordinary course of business that are terminable on not more than thirty (30) days' prior notice and which shall not be binding on Purchaser after the Closing Date. Notwithstanding anything to the contrary provided in this Section 14(a), if Purchaser fails to disapprove in writing any such action requiring Purchaser's consent under this Section 14(a) within five (5) business days after Purchaser's receipt of such request and information, Purchaser shall be deemed to have approved such new action. If Purchaser disapproves of any such action, Purchaser shall provide to Seller, along with such written notice of disapproval, the reasons for Purchaser's disapproval.

(b) Seller shall terminate prior to the Closing, at no cost or expense to Purchaser, any and all management agreements, service contracts or similar agreements affecting the Property or the Option Land that are not Assumed Contracts (other than such contracts or agreements that Seller is not obligated to terminate pursuant to Section 5(c) above) and all employees, if any, of the Property or the Option Land.

(c) Seller shall not, after the Effective Date, create any new encumbrance or lien affecting the Property or the Option Land other than liens and encumbrances (i) that are reasonably capable of being discharged prior to the Closing and (ii) that in fact will be and are discharged prior to the Closing. The obligations set forth in this Section 14(c) shall survive the Closing to the extent such obligations are violated prior to the Closing.

15. The Condition of the Property at Closing. Seller shall complete the following actions at Seller's sole cost and expense, and in a manner satisfactory to Purchaser:

(a) Subdivision. Seller shall comply with the conditions set forth in Section 6(f) above.

(b) Utilities. On or before that date which is one hundred twenty (120) days after the Closing Date, Seller shall, at Seller's sole cost, cause the installation of all utilities as listed in, and in accordance with the specifications described in, EXHIBIT G attached hereto and made a part hereof, in the street adjacent to the Property and at specific locations approved by Buyer (which shall result in Seller extending such utilities to specific locations designated by Purchaser, provided that such utilities shall be stubbed into the Property on the northerly Property line, approximately seventy five (75) feet from the easterly Property line of that Property described in Exhibit A attached hereto) and all such utilities shall be installed underground. In addition, Seller shall (i) at Seller's sole cost, obtain the necessary commitments from all such utility providers required to provide the services set forth in EXHIBIT G, including, without limitation, the work being undertaken, or to be undertaken, by Southwest Gas in order to

extend natural gas service to the Property, which work includes, without limitation, extending, replacing and upgrading existing natural gas pipe lines (the "Southwest Work"), (ii) in the event that Purchaser purchases the 100 Acre Parcel at Closing, provide a Two Hundred Forty Thousand Dollars (\$240,000) credit against the Purchase Price at Closing to partially compensate Purchaser for the cost of the Southwest Work, and, if in connection with the Southwest Work, any refunds or waivers of any deposits or other amounts are available, such amounts shall also be credited against the Purchase Price, or, if such amounts are only available after the Closing, be paid directly to Purchaser (iii) pay any utility deposits required from the applicable utility providers. At Closing, the Purchase Price shall be reduced by Eighty Thousand Dollars (\$80,000) for electrical utility deposits if the electric utility provider does not require or waives the utility deposit, and in the event that Purchaser purchases either the Property or the Partial Parcel at Closing, Purchaser shall receive a Twenty Thousand Dollar (\$20,000) credit towards the Purchase Price if Southwest Gas does not require or waives the utility deposit.

(c) Physical Conditions. Prior to the Closing, Seller shall, at Seller's sole cost, demolish and remove any of the Improvements, or any additional improvements, located on the Property, including without limitation, any buildings, dwellings, structures and/or paved areas, that Purchaser designates on or before the expiration of the Due Diligence Period, and such demolition and removal shall be completed in a manner reasonably acceptable to Purchaser.

(d) Leases. Any and all Leases must be terminated by Seller at Seller's cost on or prior to the Closing.

(e) Easements, Covenants, Restrictions and other Agreements. Prior to the Closing, Seller shall cause any covenants, conditions and restrictions to be amended, in a manner reasonably acceptable to the parties hereto, as set forth in Section 6(e) hereof.

(f) Access Road. On or before that date which is one hundred twenty (120) days after the Closing Date, Seller shall complete the construction, at Seller's expense, of an access road which shall run the entire length of the western boundary of the Property line, with appropriate signage, traffic signals or other traffic control devices ("Signalization") and paving, and which shall be a minimum of forty four (44) feet wide (which width is measured from inside curb face to curb face). In addition, such access road shall comply with all state and local plans, requirements, regulations and laws such that such access road may be publicly dedicated. Seller shall exercise its best efforts to cause such access road to be accepted by Douglas County for maintenance at the earliest date which is reasonably possible following the completion of the construction of each such category of such improvements. Until the access road is accepted by Douglas County for maintenance, or until Douglas County otherwise agrees to maintain the access road, Seller shall be responsible for the maintenance of such improvements at Seller's expense.

On or before September 30, 2002, Seller shall have, at Seller's expense,

(i) conveyed the land necessary for the Douglas County Airport to construct a road which road will connect the southern portion of the access road (described above) to the Douglas County Airport (the "Airport Access Road") and (ii) caused the Douglas County Airport to have completed the construction of the Airport Access Road with appropriate Signalization and paving, and which shall be a minimum of forty four (44) feet wide (which width is measured from inside curb face

to curb face). In addition, the Airport Access Road shall comply with all state and local plans, requirements, regulations and laws such that the Airport Access Road may be publicly dedicated. Seller shall exercise its best efforts to cause the Airport Access Road to be accepted by Douglas County for maintenance at the earliest date which is reasonably possible following the completion of the construction of each such category of such improvements. Until the Airport Access Road is accepted by Douglas County for maintenance, or until Douglas County otherwise agrees to maintain the Airport Access Road, Seller shall be responsible for ensuring the maintenance of such improvements at Seller's expense. In the event that the Airport Access Road has not been completed by July 1, 2002, without limiting any of Seller's obligations hereunder, including, without limitation, the obligation to complete the Airport Access road as provided above, Seller shall have caused, at Seller's sole cost, a truck turnaround to be completed at the southern end of the access road by such date, which truck turnaround must be graded and finished with a quality base and decomposed granite approved by Purchaser, such that the turnaround is topped with an all-weather surface, contain appropriate Signalization, comply with all state and local plans, requirements, regulations and laws and be sufficient for 18-wheeler truck turnaround use, all as approved by Purchaser in Purchaser's sole discretion. In addition, if the Airport Access Road has not been completed by November 30, 2002, without limiting any of Seller's obligations hereunder, including, without limitation, the obligation to complete the Airport Access road as provided above, or any remedy available to Purchaser, Seller shall have caused, at Seller's sole cost, such truck turnaround to be paved in a manner reasonably approved by Purchaser. If, under the terms hereof, Seller is required to complete such truck turnaround, Seller shall also be obligated to (i) promptly remove such truck turnaround and restore the access road to its previous condition (in accordance with the specifications set forth in this 15(f)), at Seller's expense, as soon as the Airport Access Road has been completed and (ii) connect the Airport Access Road to the access road in accordance with the standards set forth in this Section 15(f).

(g) Off-Site Traffic Mitigation. Seller shall be solely responsible, at Seller's sole cost, for the planning, development and construction of all off-site traffic mitigation improvements, if any are imposed, which are required in an area outside of the Property (i) which are related to any building or other improvement on the Property that shall be used in connection with Starbucks Corporation business operations, and for which Purchaser has obtained a building permit within a period of five (5) years from the Closing Date or (ii) which are related to any other development of the Park or property owned by Seller in the future. Seller shall undertake such planning, development and construction in accordance with all applicable state and local plans, regulations, requirements and laws.

(h) Construction Easements. Upon the Closing, Seller and Purchaser shall grant to each other, Douglas County and the applicable utility companies any temporary non-exclusive access and construction easements over the Property and other property owned by Seller as shall reasonably be necessary in order for Seller and/or such utility companies to construct and/or install any of the improvements contemplated in this Section 15 and in order for Purchaser to begin constructing Purchaser's Project on the Property. All such easements shall be subject to Purchaser's approval, which approval Purchaser agrees to not unreasonably withhold.

(i) Soil. Within five (5) days from the date hereof, Seller shall identify the areas within the Park from where soil will be excavated and provided to Seller for the purposes

and on the terms set forth herein. Such soil shall be suitable for use in the connection with the development of Purchaser's Project and shall be clean and free from any contaminants, including without limitation Hazardous Materials, and such soil shall be structurally suitable soil in accordance with the Geotechnical report recommendations (except as otherwise described below) ("Soil"). After Seller so identifies such areas within the Park, Purchaser shall have forty five (45) days, at Purchaser's option, to perform random, testing of the Soil at such sites in order to pretest the Soil to ensure that the Soil is contaminant free and complies with the Geotechnical report recommendations. Thereafter, if the Soil is acceptable to Purchaser in Purchaser's sole discretion, Purchaser shall have a ten (10) day period to identify the location to where such Soil (in quantities described below) shall be delivered, which location shall be either (1) on the Property at a specific location to be designated by Purchaser or (2) at an alternative location within in the Park, which location shall be reasonably designated by Purchaser. Seller shall then deliver the Soil to such location prior to the commencement of the construction of improvements on the Property, but in no event later than a date which shall be designated by Purchaser prior to Closing. In the event that Purchaser elects to proceed with (2) above, Purchaser shall move such Soil on to the Property at Purchaser's cost.

Seller shall deliver the Soil to the location described above in two (2) piles -- the first pile shall be composed of approximately one (1) foot of surface material, which Soil shall not be deemed structurally suitable, and the second pile shall be composed of structurally suitable Soil (as described above) -- which piles, together, shall consist of the following amounts of Soil: (A) in the event that Purchaser purchases the 100 Acre Parcel upon Closing, the entire amount of Soil that is produced from any works of improvements, grading or excavation, including without limitation the Soil produced from the construction of the access road set forth in Section 15(f) hereof, undertaken within the Park on behalf of Seller, by Seller or by Seller's contractors (the "Park Improvements"). If, however, the Park Improvements produce less than forty thousand (40,000) cubic yards of Soil, Seller shall give Purchaser (i) such entire amount of Soil produced by the Park Improvements and (ii) all of the Soil from Seller's existing excess Soil pile ("Excess Soil Pile"). (B) In the event that Purchaser purchases either the Property or the Partial Parcel upon Closing, Seller shall give Purchaser twenty thousand (20,000) cubic yards of Soil. If the Park Improvements produce less than twenty thousand (20,000) cubic yards of Soil, Seller shall give Purchaser (y) such amount of Soil produced by the Park Improvements and (z) the all of the Soil from Seller's Excess Soil Pile. In the event that Purchaser does not specify the locations as to where the Soil shall be delivered, Seller shall stockpile the Soil at a location within the Park, which location shall be situated reasonably close to the Property and Purchaser shall thereafter have the option, in Purchaser's sole discretion, for a period of one (1) year and forty (40) days from the date hereof, to remove and use the Soil. If Purchaser discovers that the Soil is not contaminant free or does not comply with the Geotechnical report recommendations (as applicable), Purchaser's only remedy shall be to not accept the Soil from Seller and, if applicable, Seller shall promptly remove the Soil from the Property.

The obligations set forth in this Section 15 shall survive the Closing.

#### 16. Miscellaneous.

(a) Notices. Any notice, consent or approval required or permitted to be given under this Agreement shall be in writing and shall be deemed to have been given upon (i)

hand delivery, (ii) one (1) business day after being deposited with Federal Express or another reliable overnight courier service, with receipt acknowledgment requested, (iii) upon receipt if transmitted by facsimile telecopy, with a copy sent on the same day by one of the other permitted methods of delivery, or (iii) upon receipt or refused delivery deposited in the United States mail, registered or certified mail, postage prepaid, return receipt required, and addressed as follows:

|                  |                                                                                                                                                                                                    |
|------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| IF TO SELLER:    | CVBP, LLC<br>318 North Carson<br>Carson City, Nevada 89701<br>Suite 209<br>Attn: Gary Cook<br>Fax No.: (775) 885-7314                                                                              |
| WITH A COPY TO:  | Brooke, Shaw, Plimpton Zumpft<br>1590 4th Street<br>Minden, NV 89423<br>Attn: T. Scott Brooke, Esq.<br>Fax No.: 775-782-3081                                                                       |
| IF TO PURCHASER: | Starbucks Manufacturing Corporation<br>2401 Utah Avenue South<br>Seattle, WA 98134<br>Attention: William Wood, Esq. and<br>Rick Arthur<br>Fax No.: (206) 318-7793                                  |
| WITH A COPY TO:  | Craig Kinzer & Co.<br>1201 Third Avenue, Suite 2350<br>Seattle, WA 98101<br>Attention: Craig E. Kinzer<br>Fax No.: (425) 378-1221                                                                  |
| WITH A COPY TO:  | Orrick, Herrington & Sutcliffe LLP<br>Old Federal Reserve Bank Buildings<br>400 Sansome Street<br>San Francisco, California 94111-3143<br>Attn: Michael H. Liever, Esq.<br>Fax No.: (415) 773-4285 |

or such other address as either party may from time to time specify in writing to the other.

(b) Brokers and Finders. Neither party has had any contact or dealings regarding the Property, or any communication in connection with the subject matter of this transaction, through any real estate broker or other person who can claim a right to a commission or finder's fee in connection with the sale contemplated herein except for CB Richard Ellis ("Purchaser's Broker"), whose commission and fees shall be paid by Seller. Seller shall pay as a commission to Purchaser's Broker ten percent (10%) of the Purchase Price of the Property and of

the Purchase Option Price, as such term is defined herein, if applicable, and Seller shall pay said commission(s) through Escrow. In the event that any other broker or finder makes a claim for a commission or finder's fee based upon any contact, dealings or communication, the party whose conduct is the basis for the broker or finder making its claim shall indemnify, defend and hold harmless the other party against and from any commission, fee, liability, damage, cost and expense, including without limitation attorneys' fees, arising out of or resulting from any such claim. The provisions of this Section 16(b) shall survive the Closing, or in the event that the Closing does not occur, the termination of this Agreement.

(c) Successors and Assigns. Purchaser reserves the right to take title to the Property in the name of a nominee or assignee. In the event the rights and obligations of Purchaser hereunder shall be assigned by Purchaser, the assignor shall be released from any obligation or liability hereunder, and such nominee or assignee shall be substituted as Purchaser hereunder and shall be entitled to the benefit of and may enforce Seller's covenants, representations and warranties hereunder as if such nominee or assignee were the original Purchaser hereunder, and shall assume all obligations and liabilities of Purchaser hereunder, subject to any limitations of such liabilities and obligations hereunder or provided by law. This Agreement shall be binding upon the successors and assigns of the parties hereto. Without limiting the foregoing, if Seller liquidates or distributes to its partners the Purchase Price or prorrations thereof prior to satisfying all of Seller's obligations hereunder, Purchaser shall have recourse against the proceeds distributed to the extent of any unsatisfied obligations of Seller hereunder.

(d) Amendments. Except as otherwise provided herein, this Agreement may be amended or modified only by a written instrument executed by Seller and Purchaser.

(e) Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Nevada.

(f) Merger of Prior Agreements. This Agreement and the exhibits and schedules hereto, constitutes the entire agreement between the parties and supersede all prior agreements and understandings between the parties relating to the subject matter hereof.

(g) Enforcement. If either party hereto fails to perform any of its obligations under this Agreement or if a dispute arises between the parties hereto concerning the meaning or interpretation of any provision of this Agreement, then the defaulting party or the party not prevailing in such dispute shall pay any and all costs and expenses incurred by the other party on account of such default and/or in enforcing or establishing its rights hereunder, including, without limitation, court costs and attorneys' fees and disbursements. Any such attorneys' fees and other expenses incurred by either party in enforcing a judgment in its favor under this Agreement shall be recoverable separately from and in addition to any other amount included in such judgment, and such attorneys' fees obligation is intended to be severable from the other provisions of this Agreement and to survive and not be merged into any such judgment. The provisions of this Section 16(g) shall survive the Closing, or in the event that the Closing does not occur, the termination of this Agreement.

(h) Time of the Essence. Time is of the essence of this Agreement.

(i) Severability. If any provision of this Agreement, or the application thereof to any person, place, or circumstance, shall be held by a court of competent jurisdiction to be invalid, unenforceable or void, the remainder of this Agreement and such provisions as applied to other persons, places and circumstances shall remain in full force and effect.

(j) Marketing. Seller shall not list the Property with any broker or otherwise solicit or make or accept any offers to sell the Property, engage in any discussions or negotiations with any third party with respect to the sale or other disposition or financing of the Property, or enter into any contracts or agreements (whether binding or not) regarding any disposition or financing of the Property. Notwithstanding the foregoing, Purchaser may enter into additional agreements of purchase and sale for the acquisition of alternative property for Purchaser's Project.

(k) Confidentiality. Each party agrees to maintain in confidence, and not to disclose to any third party, the information contained in this Agreement or pertaining to the sale contemplated hereby and the information and data furnished or made available by Seller to Purchaser, its agents and representatives in connection with Purchaser's investigation of the Property, the transactions contemplated by the Agreement or Purchaser's Project; provided, however, that each party, its agents and representatives may disclose such information and data (a) to such party's accountants, attorneys, prospective lenders, accountants, partners, consultants and other advisors in connection with the transactions contemplated by this Agreement (collectively "Representatives") to the extent that such Representatives reasonably need to know (in Purchaser's or Seller's reasonable discretion) such information and data in order to assist, and perform services on behalf of, Purchaser or Seller;

(b) to the extent required by any applicable statute, law, regulation, governmental authority or court order; (c) in connection with any securities filings, registration statements or similar filings undertaken by Purchaser; and

(d) in connection with any litigation that may arise between the parties in connection with the transactions contemplated by this Agreement. Purchaser shall consult with Seller prior to making any press release intended for general circulation regarding the transactions contemplated hereunder. The provisions of this Section 16(k) shall survive the Closing, or in the event that the Closing does not occur, the termination of this Agreement.

(l) Return of Documents. In the event that this Agreement terminates, Purchaser shall return to Seller all due diligence materials and all copies thereof delivered by Seller to Purchaser hereunder. The provisions of this Section 16(l) shall survive the termination of this Agreement.

(m) Counterparts and Facsimile Signatures. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original and all of which, when taken together, shall be deemed to be one agreement. This Agreement may be executed pursuant to original or facsimile copies of signatures, with the same effect as if the parties had signed the document pursuant to original signature.

(n) Limited Liability. The obligations of Purchaser are intended to be binding only on Purchaser and the property of Purchaser, and shall not be personally binding upon, nor shall any resort be had to, the private properties of any of its trustees, officers, beneficiaries, directors, members, or shareholders, or of its investment manager, the general partners, officers,

directors, members, or shareholders thereof, or any employees or agents of Purchaser or its investment manager.

(o) Purchase Option. Purchaser shall have an option to purchase (the "Purchase Option") all or a portion of that certain parcel of land located within the Park and containing approximately fifty (50) acres of land and more particularly described on EXHIBIT A-2 attached hereto (the "Option Land") for a purchase price equal to either (i) One Dollar Five Cents (\$1.05), if Purchaser elects to purchase at Closing the 100 Acre Parcel or (ii) the amount determined by multiplying One Dollar and Thirty-Three Cents (\$1.33) times the total gross square footage of the Option Land, which square footage shall be determined by the area within the Option Land as shown on the ALTA Survey and exclude any land or easements which will be dedicated to public authorities in connection with the development of the Option Land or the subdivision thereof, as adjusted annually commencing with the first anniversary of the Closing Date by any increase in the consumer price index for the region in which the Option Land is located (the "Purchase Option Price"). The Purchase Option shall commence as of the date hereof and expire on the date that is five (5) years after the Closing Date (the "Option Period"). Purchaser shall have the right to exercise the Purchase Option at any time during the Option Period by giving at least thirty

(30) but not more than one hundred eighty (180) days prior written notice to Seller. If Purchaser elects to purchase the Option Land at least thirty (30) days prior to the Closing hereunder, then the sale of the Option Land shall be on the same terms and conditions as set forth herein and the Option Land shall be deemed a part of the Property. If Purchaser elects to purchase the Option Land at any time thereafter, the sale of the Option Land shall be on the terms and conditions set forth in this Section 16(o) above and other reasonably acceptable terms and conditions which will be as more particularly set forth in EXHIBIT I, which shall be reasonably agreed to by the parties hereto as soon as reasonably practical after the date hereof and which shall be attached hereto on or before the expiration of the Due Diligence Period. The provisions of this

Section 16(o) shall survive the Closing.

(p) Purchaser's Pre-Closing Rights. Purchaser shall be entitled to grade the Property and prepare the Property for development and construction prior to the Closing. In the event that the Closing does not occur, Purchaser shall have no obligation to restore the Property to its former condition nor shall Purchaser have any other liability with respect thereto, provided, however, that Purchaser shall indemnify Seller against any claims for personal injury or property damage to third parties arising out of such grading or preparation.

#### 17. Park Restrictions.

(a) At Closing, Seller shall place the following restrictions on portions of the Park, as designated herein, which restrictions shall (i) benefit Purchaser, (ii) bind the applicable portions of the Park (as set forth below), (iii) in the event that Seller has placed financing on the Park, be approved by Seller's lender/financier, and, on or before such time, Seller's lender/financier shall agree in writing that any foreclosure or deed in lieu of foreclosure brought by Seller's lender/financier shall not terminate such restrictions, (iv) be in a form and substance reasonably approved by the parties hereto on or before the expiration of the Due Diligence Period, (v) be enforceable by both Seller and Purchaser, and (vi) be recorded upon the Closing

(1) Power Plant Substations. The placement of power plant substations within the Park shall be prohibited.

(2) Overhead Power Lines. The placement of power lines

(i) on the Property or (ii) within the Park within three hundred (300) feet of the Property lines shall be prohibited.

(3) Use Restriction. All owners and lessees in the Park shall be prohibited from engaging in the business of coffee bean roasting. In addition, any owner or lessee in the Park shall be prohibited from engaging in the primary business of coffee bean distribution on any portion of the Park situated within a two (2) mile radius of the Property.

(4) Sewage Treatment Facilities. The placement of any sewage treatment facility within the Park shall be prohibited.

(5) Odor. Any owner or lessee situated on any portion of the Park shall be prohibited from emitting any odor which would interfere with or adversely affect Purchaser's planned operations on the Property.

(b) Signage and Street Names. Purchaser shall have the right to install wall and/or building signage on Purchaser's Project, at locations and in forms reasonably acceptable to the parties hereto, provided, however, that the installation of such signage is performed in accordance with any applicable Douglas County rules or regulations governing such signage. If any Park signage is installed by Seller which lists any Park user's name, Purchaser shall have the right to have its name listed on such signage in at least the size equivalent to such other user and at no cost to Purchaser. The street on which Purchaser's Project is located shall be named "Starbucks Drive" unless Purchaser chooses an alternative name for such street, in which case Purchaser must notify Seller prior to Closing, and Seller shall officially name such Street such alternative name at Seller's sole cost. In addition, Seller shall be prohibited from changing the name of the Park or the name of a street within or near the Park to incorporate the name of any competitor of Purchaser who, as one of its primary business purposes, is in the coffee industry.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

SELLER:

CVBP, LLC,  
a Nevada limited liability company

Please initial Section 7(a) above

By: [SIGNATURE ILLEGIBLE]  
-----  
Its: \_\_\_\_\_  
By: [SIGNATURE ILLEGIBLE]  
-----  
Its: \_\_\_\_\_  
-----

PURCHASER:

STARBUCKS MANUFACTURING  
CORPORATION,  
a Washington corporation

Please initial Section 7(a) above

By: [SIGNATURE ILLEGIBLE]  
-----  
Its: VICE PRESIDENT  
-----

**COUNTERPART SIGNATURE PAGE TO  
PURCHASE AGREEMENT**

**DATED AS OF \_\_\_\_\_, 2001**

**(TITLE COMPANY)**

Title Company agrees to act as Title Company and title company in accordance with the terms of this Agreement and to act as the Reporting Person in accordance with Section 6045(e) of the Internal Revenue Code and the regulations promulgated thereunder.

**TITLE COMPANY**

By: [SIGNATURE ILLEGIBLE]

Its: VP

Date: 6/19, 2001

## **LIST OF EXHIBITS**

|             |                                            |
|-------------|--------------------------------------------|
| EXHIBIT A   | Legal Description of Land                  |
| EXHIBIT A-2 | Legal Description of Option Land           |
| EXHIBIT B   | List of Personal Property                  |
| EXHIBIT C   | Due Diligence Items                        |
| EXHIBIT D   | Intentionally Deleted                      |
| EXHIBIT E   | Form of Nevada Grant Bargain and Sale Deed |
| EXHIBIT F   | Form of Assignment of Intangible Property  |
| EXHIBIT G   | Utilities                                  |
| EXHIBIT H   | Intentionally Deleted                      |
| EXHIBIT I   | Terms of Option Land Purchase              |
| EXHIBIT J   | Environmental Indemnities                  |

**FIRST AMENDMENT TO PURCHASE AGREEMENT**

THIS FIRST AMENDMENT TO PURCHASE AGREEMENT ("First Amendment") is made and entered into as of this 7th day of November, 2001, by and between STARBUCKS MANUFACTURING CORPORATION, a Washington corporation ("Purchaser"), and CVBP, A NEVADA LIMITED LIABILITY COMPANY ("Seller").

**W I T N E S S E T H**

A. Seller and Purchaser entered into that certain Purchase Agreement ("Agreement") dated June 14, 2001, for the purchase by Purchaser of that certain property owned by Seller in Douglas County, Nevada, as more particularly described on Exhibits A and A-2 attached to the Agreement. Capitalized terms used herein and not defined shall be given the meanings assigned to them in the Agreement.

B. In accordance with the terms of the Agreement, Seller and Purchaser have opened an escrow with First American Title Insurance Company in Walnut Creek, California.

C. Purchaser and Seller have determined that this First Amendment is necessary in light of changed circumstances which have arisen since the execution of the Agreement.

D. Purchaser and Seller desire to amend the Agreement as set forth herein in order to address such newly discovered matters.

NOW, THEREFORE, for valuable consideration, including the promises and covenants contained herein, Purchaser and Seller hereby agree as follows:

**1. TITLE MATTERS**

Purchaser and Seller have received copies of the Preliminary Title Report issued by First American Title Company of Nevada (the "Title Company") dated August 14, 2001 (Commitment for Title Insurance No. 2001-47684-T02(A)/2001-47684-WDB(A) (the "Preliminary Title Report"), which contains various exceptions to the Title Policy

which will be issued by the Title Company at the Closing. In connection with such exceptions, the parties hereto agree as follows:

- a. Exception Nos. 7, 8, and 9. Seller shall obtain and record a release agreement by Dangberg Holdings, LLC, the successor-in-interest to the ownership of property which was previously owned by the grantors under the documents referenced in said exceptions 7, 8 and 9, whereby as of the Closing Date, all such exceptions shall be released from the official records of Douglas County, Nevada. A copy of that Release Agreement, which is acknowledged by Purchaser to be acceptable and to satisfy Seller's obligations, is attached hereto as EXHIBIT A. Notwithstanding the foregoing, in no event shall Seller be deemed to have satisfied its obligation contained in this Paragraph 1 (a) until such time that the Title Company shall deem all such documentation sufficient to affirmatively remove all such exceptions from the Title Policy.
- b. Exception No. 10. Seller shall cause an abandonment by Douglas County of the easements running across the Northern portion of the Property and the Southern portion of the Property (the "North and South Easements") (both of which are more particularly described in Exception No. 10) to be recorded in the official records of Douglas County on or before the Closing Date. Seller shall cause the Title Company to amend Exception No. 10 on the Title Policy to reflect the fact that the North and South Easements no longer affect the Property.
- c. Exception Nos. 11 and 12. Seller agrees to provide Title Company with any and all required documentation, including without limitation an indemnity agreement, in order to cause the Title Company to affirmatively agree to remove such exceptions from the Title Policy.
- d. Exception No. 15. Seller agrees to obtain an estoppel certificate from the Association in the form attached hereto as EXHIBIT C. Seller further agrees to indemnify Purchaser as to the conformance of the Property with the recorded CC&Rs on or before the Closing of escrow in the form of an indemnity agreement attached hereto as EXHIBIT D.

e. Exception Nos. 16 and 17. Seller agrees to obtain an estoppel certificate from Douglas County acknowledging that the agreements referenced in Exceptions Nos. 16 and 17 are currently fully performed and that no breach exists thereunder. Said estoppel certificate shall be in the form attached hereto as EXHIBIT B. Seller also agrees to provide Purchaser with an indemnity agreement to ensure that Purchaser is protected from any current breach or obligation based on non-performance by Seller under both such agreements, in the form attached hereto as EXHIBIT D.

## 2. INFRASTRUCTURE AND UTILITY REQUIREMENTS

Seller has the responsibility under the Agreement to provide a water line to the Property. Purchaser's development plans for the Property contemplated a ten inch (10") water line size. Douglas County has required that all water lines be upgraded to fourteen inch (14") water lines. In connection with such compulsory increase in water line size, the parties hereto agree as follows:

- (a) Seller will pay for the cost of installation of all water lines to the Property from Johnson Lane to the south end of Starbucks Way, which are required in connection with Purchaser's Project on the Property;
- (b) Purchaser shall reimburse Seller for the cost of the upsizing of such lines from eight inches (8") to fourteen inches (14") from Johnson Lane to Aviation Way ("Section 1") and from ten inches (10") to fourteen inches (14") from Aviation Way to the south end of Starbucks Way ("Section 2") (collectively, the "Sections 1 & 2 Work");
- (c) Purchaser shall also reimburse Seller for the costs of designing, permitting, and installation of the water line extension from the south end of Starbucks Way to a location beyond the Property ("Section 3") that is for Purchaser's use, as separately agreed with Douglas County (the "Section 3 Work"); and
- (d) Attached hereto as EXHIBIT E is a map indicating the location of the water lines and a summary of anticipated costs and payments. Purchaser's added costs to reimburse Seller for the Sections 1 & 2 Work shall not exceed a total sum of Seventy Seven Thousand Dollars (\$77,000), and Purchaser's costs to reimburse Seller for the

Section 3 Work shall not exceed the total amount of the water-rights and water-connection-fee credits which Douglas County has committed to providing to Purchaser at the Closing without Purchaser's prior written consent. Purchaser's obligation to reimburse Seller for both the Sections 1 & 2 Work and the Section 3 Work shall be limited to reimbursement for Seller's out-of-pocket third-party expenses only, and all such amounts shall be paid to Seller at or after the Closing, provided that all work and invoices in connection therewith have been completed, reviewed and approved by Purchaser.

### 3. ADJUSTMENT TO PURCHASE PRICE

The Property is subject to a roadway easement which is twenty-five feet (25') wide and located along the entire length of the east side of the Property, identified as Exception No. 10 on the Preliminary Title Report, which burdens the Property and will not currently be released by Douglas County. Seller and Purchaser agree that the Purchase Price shall be reduced by the amount of Thirty Six Thousand Three Hundred Twenty Three Dollars and Ninety Six Cents (\$36,323.96), in recognition of the potential impact to Purchaser as a result of said easement.

### 4. PURCHASER'S REMEDIES

Seller's complete compliance with the terms of this First Amendment shall be a condition precedent to Purchaser's obligations under the Purchase Agreement, including without limitation Purchaser's obligation to proceed with the Closing. In addition, in the event that Seller does not comply fully with the terms of this First Amendment, such failure shall be deemed a breach of the Agreement and an "Event of Default" under that certain Escrow Agreement dated as of October 8, 2001, by and between Seller, the Title Company and Purchaser (the "Escrow Agreement"), and Purchaser shall have all of the rights and remedies available to it under the Agreement and under the Escrow Agreement.

5. INCORPORATION OF AGREEMENT

As Amended by this First Amendment, the Agreement remains in full force and effect and is ratified, confirmed, and approved.

6. COUNTERPARTS AND FACSIMILE

This First Amendment may be executed in counterparts (which may be by fax, followed up with hard copy, but effective upon fax), each of which shall be deemed to be an original, and all of such counterparts shall together constitute one instrument. The headings to sections of this First Amendment are for convenient reference only and shall not be used in interpreting this First Amendment.

IN WITNESS WHEREOF, the parties have executed this First Amendment the day and year first above written.

**CVBP, A NEVADA LIMITED LIABILITY COMPANY**

By: /s/ GARY COOK  
-----  
GARY COOK, MANAGING MEMBER

By: /s/ LEONARD DETRICK  
-----  
LEONARD DETRICK, MEMBER

STARBUCKS MANUFACTURING CORPORATION, a Washington corporation

By:

Its:

As Amended by this First Amendment, the Agreement remains in full force and effect and is ratified, confirmed, and approved.

6. COUNTERPARTS AND FACSIMILE

This First Amendment may be executed in counterparts (which may be by fax, followed up with hard copy, but effective upon fax), each of which shall be deemed to be an original, and all of such counterparts shall together constitute one instrument. The headings to sections of this Second Amendment are for convenient reference only and shall not be used in interpreting this Second Amendment.

IN WITNESS WHEREOF, the parties have executed this First Amendment the day and year first above written.

CVBP, LLC, a Nevada limited liability company

By:

Gary Cook, Managing Member

STARBUCKS MANUFACTURING CORPORATION, a Washington corporation

By: /s/ [ILLEGIBLE SIGNATURE]  
-----

Its: /s/ [ILLEGIBLE SIGNATURE]  
-----

# EXHIBIT 13

## PORTION OF THE FISCAL 2001 ANNUAL REPORT TO SHAREHOLDERS

### SELECTED FINANCIAL DATA

In thousands, except earnings per share and store operating data

The following selected financial data have been derived from the consolidated financial statements of the Company. The data set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Company's consolidated financial statements and notes thereto.

| As of and for the<br>fiscal year ended(1)  | Sept 30, 2001<br>(52 Wks) | Oct 1, 2000<br>(52 Wks) | Oct 3, 1999<br>(53 Wks) | Sept 27, 1998<br>(52 Wks) | Sept 28, 1997<br>(52 Wks) |
|--------------------------------------------|---------------------------|-------------------------|-------------------------|---------------------------|---------------------------|
| RESULTS OF OPERATIONS DATA                 |                           |                         |                         |                           |                           |
| Net revenues:                              |                           |                         |                         |                           |                           |
| Retail                                     | \$2,229,594               | \$1,823,607             | \$1,423,389             | \$1,102,574               | \$ 836,291                |
| Specialty                                  | 419,386                   | 354,007                 | 263,439                 | 206,128                   | 139,098                   |
| Total net revenues                         | 2,648,980                 | 2,177,614               | 1,686,828               | 1,308,702                 | 975,389                   |
| Merger expenses(2)                         | --                        | --                      | --                      | 8,930                     | --                        |
| Operating income                           | 281,094                   | 212,252                 | 156,711                 | 109,216                   | 86,199                    |
| Internet-related investment losses(3)      | 2,940                     | 58,792                  | --                      | --                        | --                        |
| Net earnings                               | \$ 181,210                | \$ 94,564               | \$ 101,693              | \$ 68,372                 | \$ 55,211                 |
| Net earnings per common share - diluted(4) | \$ 0.46                   | \$ 0.24                 | \$ 0.27                 | \$ 0.19                   | \$ 0.17                   |
| Cash dividends per share                   | --                        | --                      | --                      | --                        | --                        |
| BALANCE SHEET DATA                         |                           |                         |                         |                           |                           |
| Working capital                            | \$ 148,661                | \$ 146,568              | \$ 135,303              | \$ 157,805                | \$ 172,079                |
| Total assets                               | 1,851,039                 | 1,491,546               | 1,252,514               | 992,755                   | 857,152                   |
| Long-term debt (including current portion) | 6,483                     | 7,168                   | 7,691                   | 1,803                     | 168,832                   |
| Shareholders' equity                       | 1,375,927                 | 1,148,399               | 961,013                 | 794,297                   | 533,710                   |
| STORE OPERATING DATA                       |                           |                         |                         |                           |                           |
| Percentage change                          |                           |                         |                         |                           |                           |
| in comparable store sales(5)               | 5%                        | 9%                      | 6%                      | 5%                        | 5%                        |
| Stores open at year-end:                   |                           |                         |                         |                           |                           |
| Continental North America                  |                           |                         |                         |                           |                           |
| Company-operated stores                    | 2,971                     | 2,446                   | 2,038                   | 1,622                     | 1,270                     |
| Licensed stores                            | 809                       | 530                     | 179                     | 133                       | 94                        |
| International                              |                           |                         |                         |                           |                           |
| Company-operated stores                    | 295                       | 173                     | 97                      | 66                        | 31                        |
| Licensed stores                            | 634                       | 352                     | 184                     | 65                        | 17                        |
| Total stores                               | 4,709                     | 3,501                   | 2,498                   | 1,886                     | 1,412                     |

(1) The Company's fiscal year ends on the Sunday closest to September 30. All fiscal years presented include 52 weeks, except fiscal 1999, which includes 53 weeks.

(2) Merger expenses relate to the business combination with Seattle Coffee Holdings Limited.

(3) See Notes to Consolidated Financial Statements (Notes 4 and 8).

(4) See Notes to Consolidated Financial Statements (Note 1). Earnings per share data for fiscal years presented have been restated to reflect the two-for-one stock splits in fiscal 2001 and 1999.

(5) Includes only Company-operated stores open 13 months or longer.

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

## GENERAL

Starbucks presently derives approximately 84% of net revenues from its Company-operated retail stores. The remaining 16% of net revenues is derived from the Company's Specialty Operations, which include sales to wholesale channels and licensees, royalty and license fee income and sales through its direct-to-consumer business. The Company's fiscal year ends on the Sunday closest to September 30. Fiscal years 2001 and 2000 each had 52 weeks, and fiscal 1999 had 53 weeks. The fiscal year ending on September 29, 2002, will include 52 weeks.

The Company's consolidated net revenues increased 22% from \$2.2 billion in fiscal 2000 to \$2.6 billion in fiscal 2001, primarily due to the Company's store expansion program and comparable store sales increases. Comparable store sales increased by 5%, 9% and 6% in fiscal 2001, 2000 and 1999, respectively. As part of its expansion strategy of clustering stores in existing markets, Starbucks has experienced a certain level of cannibalization of sales of existing stores by new stores as store concentration has increased. However, management believes such cannibalization has been justified by the incremental sales and return on new store investments. This cannibalization, as well as increased competition and other factors, may put downward pressure on the Company's comparable store sales growth in future periods.

The following table sets forth the percentage relationship to total net revenues, unless otherwise indicated, of certain items included in the Company's consolidated statements of earnings:

| Fiscal year ended                         | Sept 30, 2001<br>(52 Wks) | Oct 1, 2000<br>(52 Wks) | Oct 3, 1999<br>(53 Wks) |
|-------------------------------------------|---------------------------|-------------------------|-------------------------|
| -----                                     | -----                     | -----                   | -----                   |
| STATEMENTS OF EARNINGS DATA               |                           |                         |                         |
| Net revenues:                             |                           |                         |                         |
| Retail                                    | 84.2%                     | 83.7%                   | 84.4%                   |
| Specialty                                 | 15.8                      | 16.3                    | 15.6                    |
|                                           | -----                     | -----                   | -----                   |
| Total net revenues                        | 100.0                     | 100.0                   | 100.0                   |
| Cost of sales and related occupancy costs | 42.0                      | 44.2                    | 44.3                    |
| Store operating expenses(1)               | 39.3                      | 38.7                    | 38.2                    |
| Other operating expenses(2)               | 22.3                      | 22.2                    | 20.7                    |
| Depreciation and amortization             | 6.2                       | 6.0                     | 5.8                     |
| General and administrative expenses       | 5.7                       | 5.1                     | 5.3                     |
| Joint venture income                      | 1.1                       | 0.9                     | 0.2                     |
| Operating income                          | 10.6                      | 9.7                     | 9.3                     |
| Interest and other income, net            | 0.4                       | 0.3                     | 0.4                     |
| Internet-related investment losses        | 0.1                       | 2.7                     | --                      |
|                                           | -----                     | -----                   | -----                   |
| Earnings before income taxes              | 10.9                      | 7.3                     | 9.7                     |
| Income taxes                              | 4.1                       | 3.0                     | 3.7                     |
|                                           | -----                     | -----                   | -----                   |
| Net earnings                              | 6.8%                      | 4.3%                    | 6.0%                    |
|                                           | -----                     | -----                   | -----                   |

(1) Shown as a percentage of retail revenues.

(2) Shown as a percentage of specialty revenues.

## **BUSINESS COMBINATIONS**

During fiscal 2000, Starbucks acquired the outstanding stock of Tympanum, Inc. (d/b/a "Hear Music"), a music retailer, and of Coffee Partners Co. Ltd., the company licensed to operate Starbucks stores in Thailand. The combined purchase price for these two acquisitions was \$14.1 million. During fiscal 1999, Starbucks acquired the net assets of Tazo, L.L.C., a Portland, Oregon-based tea company that produces premium tea products, and Pasqua Inc., a San Francisco, California-based roaster and retailer of specialty coffee. The combined purchase price for these two acquisitions was \$16.5 million. All of the above acquisitions were accounted for under the purchase method of accounting. Results of operations of the acquired companies are included on the accompanying consolidated financial statements from the dates of acquisition.

## **RESULTS OF OPERATIONS -- FISCAL 2001 COMPARED TO FISCAL 2000**

### **SYSTEMWIDE RETAIL STORE SALES**

Systemwide retail store sales, which include net sales for both Company-operated and licensed retail stores, were \$3.0 billion for fiscal 2001, an increase of 31% from \$2.3 billion in fiscal 2000, primarily due to the opening of an additional 1,208 stores. Systemwide retail store sales provides a broad perspective of global brand sales; however, it excludes net revenues from non-retail channels.

### **REVENUES**

Consolidated net revenues increased 22% to \$2.6 billion for fiscal 2001, compared to \$2.2 billion for fiscal 2000. Retail revenues increased 22% to \$2.2 billion from \$1.8 billion. The increase in retail revenues was due to the addition of new Company-operated stores and comparable store sales growth of 5%. The increase in comparable store sales resulted from a 2% increase in the number of transactions and a 3% increase in the average dollar value per transaction. During fiscal 2001, the Company opened 525 stores in continental North America, 96 stores in the United Kingdom, 10 in Thailand and 16 in Australia. As of fiscal year-end, there were 2,971 Company-operated stores in continental North America, 252 in the United Kingdom, 25 in Thailand and 18 in Australia. During fiscal 2002, the Company expects to open at least 525 Company-operated stores in North America and 100 in international markets.

Specialty revenues increased 18% to \$419 million for fiscal 2001 from \$354 million for fiscal 2000. The increase was driven primarily by higher sales to retail licensees, the Company's grocery channel and foodservice accounts. Licensees (including those in which the Company is a joint venture partner) opened 282 stores in international markets and 279 stores in continental North America, of which over 180 stores related to the Company's expansion into grocery stores. The Company ended the year with 809 licensed stores in continental North America and 634 licensed stores in international markets. During fiscal 2002, the Company expects to open at least 300 licensed stores in North America and 275 in international markets.

### **EXPENSES**

Cost of sales and related occupancy costs decreased to 42.0% of net revenues for fiscal 2001 from 44.2% in fiscal 2000. The decrease resulted from several factors, including lower green coffee costs, the impact of retail beverage sales price increases, continued cost savings from procurement initiatives and shifts in sales mix to higher-margin products. These factors were partially offset by higher occupancy costs as a result of higher average rent expense per square foot as well as the expansion of Company-operated stores into international markets that have higher occupancy costs as a percentage of revenues than North American retail operations.

Store operating expenses as a percentage of retail revenues increased to 39.3% for fiscal 2001 from 38.7% for fiscal 2000. The increase was primarily due to higher payroll-related expenditures resulting from higher average wage rates and the continuing shift to more labor-intensive handcrafted beverages, partially offset by leverage gained from regional overhead expenses distributed over an expanded revenue base and reductions in advertising expenses.

Other operating expenses (expenses associated with the Company's Specialty Operations) were 22.3% of specialty revenues during fiscal 2001, compared to 22.2% for fiscal 2000. The increase is attributable to the Company's licensee channels, both international and domestic, as the Company expands these businesses geographically and continues to develop its internal resources for future growth. These costs, which are expected to increase through 2002, were partially offset by lower advertising expenses for the Company's direct-to-consumer business.

Depreciation and amortization was 6.2% of net revenues, compared to 6.0% of net revenues for fiscal 2000 primarily due to the Company's international retail expansion.

General and administrative expenses were 5.7% of net revenues during fiscal 2001, compared to 5.1% for fiscal 2000 primarily due to higher payroll-related expenditures, increased professional fees, non-insured expenses recorded during the second fiscal quarter resulting from the Nisqually earthquake, higher charitable contributions and provisions for obsolete software.

## **JOINT VENTURE INCOME**

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

The Company is a partner in several other joint ventures that operate licensed Starbucks retail stores, including Starbucks Coffee Japan, Ltd., a 50/50 joint venture partnership with Japanese retailer and restaurateur SAZABY Inc. to develop Starbucks retail stores in Japan, and Starbucks Coffee Korea Co., Ltd., a 50/50 joint venture partnership with Shinsegae Department Store Co., Ltd., to develop retail stores in the Republic of Korea. See separate "Subsequent Events" discussion for additional information pertaining to Starbucks Coffee Japan, Ltd.

Joint venture income was \$28.6 million for fiscal 2001, compared to \$20.3 million for fiscal 2000. The increase was primarily due to the improved profitability of the North American Coffee Partnership as a result of increased sales volume from extension of its product line and expansion of geographic distribution, as well as improvements in cost of goods sold primarily due to manufacturing efficiencies. The increase was also due to improved operating results of Starbucks Coffee Japan, Ltd., attributable to additional profitable store locations as well as the distribution of infrastructure and administrative costs over an expanded revenue base. Starbucks Coffee Japan, Ltd. had 289 stores open as of September 30, 2001, compared to 154 stores open as of October 1, 2000.

## **INTERNET-RELATED INVESTMENT LOSSES**

During fiscal 2001, the Company determined that its investments in Internet-related companies had suffered declines in value. The Company's management deemed these declines as other than temporary due to the sustained weak conditions in the Internet industry as reflected in the bankruptcy or liquidation proceedings of numerous comparable companies and the significant decline in stock market valuation of the sector, the declining financial condition of each company in which the Company had invested, the unfavorable prospects of such companies obtaining additional funding and the length of time and extent to which the quoted market values had been less than cost for publicly traded companies. As a result, the Company recognized losses totaling \$2.9 million to write off the Company's remaining investment in Kozmo.com, which was liquidated during fiscal 2001, and to reduce its investment in Liveworld, Inc. (previously known as Talk City, Inc.).

As of September 30, 2001, the Company had Internet-related investments with an aggregate fair value of \$1.7 million. The Company plans to maintain its ownership of its remaining Internet-related investments and will continue to record them at their fair value. The Company intends to focus its future investment activity on its core businesses and other new business opportunities related to its core businesses.

## **INCOME TAXES**

The Company's effective tax rates of 37.3% in fiscal 2001 and 41.1% in fiscal 2000 were both impacted by the establishment of valuation allowances against deferred tax benefits resulting from Internet-related investment losses. Management determined that a portion of these losses may not be realizable for tax purposes within the allowable carryforward period. Excluding the impact of these allowances, the effective tax rates would have been 37.0% and 37.6% in fiscal 2001 and 2000, respectively. The decrease to 37.0% in fiscal 2001 from 37.6% in fiscal 2000 was due to tax planning efforts. The effective tax rate is expected to be 37.0% for fiscal 2002.

## **RESULTS OF OPERATIONS -- FISCAL 2000 COMPARED TO FISCAL 1999**

### **SYSTEMWIDE RETAIL STORE SALES**

Systemwide retail store sales were \$2.3 billion for fiscal 2000 (52 weeks), an increase of 38% from \$1.6 billion in fiscal 1999 (53 weeks), primarily due to the opening of an additional 1,035 stores.

## REVENUES

Consolidated net revenues increased 29% to \$2.2 billion for fiscal 2000, compared to \$1.7 billion for fiscal 1999. Retail revenues increased 28% to \$1.8 billion from \$1.4 billion. The increase in retail revenues was due to the addition of new Company-operated stores and comparable store sales growth of 9%. The increase in comparable store sales resulted from a 5% increase in the number of transactions and a 4% increase in the average dollar value per transaction. During fiscal 2000, the Company opened 417 stores in continental North America, 63 stores in the United Kingdom, 8 in Thailand and 2 in Australia. As of fiscal year-end, there were 2,446 Company-operated stores in continental North America, 156 in the United Kingdom, 15 in Thailand and 2 in Australia.

Specialty revenues increased 34% to \$354 million for fiscal 2000 from \$263 million for fiscal 1999. The increase was driven primarily by higher sales to retail licensees, the Company's grocery channel and foodservice accounts. Licensees (including those in which the Company is a joint venture partner) opened 361 stores in continental North America, of which over 280 stores related to the Company's expansion into grocery stores, and 184 stores relate to international markets. The Company ended the year with 530 licensed stores in continental North America and 352 licensed stores in international markets.

## EXPENSES

Cost of sales and related occupancy costs decreased to 44.2% of net revenues for fiscal 2000 from 44.3% in fiscal 1999. The decrease was a result of lower green coffee costs and the impact of retail beverage sales price increases, partially offset by higher occupancy costs. Occupancy costs, which are primarily fixed costs, were higher as a percentage of revenues due, in part, to one less week of sales in fiscal 2000. Also, occupancy costs have increased as a result of higher average rent expense per square foot as well as the expansion of Company-operated stores into international markets that have higher occupancy costs as a percentage of revenue than North American retail operations.

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

Other operating expenses were 22.2% of specialty revenues during fiscal 2000, compared to 20.7% for fiscal 1999. This increase was primarily due to higher payroll-related expenditures for accelerating the growth of the Company's Specialty Operations.

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

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

## JOINT VENTURE INCOME

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

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

Joint venture income was \$20.3 million for fiscal 2000, compared to \$3.2 million for fiscal 1999. The increase was primarily due to the crossover from losses to profitability of Starbucks Coffee Japan, Ltd. as a result of improved ability to obtain preferred and more profitable store locations as well as the distribution of infrastructure and administrative costs over an expanded revenue base. Starbucks Coffee Japan, Ltd. had 154 stores open as of October 1, 2000, compared to 82 stores open as of October 3, 1999. The increase was also due to the improved profitability of the North American Coffee Partnership attributed to increased sales volume resulting from expansion of its product line and geographic distribution, as well as improvements in cost of goods sold primarily due to manufacturing efficiencies.

## **INTERNET-RELATED INVESTMENT LOSSES**

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

In fiscal 1999, the Company invested \$8.0 million in Talk City, Inc. ("Talk City"), a publicly traded interactive online chat site. The Company also invested \$20.3 million in living.com Inc. ("living.com"), an online furniture retailer. Also in fiscal 1999, the Company established an alliance with Cooking.com, Inc. ("Cooking.com"), a privately held Web-based retailer of cookware, accessories and specialty foods and provider of information about cooking. As part of this alliance, the Company made a \$10.0 million investment in Cooking.com.

In the second quarter of fiscal 2000, the Company invested \$25.0 million in Kozmo.com, an Internet-to-door delivery service for food, entertainment and convenience items. Starbucks and Kozmo.com also entered into a commercial agreement to provide in-store return boxes in Starbucks stores in exchange for cash, a channel for selling the Company's products and other marketing opportunities. In connection with this agreement, Starbucks received a \$15.0 million payment that was recognized as revenue on a straight-line basis over twelve months.

During the fourth quarter of fiscal 2000, the Company determined that its investments in Internet-related companies had suffered declines in value that were other than temporary because of the sustained weak condition of the Internet industry as reflected in the bankruptcy or liquidation proceedings of numerous comparable companies and the significant decline in stock market valuation of the sector, the declining financial condition of each company in which the Company had invested, the unfavorable prospects of such companies obtaining additional funding, and the length of time and extent to which the quoted market values had been less than cost for publicly traded companies. The Company determined the aggregate fair value for privately held investments by using a variety of methodologies, including comparing each security with securities of publicly traded companies in similar lines of business, applying revenue multiples to estimated future operating results and estimating discounted cash flows. Quoted market prices were used for publicly traded equity securities to determine fair value. As a result, the Company recognized losses totaling \$58.8 million to reduce its investments in living.com, Talk City, Cooking.com and Kozmo.com to their aggregate fair value of \$4.8 million as of October 1, 2000.

## **INCOME TAXES**

The Company's effective tax rate for fiscal 2000 was 41.1% compared to 38.0% for fiscal 1999. The increase is due in part to the establishment of a valuation allowance against a portion of the deferred tax benefit resulting from Internet-related investment losses which management has determined may ultimately not be realizable for tax purposes.

## **LIQUIDITY AND CAPITAL RESOURCES**

The Company ended fiscal 2001 with \$220.5 million in cash and cash equivalents and short-term investments. Working capital as of September 30, 2001, totaled \$148.7 million compared to \$146.6 million at October 1, 2000. Cash and cash equivalents increased by \$42.4 million during fiscal 2001 to \$113.2 million at September 30, 2001. This increase was in addition to an increase in short-term investments of \$46.0 million during the same period. The Company intends to use its available cash resources to invest in its core businesses and other new business opportunities related to its core businesses.

Cash provided by operating activities for fiscal 2001 totaled \$460.8 million and resulted primarily from net earnings and non-cash charges of \$381.4 million. The increase in accounts payable contributed \$54.1 million primarily due to the timing of payments and the build up of holiday inventory for a larger number of Company-operated stores. The increase in accrued taxes contributed \$34.5 million primarily due to the extension of the deadline for quarterly income tax payments from September 15, 2001, to October 1, 2001. In addition, the increase in accrued compensation and related costs contributed \$12.1 million primarily due to an increase in the number of employees. Higher receivables, from domestic licensees resulting from business growth and from insurance recoveries directly related to the fiscal 2001 Nisqually earthquake, as well as higher inventory levels resulted in an increased use of cash of \$36.9 million.

Cash used by investing activities for fiscal 2001 totaled \$433.1 million. This included capital additions to property, plant and equipment of \$384.2 million related to opening 647 new Company-operated retail stores, remodeling certain existing stores, enhancing information systems, purchasing roasting and packaging equipment for the Company's roasting and distribution facilities and expanding existing office space. The net activity in the Company's marketable securities portfolio during fiscal 2001 used \$43.8 million of cash. Excess cash was invested primarily in short-term, investment-grade securities. During fiscal 2001, the Company made equity investments of \$12.6 million in its international joint ventures, excluding the effects of foreign

currency fluctuations. The Company received \$16.8 million in distributions from the North American Coffee Partnership and \$0.1 million from its international joint ventures.

Cash provided by financing activities for fiscal 2001 totaled \$14.8 million. This included \$46.7 million generated from the exercise of employee stock options and \$13.0 million generated from the Company's employee stock purchase plan. As options granted under the Company's stock option plans are exercised, the Company will continue to receive proceeds and a tax deduction; however, neither the amounts nor the timing thereof can be predicted. The increase in checks issued but not presented for payment provided \$5.7 million. On September 17, 2001, the Company announced a share repurchase program to acquire up to \$60.0 million of the Company's common stock from time to time on the open market. Share repurchases are at the discretion of management and depend on market conditions, capital requirements and such other factors as the Company may consider relevant. As of September 30, 2001, the Company had repurchased 3.4 million shares, which used \$49.8 million of cash, at an average price of \$14.75 per share.

Cash requirements for fiscal 2002, other than normal operating expenses, are expected to consist primarily of capital expenditures related to the addition of new Company-operated retail stores. The Company plans to open at least 625 Company-operated stores during fiscal 2002. The Company also anticipates incurring additional expenditures for remodeling certain existing stores and enhancing its production capacity and information systems. While there can be no assurance that current expectations will be realized, management expects capital expenditures for fiscal 2002 to be in the range of \$450 million to \$475 million.

Management believes that existing cash and investments plus cash generated from operations should be sufficient to finance capital requirements for its core businesses through fiscal 2002. New joint ventures, other new business opportunities or store expansion rates substantially in excess of that presently planned may require outside funding.

## **COFFEE PRICES, AVAILABILITY AND GENERAL RISK CONDITIONS**

The supply and price of coffee are subject to significant volatility. Although most coffee trades in the commodity market, coffee of the quality sought by the Company tends to trade on a negotiated basis at a substantial premium above commodity coffee prices, depending upon the supply and demand at the time of purchase. Supply and price can be affected by multiple factors in the producing countries, including weather, political and economic conditions. In addition, green coffee prices have been affected in the past, and may be affected in the future, by the actions of certain organizations and associations that have historically attempted to influence commodity prices of green coffee through agreements establishing export quotas or restricting coffee supplies worldwide. The Company's ability to raise sales prices in response to rising coffee prices may be limited, and the Company's profitability could be adversely affected if coffee prices were to rise substantially.

The Company enters into fixed-price purchase commitments in order to secure an adequate supply of quality green coffee and bring greater certainty to the cost of sales in future periods. As of September 30, 2001, the Company had approximately \$283.8 million in fixed-price purchase commitments which, together with existing inventory, is expected to provide an adequate supply of green coffee through 2002. The Company believes, based on relationships established with its suppliers in the past, that the risk of non-delivery on such purchase commitments is low.

In addition to fluctuating coffee prices, management believes that the Company's future results of operations and earnings could be significantly impacted by other factors such as increased competition within the specialty coffee industry, the Company's ability to find optimal store locations at favorable lease rates, increased costs associated with opening and operating retail stores and the Company's continued ability to hire, train and retain qualified personnel.

## **FINANCIAL RISK MANAGEMENT**

The Company is exposed to market risk related to foreign currency exchange rates, equity security prices and changes in interest rates.

### **FOREIGN CURRENCY EXCHANGE RISK**

The majority of the Company's revenue, expense and capital purchasing activities are transacted in United States dollars. However, because a portion of the Company's operations consists of activities outside of the United States, the Company has transactions in other currencies, primarily the Canadian dollar, British pound and Japanese yen. As part of its risk management strategy, the Company frequently evaluates its foreign currency exchange risk by monitoring market data and external factors that may influence exchange rate fluctuations. As a result, the Company may engage in transactions involving various derivative instruments, with maturities generally not exceeding five years, to hedge assets, liabilities, revenues and purchases denominated in foreign currencies. During fiscal 2001, the Company entered into forward foreign exchange contracts that qualify as cash flow hedges under Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," to hedge a portion of anticipated international revenue. In addition, the Company entered into a forward foreign exchange contract that qualifies as a hedge of a net investment in a foreign operation. These contracts expire within 14 months.

### **EQUITY SECURITY PRICE RISK**

The Company has minimal exposure to price fluctuations on equity mutual funds within the trading portfolio. The trading securities are designated to approximate the Company's liability under the Management Deferred Compensation Plan ("MDCP"). A corresponding liability is included in "Accrued compensation and related costs" on the accompanying consolidated balance sheets. These investments are recorded at fair value with unrealized gains and losses recognized in "Interest and other income, net." The offsetting changes in the MDCP liability are recorded in "General and administrative expenses" on the accompanying consolidated statements of earnings.

The Company also has an equity investment in a privately held company, Cooking.com, which is still in the development stage. The Company could lose its entire investment because this type of company is inherently risky. The investment is recorded on the accompanying consolidated balance sheet at a fair value of \$1.6 million as of September 30, 2001.

### **INTEREST RATE RISK**

The Company's diversified available-for-sale portfolio consists mainly of fixed income instruments. The primary objectives of these investments are to preserve capital and liquidity. Available-for-sale securities are of investment grade and are recorded on the balance sheet at fair value with unrealized gains and losses reported as a separate component of accumulated other comprehensive gain/loss. The Company does not hedge its interest rate exposure.

### **SEASONALITY AND QUARTERLY RESULTS**

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

### **NEW ACCOUNTING STANDARDS**

In September 2000, the Emerging Issues Task Force ("EITF") reached a consensus regarding Issue No. 00-10, "Accounting for Shipping and Handling Fees and Costs," which requires any shipping and handling costs billed to customers in a sale transaction to be classified as revenue. The Company adopted Issue No. 00-10 on October 2, 2000, and restated all prior period disclosures. Issue No. 00-10 did not have a material impact on the Company's consolidated financial statements.

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires the use of the purchase method of accounting for business combinations initiated after June 30, 2001, and eliminates the pooling-of-interests method. SFAS No. 142 requires, among other things, the use of a nonamortization approach for purchased goodwill and certain intangibles. Under a nonamortization approach, goodwill and certain intangibles will not be amortized into earnings, but instead will be reviewed for impairment at least annually. The Company will adopt SFAS No. 142 effective September 30, 2002. The Company's management has not yet determined the impact of adoption on its consolidated financial position and results of operations. As of September 30, 2001, the Company had goodwill and other intangible assets, net of accumulated amortization, of \$21.8 million and \$7.7 million, respectively, which would be subject to the transitional

assessment provisions of SFAS No. 142. Amortization expense related to goodwill and other intangible assets was \$3.0 million for the fiscal year ended September 30, 2001.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. The Company will adopt SFAS No. 143 effective September 30, 2002, and does not expect it to have a material impact on the Company's consolidated results of operations, financial position or cash flows.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which supercedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." SFAS No. 144 retains the fundamental provisions of SFAS No. 121 but sets forth new criteria for asset classification and broadens the scope of qualifying discontinued operations. The Company will adopt SFAS No. 144 as of September 30, 2002. The Company's management has not yet determined the impact of adoption on its consolidated financial position and results of operations.

In September 2001, the EITF reached a consensus regarding Issue No. 01-10, "Accounting for the Impact of the Terrorist Attacks of September 11, 2001," which requires that losses and other costs incurred as a result of the September 11, 2001, events be classified as part of income from continuing operations in the statement of operations. Additionally, certain disclosures are required in all periods affected. As a result of the events of September 11, 2001, the Company closed its North American Company-operated retail stores and other North American facilities for the remainder of that day. None of the Company's employees were injured, and the Company did not sustain significant property loss or incur significant costs as a result of the attacks. However, the aftermath of these events, together with the slowing economy, have had a moderately negative impact on the Company's Specialty Operations, which derives approximately 9.0% of its revenue from the travel and hospitality industries. At this time, management believes that the events of September 11, 2001, will not have a material impact on the Company's financial position, results of operations or cash flows in fiscal 2002.

## **SUBSEQUENT EVENTS**

On October 10, 2001, the Company sold 30,000 of its shares of Starbucks Coffee Japan, Ltd. ("Starbucks Japan") at approximately \$495.00 per share, net of related costs. In connection with this sale, the Company received cash proceeds of \$15 million. The Company's ownership interest in Starbucks Japan was reduced from 50.0% to 47.5% following the sale of the aforementioned shares. The Company recorded a gain from this sale of \$13 million.

Also on October 10, 2001, Starbucks Japan issued and sold 220,000 shares of common stock at approximately \$495.00 per share, net of related costs, in an initial public offering in Japan. In connection with this offering, the Company's ownership interest in Starbucks Japan was reduced from 47.5% to 40.1%. The Company recorded a credit to shareholders' equity of \$39 million, reflecting the increase in value of its share of the net assets of Starbucks Japan related to the stock offering.

**CONSOLIDATED STATEMENTS OF EARNINGS**

In thousands, except earnings per share

| Fiscal year ended<br>-----                | Sept 30, 2001<br>----- | Oct 1, 2000<br>----- | Oct 3, 1999<br>----- |
|-------------------------------------------|------------------------|----------------------|----------------------|
| Net revenues:                             |                        |                      |                      |
| Retail                                    | \$2,229,594            | \$1,823,607          | \$1,423,389          |
| Specialty                                 | 419,386                | 354,007              | 263,439              |
| Total net revenues                        | 2,648,980              | 2,177,614            | 1,686,828            |
| Cost of sales and related occupancy costs | 1,112,785              | 961,885              | 747,630              |
| Store operating expenses                  | 875,473                | 704,898              | 543,572              |
| Other operating expenses                  | 93,326                 | 78,445               | 54,629               |
| Depreciation and amortization             | 163,501                | 130,232              | 97,797               |
| General and administrative expenses       | 151,416                | 110,202              | 89,681               |
| Joint venture income                      | 28,615                 | 20,300               | 3,192                |
| Operating income                          | 281,094                | 212,252              | 156,711              |
| Interest and other income, net            | 10,768                 | 7,110                | 7,315                |
| Internet-related investment losses        | 2,940                  | 58,792               | --                   |
| Earnings before income taxes              | 288,922                | 160,570              | 164,026              |
| Income taxes                              | 107,712                | 66,006               | 62,333               |
| Net earnings                              | \$ 181,210             | \$ 94,564            | \$ 101,693           |
| Net earnings per common share - basic     | \$ 0.48                | \$ 0.25              | \$ 0.28              |
| Net earnings per common share - diluted   | \$ 0.46                | \$ 0.24              | \$ 0.27              |
| Weighted average shares outstanding:      |                        |                      |                      |
| Basic                                     | 380,566                | 371,191              | 363,683              |
| Diluted                                   | 394,349                | 385,999              | 377,062              |

**See Notes to Consolidated Financial Statements.**

**CONSOLIDATED BALANCE SHEETS**

In thousands, except share data

|                                                                                                                                                                                                              | Sept 30, 2001 | Oct 1, 2000  |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|--------------|
|                                                                                                                                                                                                              | -----         | -----        |
| <b>ASSETS</b>                                                                                                                                                                                                |               |              |
| Current assets:                                                                                                                                                                                              |               |              |
| Cash and cash equivalents                                                                                                                                                                                    | \$ 113,237    | \$ 70,817    |
| Short-term investments - Available-for-sale securities                                                                                                                                                       | 101,399       | 57,573       |
| Short-term investments - Trading securities                                                                                                                                                                  | 5,913         | 3,763        |
| Accounts receivable, net of allowances of \$4,590 and \$2,941, respectively                                                                                                                                  | 90,425        | 76,385       |
| Inventories                                                                                                                                                                                                  | 221,253       | 201,656      |
| Prepaid expenses and other current assets                                                                                                                                                                    | 29,829        | 18,736       |
| Deferred income taxes, net                                                                                                                                                                                   | 31,869        | 29,304       |
|                                                                                                                                                                                                              | -----         | -----        |
| Total current assets                                                                                                                                                                                         | 593,925       | 458,234      |
| Joint ventures                                                                                                                                                                                               | 60,876        | 52,051       |
| Other investments                                                                                                                                                                                            | 2,221         | 3,788        |
| Property, plant and equipment, net                                                                                                                                                                           | 1,135,784     | 930,759      |
| Other assets                                                                                                                                                                                                 | 36,388        | 25,403       |
| Goodwill, net                                                                                                                                                                                                | 21,845        | 21,311       |
|                                                                                                                                                                                                              | -----         | -----        |
| TOTAL ASSETS                                                                                                                                                                                                 | \$ 1,851,039  | \$ 1,491,546 |
|                                                                                                                                                                                                              | -----         | -----        |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                                                                                                                                                                  |               |              |
| Current liabilities:                                                                                                                                                                                         |               |              |
| Accounts payable                                                                                                                                                                                             | \$ 127,905    | \$ 73,653    |
| Checks drawn in excess of bank balances                                                                                                                                                                      | 61,987        | 56,332       |
| Accrued compensation and related costs                                                                                                                                                                       | 81,458        | 69,702       |
| Accrued occupancy costs                                                                                                                                                                                      | 35,835        | 29,117       |
| Accrued taxes                                                                                                                                                                                                | 70,346        | 35,841       |
| Other accrued expenses                                                                                                                                                                                       | 57,085        | 39,016       |
| Deferred revenue                                                                                                                                                                                             | 9,951         | 7,320        |
| Current portion of long-term debt                                                                                                                                                                            | 697           | 685          |
|                                                                                                                                                                                                              | -----         | -----        |
| Total current liabilities                                                                                                                                                                                    | 445,264       | 311,666      |
| Deferred income taxes, net                                                                                                                                                                                   | 19,133        | 21,410       |
| Long-term debt                                                                                                                                                                                               | 5,786         | 6,483        |
| Minority interest                                                                                                                                                                                            | 4,929         | 3,588        |
|                                                                                                                                                                                                              |               |              |
| Shareholders' equity:                                                                                                                                                                                        |               |              |
| Common stock and additional paid-in capital - Authorized, 600,000,000 shares; issued and outstanding, 380,044,042 and 376,315,302 shares, respectively (includes 1,697,100 common stock units in both years) | 791,622       | 750,872      |
| Retained earnings                                                                                                                                                                                            | 589,713       | 408,503      |
| Accumulated other comprehensive loss                                                                                                                                                                         | (5,408)       | (10,976)     |
|                                                                                                                                                                                                              | -----         | -----        |
| Total shareholders' equity                                                                                                                                                                                   | 1,375,927     | 1,148,399    |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY                                                                                                                                                                   | \$ 1,851,039  | \$ 1,491,546 |
|                                                                                                                                                                                                              | -----         | -----        |

**See Notes to Consolidated Financial Statements.**

# CONSOLIDATED STATEMENTS OF CASH FLOWS

In thousands

| Fiscal year ended                                                                   | Sept 30, 2001 | Oct 1, 2000 | Oct 3, 1999 |
|-------------------------------------------------------------------------------------|---------------|-------------|-------------|
| -----                                                                               | -----         | -----       | -----       |
| OPERATING ACTIVITIES:                                                               |               |             |             |
| Net earnings                                                                        | \$ 181,210    | \$ 94,564   | \$ 101,693  |
| Adjustments to reconcile net earnings to net cash provided by operating activities: |               |             |             |
| Depreciation and amortization                                                       | 177,087       | 142,171     | 107,512     |
| Internet-related investment losses                                                  | 2,940         | 58,792      | --          |
| Provision for losses on asset disposals                                             | 11,044        | 5,753       | 2,456       |
| Deferred income taxes, net                                                          | (6,068)       | (18,252)    | 794         |
| Equity in income of investees                                                       | (15,713)      | (15,139)    | (2,318)     |
| Tax benefit from exercise of nonqualified stock options                             | 30,899        | 31,131      | 18,621      |
| Cash provided/(used) by changes in operating assets and liabilities:                |               |             |             |
| Net purchases of trading securities                                                 | (4,032)       | (1,414)     | --          |
| Accounts receivable                                                                 | (17,177)      | (25,013)    | 3,838       |
| Inventories                                                                         | (19,704)      | (19,495)    | (36,405)    |
| Prepaid expenses and other current assets                                           | (10,919)      | (700)       | (7,552)     |
| Accounts payable                                                                    | 54,117        | 15,561      | 4,711       |
| Accrued compensation and related costs                                              | 12,098        | 30,962      | 7,586       |
| Accrued occupancy costs                                                             | 6,797         | 6,007       | 5,517       |
| Accrued taxes                                                                       | 34,548        | 5,026       | 12,429      |
| Minority interest                                                                   | 1,346         | 3,126       | 400         |
| Deferred revenue                                                                    | 2,626         | 6,836       | (53)        |
| Other accrued expenses                                                              | 19,727        | 1,880       | 10,366      |
|                                                                                     | -----         | -----       | -----       |
| Net cash provided by operating activities                                           | 460,826       | 321,796     | 229,595     |
| INVESTING ACTIVITIES:                                                               |               |             |             |
| Purchase of available-for-sale securities                                           | (184,187)     | (118,501)   | (122,800)   |
| Maturity of available-for-sale securities                                           | 93,500        | 58,750      | 85,053      |
| Sale of available-for-sale securities                                               | 46,931        | 49,238      | 3,633       |
| Purchase of businesses, net of cash acquired                                        | --            | (13,522)    | (15,662)    |
| Net investments in joint ventures                                                   | (12,636)      | (8,473)     | (10,466)    |
| Purchases of other investments                                                      | (238)         | (35,457)    | (20,314)    |
| Distributions from joint ventures                                                   | 16,863        | 14,279      | 8,983       |
| Additions to property, plant and equipment                                          | (384,215)     | (316,450)   | (257,854)   |
| Additions to other assets                                                           | (9,071)       | (6,318)     | (6,866)     |
|                                                                                     | -----         | -----       | -----       |
| Net cash used by investing activities                                               | (433,053)     | (376,454)   | (336,293)   |
| FINANCING ACTIVITIES:                                                               |               |             |             |
| Increase/(decrease) in cash provided by checks drawn in excess of bank balances     | 5,655         | (7,479)     | 29,512      |
| Proceeds from sale of common stock under employee stock purchase plan               | 12,977        | 10,258      | 9,386       |
| Proceeds from exercise of stock options                                             | 46,662        | 58,463      | 33,799      |
| Principal payments on long-term debt                                                | (685)         | (1,889)     | (1,189)     |
| Repurchase of common stock                                                          | (49,788)      | --          | --          |
|                                                                                     | -----         | -----       | -----       |
| Net cash provided by financing activities                                           | 14,821        | 59,353      | 71,508      |
| Effect of exchange rate changes on cash and cash equivalents                        | (174)         | (297)       | (54)        |
|                                                                                     | -----         | -----       | -----       |
| Net increase/(decrease) in cash and cash equivalents                                | 42,420        | 4,398       | (35,244)    |
| CASH AND CASH EQUIVALENTS:                                                          |               |             |             |
| Beginning of year                                                                   | 70,817        | 66,419      | 101,663     |
|                                                                                     | -----         | -----       | -----       |
| End of year                                                                         | \$ 113,237    | \$ 70,817   | \$ 66,419   |
|                                                                                     | -----         | -----       | -----       |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:                                   |               |             |             |
| Cash paid during the year for:                                                      |               |             |             |
| Interest                                                                            | \$ 432        | \$ 411      | \$ 442      |
| Income taxes                                                                        | 47,690        | 51,856      | 35,366      |
|                                                                                     | -----         | -----       | -----       |

See Notes to Consolidated Financial Statements.

# **CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**

In thousands, except share data

|                                                                 | COMMON STOCK |        | ADDITIONAL | RETAINED  | ACCUMULATED   |              |
|-----------------------------------------------------------------|--------------|--------|------------|-----------|---------------|--------------|
|                                                                 | SHARES       | AMOUNT | PAID-IN    | EARNINGS  | OTHER         | TOTAL        |
|                                                                 | -----        | -----  | CAPITAL    | -----     | COMPREHENSIVE | -----        |
|                                                                 | -----        | -----  | -----      | -----     | INCOME/(LOSS) | -----        |
| Balance, September 27, 1998                                     | 358,533,912  | \$ 358 | \$ 588,856 | \$212,246 | \$ (7,163)    | \$ 794,297   |
| Net earnings                                                    | --           | --     | --         | 101,693   | --            | 101,693      |
| Unrealized holding gains, net                                   | --           | --     | --         | --        | 683           | 683          |
| Translation adjustment                                          | --           | --     | --         | --        | 2,534         | 2,534        |
| Comprehensive income                                            |              |        |            |           |               | 104,910      |
| Exercise of stock options,<br>including tax benefit of \$18,621 | 7,045,816    | 7      | 52,413     | --        | --            | 52,420       |
| Sale of common stock                                            | 984,462      | 1      | 9,385      | --        | --            | 9,386        |
| Balance, October 3, 1999                                        | 366,564,190  | 366    | 650,654    | 313,939   | (3,946)       | 961,013      |
| Net earnings                                                    | --           | --     | --         | 94,564    | --            | 94,564       |
| Unrealized holding losses, net                                  | --           | --     | --         | --        | (163)         | (163)        |
| Translation adjustment                                          | --           | --     | --         | --        | (6,867)       | (6,867)      |
| Comprehensive income                                            |              |        |            |           |               | 87,534       |
| Exercise of stock options,<br>including tax benefit of \$31,131 | 8,943,570    | 9      | 89,585     | --        | --            | 89,594       |
| Sale of common stock                                            | 807,542      | 1      | 10,257     | --        | --            | 10,258       |
| Balance, October 1, 2000                                        | 376,315,302  | 376    | 750,496    | 408,503   | (10,976)      | 1,148,399    |
| Net earnings                                                    | --           | --     | --         | 181,210   | --            | 181,210      |
| Unrealized holding gains, net                                   | --           | --     | --         | --        | 2,087         | 2,087        |
| Translation adjustment                                          | --           | --     | --         | --        | 3,481         | 3,481        |
| Comprehensive income                                            |              |        |            |           |               | 186,778      |
| Exercise of stock options,<br>including tax benefit of \$30,899 | 6,289,892    | 6      | 77,555     | --        | --            | 77,561       |
| Sale of common stock                                            | 813,848      | 1      | 12,976     | --        | --            | 12,977       |
| Repurchase of common stock                                      | (3,375,000)  | (3)    | (49,785)   | --        | --            | (49,788)     |
| Balance, September 30, 2001                                     | 380,044,042  | \$ 380 | \$ 791,242 | \$589,713 | \$ (5,408)    | \$ 1,375,927 |

See Notes to Consolidated Financial Statements.

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years ended September 30, 2001, October 1, 2000, and October 3, 1999**

### **NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **DESCRIPTION OF BUSINESS**

Starbucks Corporation (together with its subsidiaries, "Starbucks" or the "Company") purchases and roasts high-quality whole bean coffees and sells them, along with fresh, rich-brewed coffees, Italian-style espresso beverages, cold blended beverages, a variety of pastries and confections, coffee-related accessories and equipment, a selection of premium teas and a line of compact discs primarily through its Company-operated retail stores. In addition to sales through its Company-operated retail stores, Starbucks sells coffee and tea products through other channels of distribution including the Business Alliances business unit and other specialty operations (collectively, "Specialty Operations"). Starbucks, through its joint venture partnerships, also produces and sells bottled Frappuccino(R) coffee drink and a line of premium ice creams. The Company's objective is to establish Starbucks as the most recognized and respected brand in the world. To achieve this goal, the Company plans to continue to rapidly expand its retail operations, grow its Specialty Operations and selectively pursue other opportunities to leverage the Starbucks brand through the introduction of new products and the development of new distribution channels.

#### **PRINCIPLES OF CONSOLIDATION**

The consolidated financial statements reflect the financial position and operating results of Starbucks, its subsidiaries and investments in joint ventures in which the Company has significant control. All significant intercompany transactions have been eliminated.

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

#### **FISCAL YEAR-END**

The Company's fiscal year ends on the Sunday closest to September 30. The fiscal years ended September 30, 2001, and October 1, 2000, each included 52 weeks. The fiscal year ended October 3, 1999, included 53 weeks.

#### **ESTIMATES AND ASSUMPTIONS**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from these estimates.

#### **CASH AND CASH EQUIVALENTS**

The Company considers all highly liquid instruments with a maturity of three months or less at the time of purchase to be cash equivalents.

#### **CASH MANAGEMENT**

The Company's cash management system provides for the reimbursement of all major bank disbursement accounts on a daily basis. Checks issued but not presented for payment to the bank are reflected as "Checks drawn in excess of bank balances" on the accompanying consolidated financial statements.

#### **SHORT-TERM INVESTMENTS**

The Company's investments consist primarily of investment-grade marketable debt and equity securities as well as bond and equity mutual funds, all of which are classified as trading or available-for-sale. Trading securities are recorded at fair value with unrealized holding gains and losses included in earnings. Available-for-sale securities are recorded at fair value, and unrealized holding gains and losses are recorded, net of tax, as a separate component of accumulated other comprehensive income. Unrealized losses are charged against net earnings when a decline in fair value is determined to be other than temporary. Realized gains and losses are accounted for on the specific identification method. Purchases and sales are recorded on a trade date basis.

## **OTHER INVESTMENTS**

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

## **FAIR VALUE OF FINANCIAL INSTRUMENTS**

The carrying value of cash and cash equivalents approximates fair value because of the short-term maturity of those instruments. The fair value of the Company's investments in marketable debt and equity securities as well as bond and equity mutual funds is based upon the quoted market price on the last business day of the fiscal year. The fair value and amortized cost of the Company's short-term investments at September 30, 2001, were \$107.3 million and \$107.7 million, respectively. The fair value and amortized cost of the Company's short-term investments at October 1, 2000, were \$61.3 million and \$61.0 million, respectively.

For equity securities of companies that are privately held, or where an observable quoted market price does not exist, the Company estimates fair value using a variety of valuation methodologies. Such methodologies include comparing the security with securities of publicly traded companies in similar lines of business, applying revenue multiples to estimated future operating results for the private company and estimating discounted cash flows for that company. For further information on investments, see Notes 4 and 8. The carrying value of long-term debt approximates fair value.

## **INVENTORIES**

Inventories are stated at the lower of cost (primarily moving average cost) or market.

## **PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment are carried at cost less accumulated depreciation and amortization. Depreciation of property, plant and equipment, which includes amortization of assets under capital leases, is provided on the straight-line method over estimated useful lives, generally ranging from two to seven years for equipment and 30 to 40 years for buildings. Leasehold improvements are amortized over the shorter of their estimated useful lives or the related lease life, generally ten years. The portion of depreciation expense related to production and distribution facilities is included in "Cost of sales and related occupancy costs" on the accompanying consolidated statements of earnings.

## **GOODWILL**

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

## **LONG-LIVED ASSETS**

When facts and circumstances indicate that the carrying values of long-lived assets, including intangibles, may be impaired, an evaluation of recoverability is performed by comparing the carrying value of the assets to projected future cash flows in addition to other quantitative and qualitative analyses. Upon indication that the carrying value of such assets may not be recoverable, the Company recognizes an impairment loss by a charge against current operations. Property, plant and equipment assets are grouped at the lowest level for which there are identifiable cash flows when assessing impairment. Cash flows for retail assets are identified at the individual store level.

## **REVENUE RECOGNITION**

Retail store revenues are recognized when payment is tendered at the point of sale. Specialty revenues, consisting mainly of product sales, are generally recognized upon shipment to customers. Initial non-refundable fees required under licensing agreements are earned upon substantial performance of services. Royalty revenues based upon a percentage of sales and other continuing fees are recognized when earned. All revenues are recognized net of any discounts.

## **ADVERTISING**

The Company expenses costs of advertising the first time the advertising campaign takes place, except for direct-to-consumer advertising, which is capitalized and amortized over its expected period of future benefit, generally six to twelve months. Net capitalized direct-to-consumer advertising costs were \$0.9 million and \$0.2 million as of September 30, 2001, and October 1, 2000, respectively, and are included in "Prepaid expenses and other current assets" on the accompanying consolidated balance

sheets. Total advertising expenses, recorded in "Store operating expenses" and "Other operating expenses," on the accompanying consolidated statements of earnings were \$28.8 million, \$32.6 million and \$38.4 million in 2001, 2000 and 1999, respectively.

## **STORE PREOPENING EXPENSES**

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

## **RENT EXPENSE**

Certain of the Company's lease agreements provide for scheduled rent increases during the lease terms or for rental payments commencing at a date other than the date of initial occupancy. Minimum rental expenses are recognized on a straight-line basis over the terms of the leases.

## **FOREIGN CURRENCY TRANSLATION**

The Company's international operations use their local currency as their functional currency. Assets and liabilities are translated at exchange rates in effect at the balance sheet date. Income and expense accounts are translated at the average monthly exchange rates during the year. Resulting translation adjustments are recorded as a separate component of accumulated other comprehensive income.

## **INCOME TAXES**

The Company computes income taxes using the asset and liability method, under which deferred income taxes are provided for the temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities.

## **STOCK SPLIT**

On April 27, 2001, the Company effected a two-for-one stock split of its \$0.001 par value common stock for holders of record on March 30, 2001. All applicable share and per-share data in these consolidated financial statements have been restated to give effect to this stock split.

## **EARNINGS PER SHARE**

The computation of basic earnings per share is based on the weighted average number of shares and common stock units outstanding during the period. The computation of diluted earnings per share includes the dilutive effect of common stock equivalents consisting of certain shares subject to stock options.

## **RECENT ACCOUNTING PRONOUNCEMENTS**

In September 2000, the Emerging Issues Task Force ("EITF") reached a consensus regarding Issue No. 00-10, "Accounting for Shipping and Handling Fees and Costs," which requires any shipping and handling costs billed to customers in a sale transaction to be classified as revenue. The Company adopted Issue No. 00-10 on October 2, 2000, and restated all prior period disclosures. Issue No. 00-10 did not have a material impact on the Company's consolidated financial statements.

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires the use of the purchase method of accounting for business combinations initiated after June 30, 2001, and eliminates the pooling-of-interests method. SFAS No. 142 requires, among other things, the use of a nonamortization approach for purchased goodwill and certain intangibles. Under a nonamortization approach, goodwill and certain intangibles will not be amortized into earnings, but instead will be reviewed for impairment at least annually. The Company will adopt SFAS No. 142 effective September 30, 2002. The Company's management has not yet determined the impact of adoption on its consolidated financial position and results of operations. As of September 30, 2001, the Company had goodwill and other intangible assets, net of accumulated amortization, of \$21.8 million and \$7.7 million, respectively, which would be subject to the transitional assessment provisions of SFAS No. 142. Amortization expense related to goodwill and other intangible assets was \$3.0 million for the fiscal year ended September 30, 2001.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the

long-lived asset. The Company will adopt SFAS No. 143 effective September 30, 2002, and does not expect it to have a material impact on the Company's consolidated results of operations, financial position or cash flows.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which supercedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." SFAS No. 144 retains the fundamental provisions of SFAS No. 121 but sets forth new criteria for asset classification and broadens the scope of qualifying discontinued operations. The Company will adopt SFAS No. 144 as of September 30, 2002. The Company's management has not yet determined the impact of adoption on its consolidated financial position and results of operations.

In September 2001, the EITF reached a consensus regarding Issue No. 01-10, "Accounting for the Impact of the Terrorist Attacks of September 11, 2001," which requires that losses and other costs incurred as a result of the September 11, 2001, events be classified as part of income from continuing operations in the statement of operations. Additionally, certain disclosures are required in all periods affected. As a result of the events of September 11, 2001, the Company closed its North American Company-operated retail stores and other North American facilities for the remainder of that day. None of the Company's employees were injured, and the Company did not sustain significant property loss or incur significant costs as a result of the attacks. However, the aftermath of these events, together with the slowing economy, have had a moderately negative impact on the Company's Specialty Operations, which derives approximately 9.0% of its revenue from the travel and hospitality industries. At this time, management believes that the events of September 11, 2001, will not have a material impact on the Company's financial position, results of operations or cash flows in fiscal 2002.

## RECLASSIFICATIONS

Certain reclassifications of prior years' balances have been made to conform to the fiscal 2001 presentation.

## NOTE 2: BUSINESS COMBINATIONS

During fiscal 2000, Starbucks acquired the outstanding stock of Tympanum, Inc. (d/b/a "Hear Music"), a music retailer, and of Coffee Partners Co. Ltd., the company licensed to operate Starbucks stores in Thailand. The combined purchase price for these two acquisitions was \$14.1 million. During fiscal 1999, Starbucks acquired the net assets of Tazo, L.L.C., a Portland, Oregon-based tea company that produces premium tea products, and Pasqua Inc., a San Francisco, California-based roaster and retailer of specialty coffee. The combined purchase price for these two acquisitions was \$16.5 million. All of the above acquisitions were accounted for under the purchase method of accounting. Results of operations of the acquired companies are included on the accompanying consolidated financial statements from the dates of acquisition.

## NOTE 3: CASH AND CASH EQUIVALENTS

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

|                                               | Sept 30, 2001 | Oct 1, 2000 |
|-----------------------------------------------|---------------|-------------|
|                                               | -----         | -----       |
| Operating funds and interest-bearing deposits | \$ 51,164     | \$35,521    |
| Commercial paper                              | 1,698         | 998         |
| Money market funds                            | 60,375        | 34,298      |
|                                               | -----         | -----       |
| Total                                         | \$113,237     | \$70,817    |

#### NOTE 4: SHORT-TERM INVESTMENTS

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

|                                                          | FAIR<br>VALUE | AMORTIZED<br>COST | GROSS<br>UNREALIZED<br>HOLDING<br>GAINS | GROSS<br>UNREALIZED<br>HOLDING<br>LOSSES |
|----------------------------------------------------------|---------------|-------------------|-----------------------------------------|------------------------------------------|
| September 30, 2001:                                      | -----         | -----             | -----                                   | -----                                    |
| Short-term investments -- available-for-sale securities: |               |                   |                                         |                                          |
| U.S. Government obligations                              | \$ 2,017      | \$ 1,999          | \$ 18                                   | \$ --                                    |
| Mutual funds                                             | 99,332        | 98,000            | 1,332                                   | --                                       |
| Marketable equity securities                             | 50            | 250               | --                                      | (200)                                    |
|                                                          | -----         | -----             | -----                                   | -----                                    |
| Total                                                    | \$101,399     | \$100,249         | \$1,350                                 | \$(200)                                  |
| Short-term investments -- trading securities             | 5,913         |                   |                                         |                                          |
|                                                          | -----         |                   |                                         |                                          |
| Total short-term investments                             | \$107,312     |                   |                                         |                                          |
| October 1, 2000:                                         | -----         | -----             | -----                                   | -----                                    |
| Short-term investments -- available-for-sale securities: |               |                   |                                         |                                          |
| U.S. Government obligations                              | \$10,990      | \$10,996          | \$3                                     | \$ (9)                                   |
| Commercial paper                                         | 45,356        | 45,373            | 1                                       | (18)                                     |
| Marketable equity securities                             | 1,227         | 1,227             | -                                       | --                                       |
|                                                          | -----         | -----             | -----                                   | -----                                    |
| Total                                                    | \$57,573      | \$57,596          | \$4                                     | \$(27)                                   |
| Short-term investments -- trading securities             | 3,763         |                   |                                         |                                          |
|                                                          | -----         |                   |                                         |                                          |
| Total short-term investments                             | \$61,336      |                   |                                         |                                          |

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

In fiscal 2001, 2000 and 1999, proceeds from the sale of investment securities were \$46.9 million, \$49.2 million and \$3.6 million, respectively. Gross realized gains and losses from the sale of securities were not material in 2001, 2000 and 1999.

During fiscal 2001 and 2000, the Company recognized losses of \$0.9 million and \$6.8 million, respectively, on its investment in the common stock of Liveworld, Inc. (previously known as Talk City, Inc.), due to impairments that were determined by management to be other than temporary. The remaining fair value of the investment was \$50 thousand as of September 30, 2001, and \$1.2 million as of October 1, 2000.

Trading securities are classified as short-term investments. The trading securities are comprised mainly of marketable equity mutual funds designated to approximate the Company's liability under the Management Deferred Compensation Plan. The corresponding deferred compensation liability of \$6.0 million in fiscal 2001 and \$3.8 million in fiscal 2000 is included in "Accrued compensation and related costs" on the accompanying consolidated balance sheets. In fiscal 2001 and fiscal 2000, the change in net unrealized holding gains or (losses) in the trading portfolio included in earnings were (\$1.9) million and \$0.3 million, respectively. Gross gains included in earnings associated with the transfer of securities from the available-for-sale category to the trading category were \$0.5 million in fiscal 2000.

## NOTE 5: DERIVATIVE FINANCIAL INSTRUMENTS

The Company manages its exposure to foreign currency risk within the consolidated financial statements according to a hedging policy. Under the policy, the Company may engage in transactions involving various derivative instruments with maturities generally not longer than five years, to hedge assets, liabilities, revenues and purchases denominated in foreign currencies.

On October 2, 2000, the Company adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended and interpreted, which requires that all derivatives be recorded on the balance sheet at fair value. The accounting for changes in the fair value of derivative instruments depends on the intended use and resulting designation. The Company designates its derivatives based upon the criteria established by SFAS No. 133. For a derivative designated as a fair value hedge, the gain or loss generated from the change in fair value is recognized in earnings in the period of change together with the offsetting loss or gain on the hedged item. For a derivative designated as a cash flow hedge, the effective portion of the derivative's gain or loss is initially reported as a component of other comprehensive income ("OCI") and subsequently reclassified into earnings when the hedged exposure affects earnings. For a derivative designated as a net investment hedge, the effective portion of the derivative's gain or loss is reported as a component of the foreign currency translation adjustment, a component of OCI. The ineffective portions of all derivatives are recognized immediately into earnings. For a derivative not designated as a hedging instrument, the gain or loss is recognized in earnings in the period of change. The Company classifies the cash flows from hedging transactions in the same category as the cash flows from the respective hedged items. The adoption of SFAS No. 133 did not have a material impact on the Company's consolidated results of operations, financial position or cash flows.

During the 52-week period ended September 30, 2001, the Company entered into forward foreign exchange contracts that qualify as cash flow hedges under SFAS No. 133 to hedge a portion of anticipated foreign currency denominated revenue. In accordance with SFAS No. 133, cash flow hedges related to anticipated transactions are designated and documented at the inception of each hedge by matching the terms of the contract to the underlying transaction. Once established, cash flow hedges are generally not removed until maturity. The Company also entered into a forward foreign exchange contract that qualifies as a hedge of a net investment in a foreign operation. These contracts expire within 14 months and are intended to minimize certain foreign currency exposures that can be confidently identified and quantified.

Forward contract effectiveness for cash flow hedges is calculated by comparing the fair value of the contract to the change in value of the anticipated transaction using forward rates on a monthly basis. Any ineffectiveness is recognized immediately in "Interest and other income, net" on the accompanying consolidated statement of earnings. There was no ineffectiveness related to cash flow hedges for the 52-week period ended September 30, 2001. For net investment hedges, the spot-to-spot method is used by the Company to calculate effectiveness. As a result of using this method, net gains of \$1.4 million were recognized in earnings during the 52-week period ended September 30, 2001.

The Company had accumulated derivative gains of \$1.3 million, net of taxes, in OCI as of September 30, 2001, related to cash flow and net investment hedges. Of this amount, \$1.2 million is expected to be reclassified into earnings within 12 months.

## NOTE 6: INVENTORIES

Inventories consist of the following (in thousands):

|                                 | Sept 30, 2001 | Oct 1, 2000 |
|---------------------------------|---------------|-------------|
|                                 | -----         | -----       |
| Coffee:                         |               |             |
| Unroasted                       | \$ 98,557     | \$ 90,807   |
| Roasted                         | 33,958        | 27,880      |
| Other merchandise held for sale | 63,458        | 59,420      |
| Packaging and other supplies    | 25,280        | 23,549      |
|                                 | -----         | -----       |
| Total                           | \$221,253     | \$201,656   |

As of September 30, 2001, the Company had fixed-price inventory purchase commitments for green coffee totaling approximately \$283.8 million. The Company believes, based on relationships established with its suppliers in the past, that the risk of non-delivery on such purchase commitments is low.

## NOTE 7: JOINT VENTURES

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

The Company is a partner in several other joint ventures that operate licensed Starbucks retail stores, including Starbucks Coffee Japan, Ltd., a 50/50 joint venture partnership with Japanese retailer and restaurateur SAZABY Inc. to develop Starbucks retail stores in Japan (See Note 17), and Starbucks Coffee Korea Co., Ltd., a 50/50 joint venture partnership with Shinsegae Department Store Co., Ltd., to develop retail stores in the Republic of Korea. The Company also has interests in joint ventures to develop Starbucks retail stores in Hawaii, Taiwan, Shanghai, Hong Kong, Austria, Switzerland and Israel.

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

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

|                                   | EQUITY<br>METHOD<br>JOINT<br>VENTURES | COST<br>METHOD<br>JOINT<br>VENTURES | TOTAL     |
|-----------------------------------|---------------------------------------|-------------------------------------|-----------|
|                                   | -----                                 | -----                               | -----     |
| Balance, September 27, 1998       | \$ 38,558                             | \$ 359                              | \$ 38,917 |
| Allocated share of income         | 2,318                                 | --                                  | 2,318     |
| Distributions from joint ventures | (8,983)                               | --                                  | (8,983)   |
| Capital contributions             | 10,466                                | --                                  | 10,466    |
|                                   | -----                                 | -----                               | -----     |
| Balance, October 3, 1999          | \$ 42,359                             | \$ 359                              | \$ 42,718 |
| Allocated share of income         | 15,139                                | --                                  | 15,139    |
| Distributions from joint ventures | (14,279)                              | --                                  | (14,279)  |
| Capital contributions             | 8,049                                 | 424                                 | 8,473     |
|                                   | -----                                 | -----                               | -----     |
| Balance, October 1, 2000          | \$ 51,268                             | \$ 783                              | \$ 52,051 |
| Allocated share of income         | 15,630                                | --                                  | 15,630    |
| Distributions from joint ventures | (16,863)                              | --                                  | (16,863)  |
| Capital contributions             | 7,723                                 | 2,335                               | 10,058    |
|                                   | -----                                 | -----                               | -----     |
| Balance, September 30, 2001       | \$ 57,758                             | \$3,118                             | \$ 60,876 |

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

## NOTE 8: OTHER INVESTMENTS

In fiscal 1999, the Company invested \$20.3 million in living.com Inc. ("living.com"), an online furniture retailer, and \$10.0 million in Cooking.com, Inc. ("Cooking.com"), a privately held Web-based retailer of cookware, accessories and specialty foods and provider of information about cooking.

During fiscal 2000, the Company invested \$25.0 million in Kozmo.com, an Internet-to-door delivery service for food, entertainment and convenience items. Starbucks and Kozmo.com also entered into a commercial agreement to provide in-store return boxes in Starbucks stores in exchange for cash, a channel for selling the Company's products and other marketing opportunities. In connection with this agreement, Starbucks received a \$15.0 million payment that was recognized as revenue on a straight-line basis over twelve months.

During fiscal 2001 and 2000, the Company determined that its investments in Internet-related companies had suffered declines in value that were other than temporary. As a result, the Company recognized a loss totaling \$2.0 million to write off its

remaining investment in Kozmo.com as of September 30, 2001, and recognized losses of \$52.0 million to reduce its investments in living.com, Cooking.com and Kozmo.com to their aggregate fair value of \$3.6 million as of October 1, 2000.

The Company had other investments recorded at their estimated aggregate fair value of \$1.9 million as of September 30, 2001, and \$0.2 million as of October 1, 2000.

#### NOTE 9: PROPERTY, PLANT AND EQUIPMENT

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

|                                                | Sept 30, 2001 | Oct 1, 2000 |
|------------------------------------------------|---------------|-------------|
|                                                | -----         | -----       |
| Land                                           | \$ 6,023      | \$ 5,084    |
| Building                                       | 19,795        | 19,795      |
| Leasehold improvements                         | 960,732       | 754,132     |
| Roasting and store equipment                   | 421,150       | 354,806     |
| Furniture, fixtures and other                  | 239,900       | 181,702     |
|                                                | -----         | -----       |
|                                                | 1,647,600     | 1,315,519   |
| Less accumulated depreciation and amortization | (605,247)     | (446,403)   |
|                                                | -----         | -----       |
|                                                | 1,042,353     | 869,116     |
| Work in progress                               | 93,431        | 61,643      |
|                                                | -----         | -----       |
| Property, plant and equipment, net             | \$ 1,135,784  | \$ 930,759  |

#### NOTE 10: LONG-TERM DEBT

In September 1999, the Company purchased the land and building comprising its York County, Pennsylvania roasting plant and distribution facility. The total purchase price was \$12.9 million. In connection with this purchase, the Company assumed loans totaling \$7.7 million from the York County Industrial Development Corporation. The remaining maturities of these loans range from 8 to 9 years, with interest rates from 0.0% to 2.0%.

Scheduled principal payments on long-term debt are as follows (in thousands):

|                          |         |
|--------------------------|---------|
| Fiscal year ending       |         |
| -----                    |         |
| 2002                     | \$ 697  |
| 2003                     | 710     |
| 2004                     | 722     |
| 2005                     | 735     |
| 2006                     | 748     |
| Thereafter               | 2,871   |
|                          | -----   |
| Total principal payments | \$6,483 |

**NOTE 11: LEASES**

The Company leases retail stores, roasting and distribution facilities and office space under operating leases expiring through 2025. Most lease agreements contain renewal options and rent escalation clauses. Certain leases provide for contingent rentals based upon gross sales.

Rental expense under these lease agreements was as follows (in thousands):

| Fiscal year ended<br>----- | Sept 30, 2001<br>----- | Oct 1, 2000<br>----- | Oct 3, 1999<br>----- |
|----------------------------|------------------------|----------------------|----------------------|
| Minimum rentals            | \$166,543              | \$127,149            | \$95,613             |
| Contingent rentals         | 4,018                  | 3,743                | 1,581                |
|                            | -----                  | -----                | -----                |
| Total                      | \$170,561              | \$130,892            | \$97,194             |

Minimum future rental payments under non-cancelable lease obligations as of September 30, 2001 are as follows (in thousands):

| Fiscal year ending<br>-----  |             |
|------------------------------|-------------|
| 2002                         | \$ 185,709  |
| 2003                         | 185,666     |
| 2004                         | 179,957     |
| 2005                         | 169,427     |
| 2006                         | 159,333     |
| Thereafter                   | 774,560     |
|                              | -----       |
| Total minimum lease payments | \$1,654,652 |

**NOTE 12: SHAREHOLDERS' EQUITY**

On December 15, 2000, the Company amended and restated its Articles of Incorporation to, among other things, change the par value of the Company's common stock and preferred stock from no par value per share to \$0.001 par value per share.

In addition to 600.0 million shares of authorized common stock, the Company has authorized 7.5 million shares of preferred stock, none of which was outstanding at September 30, 2001.

On September 16, 2001, the Board of Directors authorized a share repurchase program to acquire up to \$60.0 million of the Company's outstanding common stock on the open market. As of September 30, 2001, the Company repurchased 3.4 million shares at a cost of \$49.8 million.

## COMPREHENSIVE INCOME

Comprehensive income includes all changes in equity during the period, except those resulting from transactions with shareholders of the Company. It has two components: net earnings and other comprehensive income. Accumulated other comprehensive loss reported on the Company's consolidated balance sheets consists of foreign currency translation adjustments and the unrealized gains and losses, net of applicable taxes, on available-for-sale securities and on derivative instruments designated and qualifying as cash flow and net investment hedges. Comprehensive income, net of related tax effects, is as follows (in thousands):

| Fiscal year ended<br>-----                                                                                                                                            | Sept 30, 2001<br>----- | Oct 1, 2000<br>----- | Oct 3, 1999<br>----- |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------|----------------------|----------------------|
| Net earnings                                                                                                                                                          | \$181,210              | \$ 94,564            | \$101,693            |
| Unrealized holding gains/(losses) on available-for-sale investments, net of tax benefit/(provision) of (\$434), \$52 and (\$155) in 2001, 2000 and 1999, respectively | 738                    | (85)                 | 252                  |
| Unrealized holding gains on cash flow hedges, net of tax provision of \$683                                                                                           | 1,163                  | --                   | --                   |
| Unrealized holding gains on net investment hedge, net of tax provision of \$109                                                                                       | 186                    | --                   | --                   |
| Reclassification adjustment for (gains)/losses realized in net income, net of tax (benefit)/provision of \$0, (\$48) and \$270 in 2001, 2000 and 1999, respectively   | --                     | (78)                 | 431                  |
|                                                                                                                                                                       | -----                  | -----                | -----                |
| Net unrealized gain/(loss)                                                                                                                                            | 2,087                  | (163)                | 683                  |
| Translation adjustment                                                                                                                                                | 3,481                  | (6,867)              | 2,534                |
|                                                                                                                                                                       | -----                  | -----                | -----                |
| Total comprehensive income                                                                                                                                            | \$186,778              | \$ 87,534            | \$104,910            |

## NOTE 13: EMPLOYEE STOCK AND BENEFIT PLANS

### STOCK OPTION PLANS

The Company maintains several stock option plans under which the Company may grant incentive stock options and non-qualified stock options to employees, consultants and non-employee directors. Stock options have been granted at prices at or above the fair market value on the date of grant. Options vest and expire according to terms established at the grant date.

The following summarizes all stock option transactions from September 27, 1998, through September 30, 2001:

|                                 | SHARES<br>SUBJECT TO<br>OPTIONS | WEIGHTED<br>AVERAGE<br>EXERCISE<br>PRICE<br>PER SHARE | SHARES<br>SUBJECT TO<br>EXERCISABLE<br>OPTIONS | WEIGHTED<br>AVERAGE<br>EXERCISE<br>PRICE<br>PER SHARE |
|---------------------------------|---------------------------------|-------------------------------------------------------|------------------------------------------------|-------------------------------------------------------|
| Outstanding, September 27, 1998 | 39,006,796                      | \$ 6.55                                               | 15,121,612                                     | \$4.24                                                |
| Granted                         | 16,103,996                      | 11.48                                                 |                                                |                                                       |
| Exercised                       | (7,045,816)                     | 4.76                                                  |                                                |                                                       |
| Cancelled                       | (2,923,874)                     | 9.50                                                  |                                                |                                                       |
| Outstanding, October 3, 1999    | 45,141,102                      | 8.42                                                  | 24,161,650                                     | 6.78                                                  |
| Granted                         | 9,410,330                       | 12.42                                                 |                                                |                                                       |
| Exercised                       | (8,943,570)                     | 6.54                                                  |                                                |                                                       |
| Cancelled                       | (3,718,136)                     | 10.71                                                 |                                                |                                                       |
| Outstanding, October 1, 2000    | 41,889,726                      | 9.55                                                  | 20,330,740                                     | 7.82                                                  |
| Granted                         | 9,907,292                       | 20.48                                                 |                                                |                                                       |
| Exercised                       | (6,289,892)                     | 7.45                                                  |                                                |                                                       |
| Cancelled                       | (2,496,195)                     | 14.22                                                 |                                                |                                                       |
| Outstanding, September 30, 2001 | 43,010,931                      | \$12.13                                               | 24,407,135                                     | \$9.16                                                |

As of September 30, 2001, there were 42,117,872 shares of common stock available for issuance pursuant to future stock option grants.

Additional information regarding options outstanding as of September 30, 2001, is as follows:

| OPTIONS OUTSTANDING         |         |            |                                                                 | OPTIONS EXERCISABLE                      |            |                                          |
|-----------------------------|---------|------------|-----------------------------------------------------------------|------------------------------------------|------------|------------------------------------------|
| RANGE OF<br>EXERCISE PRICES |         | SHARES     | WEIGHTED<br>AVERAGE<br>REMAINING<br>CONTRACTUAL<br>LIFE (YEARS) | WEIGHTED<br>AVERAGE<br>EXERCISE<br>PRICE | SHARES     | WEIGHTED<br>AVERAGE<br>EXERCISE<br>PRICE |
| \$0.56                      | \$9.00  | 9,421,471  | 4.33                                                            | \$6.14                                   | 9,068,671  | \$6.05                                   |
| 9.02                        | 10.73   | 13,857,603 | 6.59                                                            | 10.04                                    | 11,472,327 | 10.04                                    |
| 11.00                       | 13.13   | 8,822,805  | 7.96                                                            | 12.00                                    | 2,953,491  | 12.15                                    |
| 13.28                       | 19.63   | 2,180,434  | 8.43                                                            | 17.77                                    | 529,312    | 17.59                                    |
| 19.91                       | 24.63   | 8,728,618  | 9.06                                                            | 20.62                                    | 383,334    | 22.20                                    |
| \$0.56                      | \$24.63 | 43,010,931 | 6.97                                                            | \$12.13                                  | 24,407,135 | \$9.16                                   |

## EMPLOYEE STOCK PURCHASE PLAN

The Company has an employee stock purchase plan which provides that eligible employees may contribute up to 10% of their base earnings towards the quarterly purchase of the Company's common stock. The employee's purchase price is 85% of the lesser of the fair market value of the stock on the first business day or the last business day of the quarterly offering period. Employees may purchase shares having a fair market value of up to \$25,000 (measured as of the first day of the quarterly offering period for each calendar year). No compensation expense is recorded in connection with the plan. The total number of shares issuable under the plan is 16,000,000. There were 813,635 shares issued under the plan during fiscal 2001 at prices ranging from \$12.70 to \$18.28. There were 807,542 shares issued under the plan during fiscal 2000 at prices ranging from

\$10.19 to \$16.36. There were 984,462 shares issued under the plan during fiscal 1999 at prices ranging from \$7.03 to \$12.59. Of the 24,030 employees eligible to participate, 8,577 were participants in the plan as of September 30, 2001.

## DEFERRED STOCK PLAN

The Company has a Deferred Stock Plan for certain key employees that enables participants in the plan to defer receipt of ownership of common shares from the exercise of non-qualified stock options. The minimum deferral period is five years. As of September 30, 2001, receipt of 1,697,100 shares was deferred under the terms of this plan. The rights to receive these shares, represented by common stock units, are included in the calculation of basic and diluted earnings per share as common stock equivalents.

## ACCOUNTING FOR STOCK-BASED COMPENSATION

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

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

|                         | EMPLOYEE STOCK OPTIONS |              |              | EMPLOYEE STOCK PURCHASE PLAN |              |              |
|-------------------------|------------------------|--------------|--------------|------------------------------|--------------|--------------|
|                         | 2001                   | 2000         | 1999         | 2001                         | 2000         | 1999         |
| Expected life (years)   | 2 - 5                  | 2 - 6        | 1.5 - 6      | 0.25                         | 0.25         | 0.25         |
| Expected volatility     | 57%                    | 55%          | 50%          | 41 - 49%                     | 42 - 82%     | 44 - 66%     |
| Risk-free interest rate | 2.37 - 5.90%           | 5.65 - 6.87% | 4.60 - 6.21% | 2.35 - 4.68%                 | 5.97 - 6.40% | 4.26 - 5.63% |
| Expected dividend yield | 0.00%                  | 0.00%        | 0.00%        | 0.00%                        | 0.00%        | 0.00%        |

The Company's valuations are based upon a multiple option valuation approach and forfeitures are recognized as they occur. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock-price volatility. The Company's employee stock options have characteristics significantly different from those of traded options, and changes in the subjective input assumptions can materially affect the fair value estimate.

As required by SFAS No. 123, the Company has determined that the weighted average estimated fair values of options granted during fiscal 2001, 2000 and 1999 were \$8.98, \$5.37 and \$4.43 per share, respectively. Had compensation costs for the Company's stock-based compensation plans been accounted for using the fair value method of accounting described by SFAS No. 123, the Company's net earnings and earnings per share would have been as follows (in thousands, except earnings per share):

| FISCAL YEAR ENDED<br>-----     | AS REPORTED<br>----- | PRO FORMA<br>UNDER SFAS<br>NO. 123<br>----- |
|--------------------------------|----------------------|---------------------------------------------|
| September 30, 2001:            |                      |                                             |
| Net earnings                   | \$181,210            | \$140,675                                   |
| Net earnings per common share: |                      |                                             |
| Basic                          | \$ 0.48              | \$ 0.37                                     |
| Diluted                        | \$ 0.46              | \$ 0.36                                     |
| October 1, 2000:               |                      |                                             |
| Net earnings                   | \$ 94,564            | \$ 66,241                                   |
| Net earnings per common share: |                      |                                             |
| Basic                          | \$ 0.25              | \$ 0.18                                     |
| Diluted                        | \$ 0.24              | \$ 0.17                                     |
| October 3, 1999:               |                      |                                             |
| Net earnings                   | \$101,693            | \$ 75,326                                   |
| Net earnings per common share: |                      |                                             |
| Basic                          | \$ 0.28              | \$ 0.21                                     |
| Diluted                        | \$ 0.27              | \$ 0.20                                     |

In applying SFAS No. 123, the impact of outstanding stock options granted prior to 1996 has been excluded from the pro forma calculations; accordingly, the 2000 and 1999 pro forma adjustments are not necessarily indicative of future period pro forma adjustments.

## DEFINED CONTRIBUTION PLANS

Starbucks maintains voluntary defined contribution plans covering eligible employees as defined in the plan documents. Participating employees may elect to defer and contribute a percentage of their compensation to the plan, not to exceed the dollar amount set by law. For certain plans, the Company matches 25% of each employee's eligible contribution up to a maximum of the first 4% of each employee's compensation.

The Company's matching contributions to the plans were approximately \$1.6 million, \$1.1 million and \$0.9 million for fiscal 2001, 2000 and 1999, respectively.

## NOTE 14: INCOME TAXES

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

| Fiscal year ended<br>-----                               | Sept 30, 2001<br>----- | Oct 1, 2000<br>----- | Oct 3, 1999<br>----- |
|----------------------------------------------------------|------------------------|----------------------|----------------------|
| Statutory rate                                           | 35.0%                  | 35.0%                | 35.0%                |
| State income taxes, net of federal<br>income tax benefit | 3.8                    | 3.7                  | 3.7                  |
| Valuation allowance change from prior year               | 0.9                    | 3.5                  | --                   |
| Other, net                                               | (2.4)                  | (1.1)                | (0.7)                |
|                                                          | ----                   | ----                 | ----                 |
| Effective tax rate                                       | 37.3%                  | 41.1%                | 38.0%                |

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

| Fiscal year ended<br>-----      | Sept 30, 2001<br>----- | Oct 1, 2000<br>----- | Oct 3, 1999<br>----- |
|---------------------------------|------------------------|----------------------|----------------------|
| Currently payable:              |                        |                      |                      |
| Federal                         | \$94,948               | \$71,758             | \$52,207             |
| State                           | 17,656                 | 12,500               | 9,332                |
| Deferred (asset)/liability, net | (4,892)                | (18,252)             | 794                  |
|                                 | -----                  | -----                | -----                |
| Total                           | \$107,712              | \$66,006             | \$62,333             |

Deferred income taxes or (tax benefits) reflect the tax effect of temporary differences between the amounts of assets and liabilities for financial reporting purposes and amounts as measured for tax purposes. The Company will establish a valuation allowance if it is more likely than not these items will either expire before the Company is able to realize their benefits, or that future deductibility is uncertain. As a result of losses from investments in majority owned foreign subsidiaries and Internet-related companies, the Company established valuation allowances of \$3.0 million and \$5.7 million for the fiscal years ended September 30, 2001, and October 1, 2000, respectively. The tax effect of temporary differences and carryforwards that cause significant portions of deferred tax assets and liabilities is as follows (in thousands):

|                                                      | Sept 30, 2001<br>----- | Oct 1, 2000<br>----- |
|------------------------------------------------------|------------------------|----------------------|
| Deferred tax assets:                                 |                        |                      |
| Loss on investments                                  | \$ 23,666              | \$ 22,635            |
| Accrued rent                                         | 12,317                 | 10,321               |
| Accrued compensation and related costs               | 9,898                  | 9,212                |
| Other accrued expenses                               | 7,245                  | 5,957                |
| Other                                                | 13,382                 | 10,313               |
|                                                      | -----                  | -----                |
| Total                                                | 66,508                 | 58,438               |
| Valuation allowance                                  | (8,704)                | (5,659)              |
|                                                      | -----                  | -----                |
| Total deferred tax asset, net of valuation allowance | 57,804                 | 52,779               |
| Deferred tax liabilities:                            |                        |                      |
| Depreciation                                         | (39,466)               | (36,249)             |
| Investments in joint ventures                        | (4,614)                | (4,616)              |
| Other                                                | (988)                  | (4,020)              |
|                                                      | -----                  | -----                |
| Total                                                | (45,068)               | (44,885)             |
| Net deferred tax asset/(liability)                   | \$ 12,736              | \$ 7,894             |

Taxes currently payable of \$50.3 million and \$17.9 million are included in "Accrued taxes" on the accompanying consolidated balance sheets as of September 30, 2001, and October 1, 2000, respectively.

**NOTE 15: EARNINGS PER SHARE**

The following table represents the calculation of net earnings per common share -- basic (in thousands, except earnings per share):

| Fiscal year ended                                                    | Sept 30, 2001 | Oct 1, 2000 | Oct 3, 1999 |
|----------------------------------------------------------------------|---------------|-------------|-------------|
| -----                                                                | -----         | -----       | -----       |
| Net earnings                                                         | \$181,210     | \$ 94,564   | \$101,693   |
| Weighted average common shares and<br>common stock units outstanding | 380,566       | 371,191     | 363,683     |
| -----                                                                | -----         | -----       | -----       |
| Net earnings per common share - basic                                | \$ 0.48       | \$ 0.25     | \$ 0.28     |

The following table represents the calculation of net earnings per common and common equivalent share -- diluted (in thousands, except earnings per share):

| Fiscal year ended                                                    | Sept 30, 2001 | Oct 1, 2000 | Oct 3, 1999 |
|----------------------------------------------------------------------|---------------|-------------|-------------|
| -----                                                                | -----         | -----       | -----       |
| Net earnings                                                         | \$181,210     | \$ 94,564   | \$101,693   |
| Weighted average common shares and<br>common stock units outstanding | 380,566       | 371,191     | 363,683     |
| Dilutive effect of outstanding common<br>stock options               | 13,783        | 14,808      | 13,379      |
| -----                                                                | -----         | -----       | -----       |
| Weighted average common and common<br>equivalent shares outstanding  | 394,349       | 385,999     | 377,062     |
| -----                                                                | -----         | -----       | -----       |
| Net earnings per common and common<br>equivalent share - diluted     | \$ 0.46       | \$ 0.24     | \$ 0.27     |

Options with exercise prices greater than the average market price were not included in the computation of diluted earnings per share. These options totaled 0.9 million, 0.3 million and 0.6 million for fiscal 2001, 2000 and 1999, respectively.

**NOTE 16: COMMITMENTS AND CONTINGENCIES**

In connection with various bank loans entered into by Starbucks Coffee Japan, Ltd., the Company has guaranteed \$13.6 million of the outstanding debt in the event of default by Starbucks Coffee Japan, Ltd.

On June 20, 2001, and July 2, 2001, two purported class action lawsuits against the Company entitled James Carr, et.al. v. Starbucks Corporation and Olivia Shields, et.al. v. Starbucks Corporation were filed in the Superior Courts of California, Alameda and Los Angeles Counties, respectively. Each lawsuit subsequently was removed to the United States District Court, Northern District of California and Central District of California, respectively. Each of the lawsuits was filed by two plaintiffs who are current or former store managers and assistant store managers on behalf of themselves and other similarly situated store managers, assistant store managers and retail management trainees. The lawsuits allege that the Company improperly classified such employees as exempt under California's wage and hour laws and seek damages, restitution, reclassification and attorneys fees and costs. Starbucks is vigorously investigating and defending this litigation and is also pursuing alternative dispute resolution possibilities with the plaintiffs. Because the cases are in the very early stages, the financial impact to the Company, if any, cannot be predicted.

In addition to the California lawsuits described above, the Company is party to various legal proceedings arising in the ordinary course of its business, but it is not currently a party to any legal proceeding that management believes would have a material adverse effect on the financial position or results of operations of the Company.

## **NOTE 17: SUBSEQUENT EVENTS**

On October 10, 2001, the Company sold 30,000 of its existing shares of Starbucks Coffee Japan, Ltd. ("Starbucks Japan") at approximately \$495.00 per share, net of related costs. In connection with this sale, the Company received cash proceeds of \$15 million. The Company's ownership interest in Starbucks Japan was reduced from 50.0% to 47.5% following the sale of the aforementioned shares. The Company recorded a gain from this sale of \$13 million.

Also on October 10, 2001, Starbucks Japan issued and sold 220,000 shares of common stock at approximately \$495.00 per share, net of related costs, in an initial public offering in Japan. In connection with this offering, the Company's ownership interest in Starbucks Japan was reduced from 47.5% to 40.1%. The Company recorded a credit to shareholders' equity of \$39 million, reflecting the increase in value of its share of the net assets of Starbucks Japan related to the stock offering.

## **NOTE 18: SEGMENT REPORTING**

The Company is organized into a number of business units which correspond to the Company's operating segments.

The Company's North American retail business unit sells coffee and other beverages, whole bean coffees, complementary food, hardware and merchandise through Company-operated retail stores in the United States and Canada.

At the beginning of fiscal 2001, the Company combined its foodservice and domestic retail store licensing operations to form the Business Alliances business unit. As a result of this internal reorganization and the manner in which the operations of foodservice and domestic retail store licensing are measured and evaluated as one combined business unit, the Company's management determined that separate segment reporting of Business Alliances is appropriate under SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." All prior period disclosures are restated as if Business Alliances had always been a separately reported segment.

The Company operates through several other business units, each of which is managed and evaluated independently. These operations include international retail store licensing agreements, grocery channel licensing agreements, warehouse club accounts, direct-to-consumer marketing channels, joint ventures, international Company-operated retail stores and other initiatives related to the Company's core businesses.

Revenues from these segments include both sales to unaffiliated customers and sales between segments, which are accounted for on a basis consistent with sales to unaffiliated customers. Intersegment revenues, consisting primarily of product sales to subsidiaries and equity method investees, and other intersegment transactions have been eliminated on the accompanying consolidated financial statements.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies in Note 1. Operating income represents earnings before "Interest and other income, net," "Internet-related investment losses" and "Income taxes." No allocations of overhead, interest or income taxes are made to the segments. Identifiable assets by segment are those assets used in the Company's operations in each segment. General corporate assets include cash and investments, unallocated assets of the corporate headquarters and roasting facilities, deferred taxes and certain intangibles. Management evaluates performance of the segments based on direct product sales and operating costs.

The tables below present information by operating segment (in thousands):

| Fiscal year ended<br>-----                | Sept 30, 2001<br>----- | Oct 1, 2000<br>----- | Oct 3, 1999<br>----- |
|-------------------------------------------|------------------------|----------------------|----------------------|
| REVENUES:                                 |                        |                      |                      |
| North American retail                     | \$ 2,086,354           | \$ 1,734,929         | \$ 1,375,018         |
| Business Alliances                        | 193,574                | 160,812              | 126,888              |
| All other business units                  | 419,843                | 305,080              | 200,399              |
| Intersegment revenues                     | (50,791)               | (23,207)             | (15,477)             |
|                                           | -----                  | -----                | -----                |
| Total revenues                            | \$ 2,648,980           | \$ 2,177,614         | \$ 1,686,828         |
| EARNINGS BEFORE INCOME TAXES:             |                        |                      |                      |
| North American retail                     | \$ 336,434             | \$ 249,924           | \$ 209,338           |
| Business Alliances                        | 50,165                 | 43,777               | 33,098               |
| All other business units                  | 70,116                 | 53,323               | 22,900               |
| Unallocated corporate expenses            | (174,288)              | (134,902)            | (107,460)            |
| Intersegment eliminations                 | (1,333)                | 130                  | (1,165)              |
|                                           | -----                  | -----                | -----                |
| Operating income                          | 281,094                | 212,252              | 156,711              |
| Interest and other income, net            | 10,768                 | 7,110                | 7,315                |
| Internet-related investment losses        | (2,940)                | (58,792)             | --                   |
|                                           | -----                  | -----                | -----                |
| Earnings before income taxes              | \$ 288,922             | \$ 160,570           | \$ 164,026           |
| DEPRECIATION AND AMORTIZATION:            |                        |                      |                      |
| North American retail                     | \$ 115,061             | \$ 94,312            | \$ 72,252            |
| Business Alliances                        | 5,278                  | 3,547                | 2,561                |
| All other business units                  | 17,768                 | 10,117               | 5,205                |
| Unallocated corporate expenses            | 25,394                 | 22,256               | 17,779               |
|                                           | -----                  | -----                | -----                |
| Total depreciation and amortization       | \$ 163,501             | \$ 130,232           | \$ 97,797            |
| INCOME FROM EQUITY METHOD INVESTEEs:      |                        |                      |                      |
| All other business units                  | \$ 17,556              | \$ 15,139            | \$ 2,318             |
| Intersegment eliminations                 | 11,059                 | 5,161                | 874                  |
|                                           | -----                  | -----                | -----                |
| Total income from equity method investees | \$ 28,615              | \$ 20,300            | \$ 3,192             |

|                          | Sept 30, 2001<br>----- | Oct 1, 2000<br>----- |
|--------------------------|------------------------|----------------------|
| IDENTIFIABLE ASSETS:     |                        |                      |
| North American retail    | \$ 873,306             | \$ 664,773           |
| Business Alliances       | 57,578                 | 52,596               |
| All other business units | 217,027                | 111,521              |
| General corporate assets | 703,128                | 662,656              |
|                          | -----                  | -----                |
| Total assets             | \$1,851,039            | \$1,491,546          |

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

|                                   | Sept 30, 2001 | Oct 1, 2000 | Oct 3, 1999 |
|-----------------------------------|---------------|-------------|-------------|
|                                   | -----         | -----       | -----       |
| REVENUES FROM EXTERNAL CUSTOMERS: |               |             |             |
| United States                     | \$2,301,013   | \$1,910,092 | \$1,467,410 |
| Foreign countries                 | 347,967       | 267,522     | 219,418     |
|                                   | -----         | -----       | -----       |
| Total                             | \$2,648,980   | \$2,177,614 | \$1,686,828 |

Revenues from foreign countries are based on the location of the customers and consist primarily of retail revenues from Canada and the United Kingdom as well as specialty revenues generated from product sales to its international licensees. No customer accounts for 10% or more of the Company's revenues.

|                    | Sept 30, 2001 | Oct 1, 2000 |
|--------------------|---------------|-------------|
|                    | -----         | -----       |
| LONG-LIVED ASSETS: |               |             |
| United States      | \$ 977,125    | \$819,200   |
| Foreign countries  | 158,659       | 111,559     |
|                    | -----         | -----       |
| Total              | \$1,135,784   | \$930,759   |

Assets attributed to foreign countries are based on the country in which those assets are located.

#### NOTE 19: QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Summarized quarterly financial information for fiscal years 2001 and 2000 is as follows (in thousands, except earnings per share):

|                                         | FIRST     | SECOND    | THIRD     | FOURTH    |
|-----------------------------------------|-----------|-----------|-----------|-----------|
|                                         | -----     | -----     | -----     | -----     |
| 2001 quarter:                           |           |           |           |           |
| Net revenues                            | \$667,387 | \$629,288 | \$662,769 | \$689,536 |
| Operating income                        | 76,057    | 50,854    | 71,307    | 82,876    |
| Net earnings                            | 48,995    | 32,210    | 46,757    | 53,248    |
| Net earnings per common share - diluted | \$ 0.12   | \$ 0.08   | \$ 0.12   | \$ 0.14   |
|                                         | -----     | -----     | -----     | -----     |
| 2000 quarter:                           |           |           |           |           |
| Net revenues                            | \$529,332 | \$506,668 | \$557,516 | \$584,098 |
| Operating income                        | 54,633    | 35,207    | 54,306    | 68,106    |
| Net earnings                            | 34,749    | 23,406    | 34,913    | 1,496     |
| Net earnings per common share - diluted | \$ 0.09   | \$ 0.06   | \$ 0.09   | \$ 0.00   |

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The management of Starbucks Corporation is responsible for the preparation and integrity of the financial statements included in this Annual Report to Shareholders. The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and include amounts based on management's best judgment where necessary. Financial information included elsewhere in this Annual Report is consistent with these financial statements.

Management maintains a system of internal controls and procedures designed to provide reasonable assurance that transactions are executed in accordance with proper authorization, that transactions are properly recorded in the Company's records, that assets are safeguarded and that accountability for assets is maintained. The concept of reasonable assurance is based on the recognition that the cost of maintaining our system of internal accounting controls should not exceed benefits expected to be derived from the system. Internal controls and procedures are periodically reviewed and revised, when appropriate, due to changing circumstances and requirements.

Independent auditors are appointed by the Company's Board of Directors and ratified by the Company's shareholders to audit the financial statements in accordance with auditing standards generally accepted in the United States of America and to independently assess the fair presentation of the Company's financial position, results of operations and cash flows. Their report appears in this Annual Report.

The Audit Committee, all of whose members are outside directors, is responsible for monitoring the Company's accounting and reporting practices. The Audit Committee meets periodically with management and the independent auditors to ensure that each is properly discharging its responsibilities. The independent auditors have full and free access to the Committee without the presence of management to discuss the results of their audits, the adequacy of internal accounting controls and the quality of financial reporting.

/s/ ORIN C. SMITH

ORIN C. SMITH  
president and  
chief executive officer

/s/ MICHAEL CASEY

MICHAEL CASEY  
executive vice president,  
chief financial officer and  
chief administrative officer

## STARBUCKS CORPORATION

We have audited the accompanying consolidated balance sheets of Starbucks Corporation and subsidiaries (the Company) as of September 30, 2001, and October 1, 2000, and the related consolidated statements of earnings, shareholders' equity and cash flows for each of the three years in the period ended September 30, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Starbucks Corporation and subsidiaries as of September 30, 2001, and October 1, 2000, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 2001, in conformity with accounting principles generally accepted in the United States of America.

/s/ DELOITTE & TOUCHE LLP

DELOITTE & TOUCHE LLP  
Seattle, Washington  
December 4, 2001

## SHAREHOLDER INFORMATION

### MARKET INFORMATION AND DIVIDEND POLICY

The Company's common stock is traded on the National Market tier of The Nasdaq Stock Market, Inc. ("Nasdaq"), under the symbol "SBUX." The following table sets forth the quarterly high and low closing sale prices per share of the common stock as reported by Nasdaq for each quarter during the last two fiscal years. All prices shown reflect the two-for-one stock split effected April 27, 2001.

|                     | HIGH    | LOW     |
|---------------------|---------|---------|
|                     | -----   | -----   |
| September 30, 2001: |         |         |
| Fourth Quarter      | \$22.77 | \$14.00 |
| Third Quarter       | 23.00   | 18.58   |
| Second Quarter      | 25.00   | 20.03   |
| First Quarter       | 24.94   | 19.16   |
| October 1, 2000:    |         |         |
| Fourth Quarter      | \$21.50 | \$17.56 |
| Third Quarter       | 21.72   | 14.16   |
| Second Quarter      | 22.41   | 11.94   |
| First Quarter       | 15.06   | 10.78   |

As of December 11, 2001, the Company had 9,650 shareholders of record. The Company has never paid any dividends on its common stock. The Company presently intends to retain earnings for use in its business and, therefore, does not anticipate paying a cash dividend in the near future.

THE COMPANY'S ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2001, WITHOUT THE EXHIBITS THERETO, MAY BE OBTAINED WITHOUT CHARGE BY ACCESSING THE COMPANY'S FILINGS AT WWW.SEC.GOV OR BY SENDING A REQUEST TO INVESTOR RELATIONS AT THE ADDRESS, PHONE NUMBER OR EMAIL ADDRESS BELOW.

Quarterly information is available to all shareholders immediately upon its release, free of charge, via fax, by calling 1-800-239-0317 or through access on the Internet at [www.businesswire.com/cnn/sbux.htm](http://www.businesswire.com/cnn/sbux.htm). To receive a copy by mail, please send your request to:

#### INVESTOR RELATIONS

Investor Relations -- M/S S-FP1  
Starbucks Corporation  
P.O. Box 34067  
Seattle, WA 98124-1067  
(206) 447-1575, ext. 87118  
[www.starbucks.com/aboutus/investor.asp](http://www.starbucks.com/aboutus/investor.asp)

### CORPORATE SOCIAL RESPONSIBILITY

Starbucks is committed to social responsibility. Today, with the strength of the Starbucks brand in the marketplace, the Company has an opportunity to lead by example. The Company's responsibility begins with being accountable to its stakeholders - its partners, customers, suppliers, investors, community members and others - and communicating openly about its business practices and performance. This led the Company to publish its first annual corporate social responsibility report for the 2001 fiscal year.

The Report can be viewed by visiting the Investor Relations' Internet address listed above. To receive a copy by mail, please call 1-800-STARBUC, (1-800-782-7282), or fax your request to 1-800-782-7286.

## EXHIBIT 21

### SUBSIDIARIES OF STARBUCKS CORPORATION

**Starbucks Coffee International, Inc.**  
(a Washington corporation)

**Starbucks Manufacturing Corporation**  
(a Washington corporation)

Circadia Corporation

(a Delaware corporation d/b/a Cafe Starbucks in Washington and Circadia Coffee House in California)

**Starbucks U.S. Brands Corporation**  
(a California corporation)

**Starbucks Foreign Sales Corporation**  
(a Barbados corporation)

**Starbucks Asset Management Corporation**  
(a California corporation)

**Starbucks Coffee Holdings (UK) Limited**  
(a UK corporation)

Starbucks Coffee Company (UK) Limited

(a United Kingdom corporation d/b/a Starbucks, Starbucks Coffee and Starbucks Coffee Company)

**Seattle Coffee Company (International) Limited**  
(a United Kingdom corporation)

**Torz & Macatonia Limited**  
(a United Kingdom corporation)

**Tazo Tea Company**  
(a Washington corporation)

Starbucks Coffee Company (Australia) Pty. Ltd. (an Australian corporation d/b/a Starbucks, Starbucks Coffee and Starbucks Coffee Company)

**HM Interactive Corporation**  
(a Washington corporation)

Starbucks Coffee (Thailand) Ltd. (a Thai corporation d/b/a Starbucks, Starbucks Coffee and Starbucks Coffee Company)

Urban Coffee Opportunities, LLC (a Washington limited liability company d/b/a Starbucks, Starbucks Coffee and Starbucks Coffee Company)

**SUBSIDIARIES OF STARBUCKS COFFEE INTERNATIONAL, INC.**

**SBI Nevada, Inc.**  
(a Nevada corporation)

**Starbucks Coffee France, EURL**  
(a French limited liability company)

**Starbucks Coffee Asia Pacific Limited**  
(a Hong Kong corporation)

**SCI Ventures, S.L.**  
(a Spanish limited liability company)

**SCI Europe I, Inc.**  
(a Washington corporation)

**SCI Europe II, Inc.**  
(a Washington corporation)

## EXHIBIT 23

### INDEPENDENT AUDITORS' CONSENT

#### INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement Nos. 33-52524, 33-52526, 33-52528, 33-92208, 33-92184, 333-65181, 333-94987 and 333-37442 of Starbucks Corporation on Form S-8 of our report dated December 4, 2001, incorporated by reference in and attached as part of an exhibit to the Annual Report on Form 10-K of Starbucks Corporation for the year ended September 30, 2001.

*/s/ DELOITTE & TOUCHE LLP  
Seattle, Washington  
December 20, 2001*

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**End of Filing**

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