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

Form 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934:**
For the fiscal year ended March 28, 2010

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 001-33646

TC GLOBAL, INC.
(Exact name of registrant as specified in its charter)

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

3100 Airport Way South,
Seattle, Washington 98134
(Address of principal executive offices) (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act: None
Securities registered pursuant to Section 12(g) of the Act: Common Stock, no par value
Series A Convertible Preferred Stock, no par value
(Title of each class)

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

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

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 whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of 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. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer ☐ Accelerated Filer ☐ Non-Accelerated Filer ☐ Smaller Reporting Company ☒

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrants' most recently completed second fiscal quarter: Not Applicable (not traded on any market)

As of March 28, 2010 the number of shares of the registrant's Common Stock outstanding was 3,563,867 (giving effect to the one-for-eight reverse split on June 28, 2007) and the number of shares of the registrant's Series A Convertible Preferred Stock and Series B Convertible Preferred Stock outstanding was 12,790,874 and 3,590,349, respectively.

Documents incorporated by reference: None.

TABLE OF CONTENTS

A Warning About Forward-Looking Statements

In this report, we refer to TC Global, Inc. and its consolidated subsidiaries and joint ventures controlled by the Company as "we," "us," "our," "the Company," "Tully's Coffee," or "Tully's."

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and is subject to the safe harbor created by those sections. These statements include descriptions of our future financial condition, results of operations, objectives, strategies, plans, goals, targets or future performance and business for future periods, and generally may be identified by use of phrases such as "believe," "expect," "will," "seek," "should," "anticipate," "estimate," "intend," "plan," "target," "initiatives," "models," "hope," "goal," "foresee" or other words of similar import. These forward-looking statements involve known and unknown risks, uncertainties and other factors, including those described in the "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" sections and other parts of this report that could cause events, including our actual results, to differ materially from those anticipated in these forward-looking statements. These factors, among others, could cause our financial performance to differ materially from our goals, targets, objectives, intentions and expectations. These forward-looking statements include, among other things, statements regarding our plans and expectations for new store openings, the cost of building new stores, the average unit volume of new stores, comparable store sales growth, increasing margins and growing our wholesale and franchise businesses.

If one or more of the factors affecting our forward-looking statements proves incorrect, then our actual results, performance or achievements could differ materially from those expressed in, or implied by, forward-looking statements contained in this report. Consequently, you should not place undue reliance on our forward-looking information and statements.

We qualify all of our forward-looking statements by these cautionary statements. Except to the extent required by the federal securities laws, we do not intend to update or revise the forward-looking statements contained in this report.

PART I.

ITEM 1. BUSINESS

TC Global, Inc. is a specialty retailer licensing the Tully's Coffee business names and trademarks in the fast-casual categories of specialty coffee, snacks and non-alcoholic beverages, within the broader quick-service restaurant industry. Tully's is known for gourmet coffees, wide selection of barista beverages, delicious assortment of breakfast and lunch offerings and anytime snacks, desserts and specialty beverages, and our genuine community coffeehouse experience.

We end our fiscal year on the Sunday closest to March 31. As a result, we record our revenue and expenses on a 52 or 53 week period, depending on the year. In this report, we refer to our fiscal periods as follows:

Reference in this report	Fiscal year ending (number of weeks)
Fiscal 2010	March 28, 2010 (52 weeks)
Fiscal 2009	March 29, 2009 (52 weeks)
Fiscal 2008	March 30, 2008 (52 weeks)
Fiscal 2007	April 1, 2007 (52 weeks)
Fiscal 2006	April 2, 2006 (52 weeks)

Retail Operations. We operate and franchise Tully's Coffee branded retail stores, with 78 company-operated stores and 107 franchised stores in Washington, California, Arizona, Oregon, Idaho, Montana, Utah, Wyoming, and Colorado as of March 28, 2010. We also have four franchised locations in Singapore, which have been established under our joint venture, Tully's Coffee Asia Pacific Partners, LP ("Tully's Coffee Asia"), and subsequent to the fiscal year end DK Retail, our master licensee in South Korea, opened its first two locations. We operate our stores in densely populated areas and commuting corridors, with locations in urban and suburban retail districts, lifestyle centers, shopping centers and other high-traffic areas. We also operate or franchise smaller footprint stores in special venues such as within the premises of manufacturing facilities, and kiosks and cafes located in grocery stores, hotels, hospitals, airports and university campuses. We manage our franchising and foreign business development activities through our specialty division.

Menu Offering. We are passionate about providing our customers with the best gourmet coffees. Our barista bars offer customers a broad selection of freshly prepared hot and cold beverages in various sizes, including our coffees, espressos, teas, Guayaki yerba mates, chais, Bellaccino blended beverages, fruit-based beverages (such as smoothies), ice cream shakes and hot cocoa. We complement our barista bar beverages with a diverse selection of premium foods, snacks and bottled beverages.

Customer Appeal. Our community coffeehouse concept and varied menu have broad customer appeal, and are relevant at multiple day-parts and in diverse geographic markets and climates. Our beverage and food offerings are built around core product families, enabling us to easily and cost-effectively introduce new menu items. Our comfortable, inviting stores are a great place to relax, take a break or gather with friends throughout the day.

Tully's License. On March 27, 2009, we completed the sale of the assets associated with our wholesale business and supply chain (including Tully's business names and trademarks) to Green Mountain Coffee Roasters, Inc. a Delaware Corporation ("GMCR"), pursuant to the Asset Purchase Agreement dated September 15, 2008, as amended by Amendment No. 1 thereto dated November 12, 2008, and Amendment No. 2 thereto dated February 6, 2009, by and among the TC Global, Inc., GMCR and Tully's Bellaccino, LLC (the "Green Mountain Transaction").

In connection with the closing of the Green Mountain Transaction, we entered into a Supply Agreement, a License Agreement, and a Noncompetition Agreement with GMCR. Tully's secured an exclusive perpetual license to use the "Tully's" brand and other trade names, trademarks and service marks in connection with certain (i) retail operations worldwide (excluding Japan) and (ii) wholesale operations outside of North America, utilizing an exclusive coffee supply arrangement.

Our History

Tully's Coffee, a Washington corporation, was founded in 1992. Between 1992 and 2001, we expanded to 114 company-operated stores. During this period, we financed our retail expansion by raising over $60 million in equity securities and convertible debt, and licensing fees paid to us by foreign licensees of over $17 million. Between Fiscal 2001 and 2003, our financial performance was negatively impacted by the economic downturn that affected Seattle and San Francisco. During the same period, the market for new equity issues deteriorated significantly. To manage through this period and these challenges, rather than to seek additional and potentially dilutive growth capital, we chose to reduce normal operating expenses by closing certain under-performing stores and slowing our new store development plans to preserve capital. Between Fiscal 2002 and 2006, we streamlined aspects of our operations and emphasized less capital intensive business opportunities such as wholesale and franchising. From Fiscal 2006 to Fiscal 2010, we undertook a strategic business review and began implementing initiatives to improve our financial position and create a foundation for future growth. These initiatives include:

- Investing in personnel and infrastructure to support our international operations;
- Hiring and streamlining key executive positions to strengthen our management team and minimize operational overhead;
- Introducing new products and improving merchandising strategies in our retail stores;
- Implementing more efficient product purchasing and standardizing store operating procedures;
- Implementing selective price changes;
- Investing in personnel and infrastructure to support our U.S. franchising strategy; and
- Closing stores that fail to meet our performance requirements.

Our Products

We are passionate about providing our customers with the best gourmet coffees. All Tully's stores offer a fresh assortment of Tully's whole bean and ground varietal coffees and proprietary coffee blends. Our barista bar beverages include hot and cold beverages, highlighted by our coffees and espresso, teas, yerba mates, chais, Bellaccino blended beverages, fruit–based beverages (such as smoothies), ice cream shakes and hot cocoa. These drinks can be customized with dairy or soy milk and our customers' favorite flavors, including fresh Tully's espresso, Ghirardelli chocolate and premium flavor extracts. All barista bar beverages are made-to-order by our highly trained baristas.

We complement our great beverages with an array of premium foods, snacks, and bottled beverages—including pastries, muffins, cookies and desserts that are baked fresh daily by our artisan bakery vendors; fresh, pre-packaged, ready-to-go salads and sandwiches; healthy grab-and-go snacks such as nuts, trail mixes and dried fruits; chocolates and other confections; and juices, soda, waters and our Bellaccino bottled beverages—that make our stores a gathering place for refreshment and energy throughout the day.

We regularly introduce new products in our stores to attract new customers and to offer existing customers additional products during different day-parts. Our beverage and food offerings are built around core product families that enable us to introduce new items that appeal to a broad range of customers, at different day-parts, to suit different geographic markets and climates.

Our Competitive Strengths

Our goal is to make our coffees and community coffeehouse experience the first choice for consumers in a highly competitive market. To achieve this objective, we intend to leverage the following strengths:

We sell world-class coffees. We are passionate about providing our customers with the best gourmet coffees. Currently, we sell dozens of different proprietary coffee blends and varietal coffees, including single origin coffees from growers in Colombia, Guatemala and Sumatra. We also offer premium special lot and estate coffees.

Our barista bars set us apart from our competitors. We offer a premium selection of hand-crafted beverages in the business. In addition to our hot and cold coffee and espresso-based drinks, our hand-crafted barista bar beverages include teas, yerba mates, chais, Bellaccino blended beverages, fruit–based beverages (such as smoothies), ice cream shakes and hot cocoa. Our customers can custom order their drinks using fresh Tully's espresso, Ghirardelli chocolate, premium flavor extracts, and dairy and soy milk. We offer both everyday favorites like lattes, mochas and Americanos, and featured seasonal drinks such as pumpkin spice Bellaccinos and orange granache mochas. All barista bar beverages are made-to-order by our baristas.

We address all day-parts with our barista beverages, foods, snacks, desserts and bottled beverages. Our fresh, made-to-order hot and cold barista beverages and our broad selection of ready-to-go foods, snacks and bottled beverages appeal to our customers throughout the day. We offer fresh, pre-packaged salads and sandwiches; healthy grab-and-go snacks such as nuts, trail mixes, and dried fruit; chocolates and other confections; and bottled beverages such as soda, waters, energy drinks, teas, and our Bellaccino bottled beverage. These offerings make our coffeehouses an attractive destination during the day and into the evening. We feature best-in-class products, such as Ghirardelli chocolates, Dean & Deluca snacks, Guayaki yerba mates, and fresh baked goods, salads and sandwiches from local, artisan bakeries to reinforce our gourmet brand image.

We keep Tully's exciting by regularly introducing new products in our existing categories. Our merchandising strategy allows us to leverage beverages and food items within our product families to efficiently offer new products that keep existing customers enthusiastic and attract new customers to our coffeehouses. This approach results in a shorter period from development to launch of new products. For example, in the autumn we introduced a family of pumpkin spice beverages in our barista bar product family at the same time we introduced a special pumpkin spice cake and pastry in our food product family.

We provide a community coffeehouse experience for our customers. We believe that the Tully's community coffeehouse experience differentiates us from our competitors. The Tully's experience is about friendly, personalized service in an upscale and relaxing environment, where customers enjoy comfortable seating, large community tables, soft music and free Wi-Fi Internet access while savoring Tully's products. We strive to develop a genuine personal relationship with our customers and their communities by supporting community events, and local schools and charitable organizations, and by making our stores into neighborhood gathering places. Our "pay it forward" philosophy involves empowering our store managers to become part of their local communities by providing complimentary coffee for community activities, helping non-profit organizations raise money, and publicizing community events. Each store manager is provided a budget to develop these community building relationships. At the corporate level, we partner with charitable organizations and support their fundraising activities. For example, we help raise funds to support a number of children's' health organizations, breast cancer research, and university scholarship funds. We believe our commitment to the community strengthens our relationship with our employees and our customers.

Our Growth Strategy

We intend to pursue growth opportunities by implementing the following strategies. Implementation of these strategies is dependent upon sufficient capital resources and the ability to secure a capital or debt raise. Further, growth will be limited in the event of a whole or partial disposition of the assets of any single segment.

Drive comparable store sales growth by executing on our fundamental retail strategies. We intend to drive comparable store sales and average unit volume growth by executing on our fundamental retail strategies to increase store traffic and average transaction size.

Execute our franchising strategy to expand our geographic footprint. Our franchising strategy focuses on adding franchised stores in market areas and venues that complement our company-operated stores. We have used franchising to extend our presence in special venues, such as grocery stores, airports, hotels and university campuses. We are pursuing development with experienced, well-capitalized franchisees, to open Tully's coffeehouses in these markets.

Leverage international opportunities. Our international growth strategy emphasizes joint ventures and licensing relationships with companies situated in promising foreign markets, and sales of coffee and other products to those partners. We believe the success of our former licensee, Tully's Coffee Japan ("TCJ"), demonstrates the broader opportunity available to us in foreign markets.

Our Retail and Franchising Businesses

We operate and franchise Tully's Coffee branded retail stores, with 78 company-operated stores and 107 franchised stores in Washington, California, Arizona, Oregon, Idaho, Montana, Utah, Wyoming, and Colorado as of March 28, 2010. Our stores are located in a variety of high–traffic urban and suburban neighborhoods, and in the Seattle and San Francisco central business districts. We also operate or franchise smaller footprint stores in special venues, such as within the premises of manufacturing facilities, and kiosks and cafes that are located in grocery stores, hotels, hospitals and airports and on university campuses.

Menu and Products

Our beverage and food offerings are built around core product families that enable us to introduce new items that appeal to a broad range of customers, at different day-parts, to suit different geographic markets and climates. Our product families are as follows:

Barista Bar Beverages—We believe that our barista bars offer the best selection of hand-crafted beverages in the business. These offerings include:

- **Drip Coffees**—Daily selections of Tully's drip coffee, brewed fresh during the day, served by the cup or in "to go" decanters for group events
- **Espresso Beverages**—Latte, cappuccino, mocha, and café Americano
- **Teas**—Black, green, and herbal teas, and chai, served hot or cold
- **Smoothies and Fruit Beverages**—Fruit- and tea-based blended beverages, such as smoothies and blends
- **Bellaccino**—Bellaccino blended beverages, made with our proprietary Bellaccino mix, ice and flavors like fresh Tully's espresso, Ghirardelli chocolate, fruit, and Guayaki yerba mate
- **Ice Cream Shakes**—Real hand-made milk shakes featuring fresh espresso
- **Yerba Mate**—Yerba mate-based lattes and blended beverages

Baked Goods and Foods—Our selection of food offerings changes based on the time of day. We offer freshly baked pastries and muffins during the morning, and pre-packaged sandwiches and salads from mid-morning through the remainder of the day. Cookies, cakes, ice cream and other desserts are featured during the afternoon and evening.

"Grab-and-Go" Snacks and Chocolate—We offer conveniently sized packages of nuts, trail mixes, dried berries, and other snacks, and gourmet chocolates, from brands like Ghirardelli and Dean & Deluca, for snacking and impulse buys throughout the day.

Specialty Beverages—We stock a range of specialty beverages in our cold cases, including our Bellaccino bottled beverages, juices, waters, soda and energy drinks.

Coffee and Tea for Home Enjoyment—We sell our freshly roasted gourmet coffees, including special "limited edition" coffees, and a selection of leading gourmet teas, in each case for home consumption.

Brewing equipment and accessories—We sell brewing equipment and accessories from leading manufacturers, including French presses, Keurig K-Cup brewing systems and Tully's K-Cups, espresso machines, mugs and coffee grinders.

Our Coffeehouses

Coffeehouse Design and Appearance

Our coffeehouses are characterized by our warm color scheme, high quality finishes, easy-to-read menu board and enticing product images. Our coffeehouses typically feature soft music and lighting; a "children's corner" with kid-sized furniture, books and toys; comfortable sofas and chairs; and space dedicated to larger tables. Many of our coffeehouses have a fireplace that adds to the warm and relaxed atmosphere. We seek to make each location comfortable and inviting for individuals and larger groups. We believe that our coffeehouse design reinforces our upscale brand image.

In addition, most of our company-operated stores and some franchised stores, offer free Wi-Fi Internet to our customers. Wi-Fi provides our customers a convenient way to check e-mail and "surf the web" while enjoying our beverages and food offerings in the comfort of a Tully's coffeehouse.

Franchising Development

Our franchising strategy focuses on adding franchised stores in market areas and venues that complement our company-operated stores. We have used franchising to extend our presence through smaller footprint stores in special venues, such as within the premises of manufacturing facilities, and kiosks and cafes that are located in grocery stores, hotels, hospitals and airports and on university campuses. Franchising stores in the domestic market offers the potential for accelerated growth with minimal capital investment from Tully's. The franchisee is responsible for all of the capital expenditures associated with the store, although we usually support the construction, training and start-up of new franchised stores to ensure consistency with company-operated stores.

Grocery Cafes—Albertsons, Fred Meyer, Safeway, and Fry's Food and Drug operate franchised Tully's cafes in select stores. We believe that grocery cafes complement our retail business by introducing grocery store customers to our brand and great barista bar beverages.

Other Special Venues—We have franchised stores in a variety of special venues, such as universities, airports, and hotels, that have high volume captive audiences and where the location is owned, licensed or managed by a third party. These stores include quick grab-and-go kiosks, coffee bars and full service stores. Our franchisees currently operate stores in the Seattle/Tacoma and Burbank, California airports, Hilton and Red Lion hotels in Washington and California, and at universities in California and Washington, among other locations.

Retail Marketing

We believe that our loyal customers are our most important marketing assets. Our focus on providing our customers with a genuine community coffeehouse experience is designed to establish loyal customers. These customers are our brand advocates and, through word-of-mouth, promote our products and share the Tully's genuine community coffeehouse experience with their friends and colleagues.

We employ marketing strategies to increase brand awareness, encourage trial and repeat purchases by educating potential customers about our hand-craft roasted coffees and other beverage and food offerings, and promote our genuine community coffeehouse experience. We employ a variety of marketing tools that are tailored to the specific needs of particular markets or coffeehouses, including:

- Point-of-sale signage and our menu boards, which encourage existing customers to try new products and seasonal offerings;
- Promotions and local store marketing, including coupons and special offer books, which allow us to alert our customers to new products and seasonal offerings;
- Community initiatives and sponsorships, which generate favorable publicity and help create and sustain the relationship between our coffeehouses and the surrounding neighborhoods;

We periodically supplement these marketing initiatives with selective print and radio advertising through local radio, newspapers and other publications to attract new customers within a particular market and to promote special and seasonal product offerings.

We offer our customers the Tully's Coffee Card, a stored-value payment card that serves as a convenient way to purchase our products and as an easy gift item. It is available at all company-operated Tully's stores and select franchised stores. Our Tully's Coffee Card includes a loyalty program that provides customer rewards for use of the card, and we enable online purchase, registration and reloading of cards for customers at www.mytullyscard.com. Business and nonprofit enterprises may purchase Tully's Coffee Cards in bulk and co-label them for use as incentives or rewards for customers, employees and supporters.

Employees

As of March 28, 2010, we employed approximately 727 people, with approximately 672 employed in retail stores and regional retail operations. Approximately 55 work in our administrative, retail and franchisee support staff.

We offer a competitive benefits program to employees who work at least 28 hours per week. Eligible employees receive vacation, holidays, medical and dental insurance and other benefits. Store managers, and district managers participate in incentive pay programs tied to various performance criteria. Bonuses for store and district managers are based upon coffeehouse sales, profit and customer service standards. Because of our commitment to customer service, if a store or district manager's score in customer service is below the required minimum, no bonus is given regardless of the score in other areas. None of our employees are represented by a labor union and management anticipates this will continue to be the case. Tully's believes that its current relations with employees are satisfactory.

We believe that training and developing our coffeehouse employees and retail managers is essential to fulfilling our mission of creating the Tully's genuine community coffeehouse experience for our customers. Delivering superior, personalized customer service reflects the soul of who we are as a company. We have specific in-store and classroom training requirements for all new retail store employees. Our training program provides our more experienced employees with advanced training in coffee history and our roasting techniques, beverage preparation, cash handling, cash register and paperwork procedures, sales techniques, and customer service. We also provide advanced training programs for our store and district managers and "train the trainers" programs for our training staff.

To promote operational and cultural consistency with company-operated stores, we require our franchisees to undergo similar training before opening their first coffeehouse and to provide ongoing classroom and in-store training to their coffeehouse employees. Employees at franchised locations generally complete a certification process that is comparable to the program that we offer to our coffeehouse employees.

Competition

With the exception of Starbucks, which leads the retail specialty coffee segment, the industry is highly fragmented and contains no other company with a strong national brand. In addition to Starbucks, we compete with regional coffeehouses, such as Coffee Bean & Tea Leaf and Peet's Coffee & Tea, as well as numerous local coffee shops, convenience stores, restaurants, street vendors and, to a certain degree, quick service restaurants such as McDonalds and Krispy Kreme. In addition, consumers may choose non-coffee food and beverages offered by these and other competitors as alternatives to our offerings.

We believe that our customers choose among coffeehouses based upon the quality and variety of the coffee and other products, store atmosphere and convenience, customer service and price.

We expect the gourmet coffee market to become even more competitive, both within our primary geographic markets and in other regions of the United States, as regional companies expand and attempt to build brand awareness in new markets and as smaller participants are consolidated into larger competitors. We believe that there is an opportunity for many companies to compete in the gourmet coffee segment, and that the preferences and needs of consumers, owners of retail store buildings, coffee growers, coffee store employees, wholesale distributors and other constituents of the specialty coffee industry will support continued competition in this segment.

ITEM 1A. RISK FACTORS

This Annual Report on Form 10-K contains forward-looking statements, which are based on current expectations and assumptions that are subject to risks and uncertainties. You should carefully consider the risks described below, as well as the other information contained in this report, including our consolidated financial statements and the notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations." Any of the risks described below could materially and adversely affect our business, prospects, financial condition and results of operations.

We have a history of losses and expect to incur losses in the future.

We have incurred net losses in every year since inception except for Fiscal 2006 and Fiscal 2009, when we reported net income as a result of a $17.0 and a $28.7 million gain on the sale of intellectual property assets, respectively. We expect to report a net loss for Fiscal 2011 and likely will incur losses in future periods.

We incurred a net loss of $5.2 million while returning $6.0 million in shareholder capital in Fiscal 2010. We continue to use significant amounts of our cash resources to fund our net losses, working capital and capital expenditure requirements. As of March 28, 2010, we had cash and cash-equivalents and escrow receivable of approximately $7.1 million, compared to approximately $15.5 million as of March 29, 2009.

If we are not able to successfully execute on our Fiscal 2011 operating plan, and if we are unable to obtain financing or consummate a strategic transaction, our financial condition and results of operation will be materially adversely affected.

Our ability to execute on our Fiscal 2011 operating plan and to manage our costs in light of persisting adverse economic conditions continues to be critical to the success and the performance of our business. During Fiscal 2010, these economic conditions continued to negatively affect our business. We continue to refine our Fiscal 2011 operating plan each quarter to contemplate lower comparable store sales than we had previously contemplated, while continually reducing administrative staff, including as recently as May 7, 2010. Despite the continued refinements and cost cutting measures implemented, we no longer have sufficient margin in our plan to absorb further declines against our expectations.

Because we do not believe that we are able to achieve additional material cost reductions, if our sales volumes decline significantly more than we expect during Fiscal 2011 we may be unable to generate enough cash flow from operations to cover our working capital and capital expenditure requirements beginning Fiscal 2012.

We may need to raise additional capital to fund our business.

Our retail and specialty businesses have incurred significant operating expenses and losses. As we continue to operate our business, we expect these losses to continue. Based on our current projections beyond Fiscal 2011, we expect that we will deplete our cash in the first half of Fiscal 2012. As such, we believe we will likely need to secure financing in the next 18 months in order to fund our working capital requirements in Fiscal 2012. Financing alternatives available to us would likely involve significant interest and other costs or could be highly dilutive to our existing shareholders. There can be no assurance any debt or equity financing arrangement will be available to us when needed on acceptable terms, if at all. In addition, there can be no assurance that these financing alternatives would provide us with sufficient funds to meet our long term capital requirements. If we are unable to secure additional financing or generate sufficient cash flow from operations to fund our working capital and capital expenditure requirements, we could be required to sell stores or other significant assets to provide capital to fund our business. The sale of stores or other income-producing assets could adversely affect our future operating results and cash flows.

We require a significant amount of cash, which may not be available to us, to fund our capital and liquidity needs.

For most of the fiscal years since our founding, we have not generated sufficient cash to fully fund operations. We historically have financed this cash shortfall through borrowings, assets sales and through cash provided under our international licensing relationships. We need to obtain additional financing, complete another strategic transaction or sell significant assets to provide future capital to fund our business. We may not be able to obtain additional financing in amounts or on terms acceptable to us, if at all.

GMCR acquired all of our intellectual property, including all worldwide rights to the Tully's and Bellaccino names and brands. Our rights to use our names and brands after are subject to our license agreement with GMCR.

Our rights to use the Tully's names and brands in our retail and specialty businesses, including with respect to our franchise business and in foreign markets, are subject to the terms and conditions set forth in the license agreement. We could lose our exclusive rights to operate retail stores using the Tully's brand and to engage in the wholesale sale of licensed products outside of North America in certain circumstances. In addition, the license agreement may be terminated by GMCR in the event of any uncured breach by us of a material obligation under the license agreement, and in certain other circumstances. Termination of the license agreement would have a material adverse effect on our business.

If our brand image is tarnished and our product quality diminished, our business may suffer.

The Tully's brand may be harmed by factors that are outside of our control.

Our success depends on GMCR's ability to maintain brand image for our existing products and effectively build up brand image for new products and brand extensions. There can be no assurance, however, that GMCR maintains existing advertising and marketing on our products' brand image and on consumer preferences. GMCR's ability to maintain product quality issues, real or imagined, or allegations of product contamination, even when false or unfounded, could tarnish the image of the affected brands and may cause consumers to choose other products.

Our franchisees or TCJ, the owner of our brand in Japan, may fail to operate Tully's coffeehouses in a manner consistent with our standards and requirements. We have no control over TCJ's use of the Tully's brand within Japan. Although our franchise agreements regulate franchisee behavior to some extent, enforcing remedies under franchise agreements typically requires litigation, and our image and reputation may suffer even if such litigation is successfully concluded. If any of our franchisees acts in a manner inconsistent with our beliefs or preference, it could damage the value of the Tully's brand in that franchisee's territory, and such damage could spread to other territories.

Our success also depends in part on our continued ability to use our licensed Tully's trademarks and trade dress in order to increase brand awareness and further develop the Tully's brand in both domestic and foreign markets. If our efforts to protect our licensed intellectual property rights are not adequate, or if any third party misappropriates or infringes them, the value of the Tully's brand may be harmed. We may become engaged in litigation to protect our rights, which could result in substantial costs to us as well as the diversion of management's attention.

Finally, customers who purchase our whole bean or ground coffees may improperly store the coffees or prepare beverages from our coffee incorrectly, in either case potentially affecting the quality of the coffee prepared from our products. If customers do not perceive our products to be of high quality, then the value of the Tully's brand may be diminished and our ability to implement our business strategy may be adversely affected.

We are dependent on GMCR for supplies of coffee and related products.

GMCR will use commercially reasonable efforts to supply to us, and we will purchase all of our requirements of whole bean and ground coffee and other coffee products for an initial term through March 27, 2014. If GMCR is unable to supply all of our requirements for coffee and related products or if the pricing under our supply agreement with GMCR is not competitive with market prices or if we are unable to maintain specified purchase volumes, our business would suffer.

Moreover, if the supply agreement were terminated, our coffee supplies would be disrupted and we would need to source our coffee from new vendors, who may be unable or unwilling to match the quality and pricing under the supply agreement. Economic conditions and growth trends in the green coffee industry could materially and adversely affect our ability to obtain an adequate supply of coffee to supply our license and franchise partners and retail customers.

Our failure to compete successfully against current or future competitors could have a material adverse effect on our business, including loss of customers, declining sales and loss of market share.

The gourmet coffee market is highly competitive. A number of our competitors, Starbucks in particular, have much greater financial and marketing resources, brand recognition and customer bases than us. In the retail specialty coffee segment, we compete with industry leader Starbucks as well as regional coffeehouses, such as Coffee Bean & Tea Leaf and Peet's Coffee & Tea, and local coffee shops, convenience stores, restaurants, street vendors and, to a certain degree, quick service restaurants such as McDonalds and Krispy Kreme.

We expect the gourmet coffee market to become even more competitive, both within our primary geographic markets and in other regions of the United States, as regional companies expand and attempt to build brand awareness in new markets and as smaller participants are consolidated into larger competitors.

New products may not be accepted in current or future markets. Failure to achieve market acceptance of new products will adversely affect our revenues.

Our beverage and food offerings are built around core product families that enable us to introduce new items that we hope will appeal to a broad range of customers, at different day-parts, to suit different geographic markets and climates. We believe that the introduction of these new products is important to the growth of our revenues for existing stores and future markets. Acceptance of new products may vary in different geographic markets, and may be not be embraced by customers in our current or future markets. If our new products are not accepted, our operating results would be adversely affected.

If we lose key personnel upon whom we are dependent, we may not be able to manage our operations and meet our strategic objectives.

Many key responsibilities of our business have been assigned to a relatively small number of individuals. Our future success depends to a considerable degree on the vision, skill, experience and effort of our senior management team. Andrew Wynne, our chief financial and accounting officer who has served with us since September 2005, recently announced that he would leave the Company as of July 2, 2010. Additionally, our founder and chairman, Tom T. O'Keefe, plans to retire from the company on or about June 30, 2010. Our inability to transition the duties and responsibilities held by Messrs. Wynne and O'Keefe could have a significant impact on our ability to effectively manage our operations and implement our business strategy.

Our reconstituted management team must work together effectively for us to be successful.

With the departure of our chairman and chief financial and accounting officer, our management team and board will include new members. If our new team is unable to work together effectively to implement our strategies, manage our operations and accomplish our business objectives, our ability to grow our business and successfully meet operational challenges could be significantly impaired.

Our franchisees, and the laws that govern the franchise relationship, could hinder our ability to grow.

We rely on our franchisees to develop territories in which we choose not to open company-operated stores. We rely on their local knowledge to successfully address the needs of their territories. If a franchisee is unable to address these needs, we may be unable to sustain our presence in new regions.

Many of our franchise agreements grant exclusive rights to certain territories that last for multiple years. These rights not only prevent other franchisees from operating in the franchised territory, but also could prevent us from opening company-operated stores in the territory. If a franchisee is slow or fails to open new stores in its territory, we or another franchisee could be prevented or delayed from opening stores in that same territory. If such an event occurs, our ability to implement our business strategy may be adversely affected.

We are subject to federal regulation and state laws that govern the offer and sale of franchises and the franchisor-franchisee relationship. The failure to obtain or retain required licenses or registration approvals to sell franchises could delay or preclude franchise sales and otherwise adversely affect our business, financial condition and results of operations. Additionally, any franchise law violations may give existing and future franchisees a basis to bring claims against us, which could result in rescission of the franchise agreement, damages or other relief. Assertion of such claims against us could adversely affect our business, financial condition, and results of operations.

The current economic crisis could adversely impact the Company's business and financial results and have a material adverse impact on our liquidity and capital resources.

As a retailer that is dependent upon consumer discretionary spending, the Company will face an extremely challenging Fiscal 2011 if customers have less money for discretionary purchases as a result of job losses, foreclosures, bankruptcies, reduced access to credit and a stagnant housing market. Additionally, many of the effects and consequences of the global financial crisis and a broader global economic downturn are currently unknown; any one or all of them could potentially have a material adverse effect on the Company's liquidity and capital resources.

We occupy our company-owned stores under long-term leases, and we may be unable to renew leases at the end of the lease periods or obtain new leases on acceptable terms.

All of our retail stores are located on leased premises or locations otherwise controlled by third parties. Many of our current leases are non-cancelable and typically have terms of several years. Therefore, we could be required to continue lease payments for a store that we would otherwise wish to terminate. We also may not have the right or option to renew some of our existing leases. We face intense competition from both restaurants and other specialty retailers for suitable sites for new stores, and if we are unable to renew an existing lease, we would be obligated either to find a new location or close the coffeehouse. If we negotiate a new lease or lease extension at an existing location, the rent may increase substantially. In either case, our existing operations and operating results could be adversely affected. Additionally, because we compete with other retailers and restaurants for store sites and some landlords may grant exclusive locations to our competitors, we may not be able to obtain new leases or renew existing leases on acceptable terms. These factors could adversely affect our ability to execute our growth strategy.

We have limited supplier choices for many of our products, and the inability of certain of these suppliers to meet our needs could disrupt our operations.

We are dependent on GMCR for coffee roasting, packaging and distribution. For certain of our other products, we either have limited or no replacements readily available. Additionally, a significant interruption in supply from GMCR or our other key vendors would significantly impair our ability to operate our business on a day-to-day basis and would adversely affect our operating results.

In addition, we use local bakeries to supply our stores with bakery items. These bakeries typically have limited capital resources to fund growth, and therefore may be unable to meet our needs as we grow. Small bakeries are generally more sensitive to increases in prices for raw ingredients for their products as compared to larger, commercial operations. Furthermore, as we enter new markets, we may be unable to find quality, local bakeries that meet our needs. If this occurs we may not be able to offer bakery products in coffeehouses in that area, or we could be forced to purchase bakery products at higher costs or of lower quality elsewhere, either of which could adversely affect our operating results.

Our business is dependent on a healthy economic climate in our principal geographic markets.

Our product offerings are discretionary items in our customers' budgets. Adverse economic trends may cause consumers to reduce their discretionary spending, which could have an adverse impact on our revenues. Because our retail stores are concentrated in the Seattle and San Francisco markets, an economic downturn in those regions could have a material adverse effect on our business and operations.

We face the risk of adverse publicity and litigation, actual or threatened, in connection with our products and operations.

We may from time to time be subject to complaints or actual or threatened claims from consumers alleging illness, injury or other food quality, health or operational concerns. Adverse publicity resulting from these allegations may materially adversely affect us, regardless of whether the allegations are valid or whether we are liable. In particular, instances of food-borne illness whether or not traced to our stores or products, could reduce demand for our menu offerings, hurt our brand image or lead to litigation and liability. If any of our customers become ill from consuming our products, the affected stores may be forced to close or a product recall may be required. In addition, employee claims against us based on, among other things, discrimination, harassment or wrongful termination may divert financial and management resources that would otherwise be used to benefit our future performance. There is also a risk of litigation from our franchisees with regard to the terms of our franchise arrangements. We have been subject to a variety of claims from time to time, and future claims could materially adversely affect our business, prospects, financial condition, operating results or cash flows.

We are subject to numerous and changing government regulations. Changes in, or failure to comply with, these regulations could negatively affect our sales, increase our costs, result in fines or other penalties against us or harm our growth strategy.

Each retail location is subject to licensing and reporting requirements by a number of governmental authorities. These governmental authorities include federal, state and local health, environmental, labor relations, sanitation, building, zoning, fire, safety and other authorities that have jurisdiction over the development and operation of our retail locations. Our activities are also subject to the Americans with Disabilities Act and related regulations, which prohibit discrimination on the basis of disability in public accommodations and employment. Changes in any of these laws or regulations could have a material adverse effect on our business, financial condition and results of operations. A failure to comply with one or more regulations could result in the imposition of sanctions, including the closing of facilities for an indeterminate period of time, or third party litigation, any of which could have a material adverse effect on us and our results of operations.

Our ability to use our net operating loss carryforwards may be subject to limitation.

An ownership change, which may occur if there is a transfer of ownership exceeding 50% of our outstanding shares of common stock in any three-year period, may lead to a limitation on the usability of, or a potential loss of some or all of, our net operating loss carryforwards or NOLs.

Because the regulations governing NOLs are highly complex and may be changed from time to time, and because our attempts to prevent an ownership change from occurring may not be successful, the NOLs could be limited or lost. To the extent the NOL's become unavailable to us; our future taxable income and that of any consolidated affiliate will be subject to federal income taxation, thus reducing funds otherwise available for corporate purposes.

Risks Relating to Our Industry

Fluctuations in the availability and cost of the products used by our stores may affect our results of operations.

Our future success depends to a large extent upon the availability of high-quality green Arabica coffee beans at reasonable prices. The cost of our coffee beans is subject to a range of factors, many of which are beyond our control. Coffee prices generally increased for Tully's since Fiscal 2009. There has been increasing demand for Arabica coffee beans that could put additional upward pressure on prices or limit the quantities available to us. Natural events, civil unrest and labor issues or shipping disruptions could interrupt the supply of these premium beans or affect the cost. Green coffee bean prices have been affected in the past, and could be affected in the future, by the actions of organizations that have attempted to influence commodity prices of green coffee beans.

In addition, increases in the cost of other raw materials (such as paper and dairy), natural resources (such as energy and gasoline) or the price we pay for our baked goods, could result in an increase in the costs of the products served in our stores. Our ability to raise prices in response to rising costs of coffee beans or other raw ingredients may be limited, and our profitability could be adversely affected if the costs of our inputs were to rise substantially. Moreover, passing price increases on to our customers could result in losses in sales volume or margins in the future. Rapid, sharp decreases in the cost of our raw ingredients could also force us to lower sales prices before we have realized cost reductions in our inventory. Such cost fluctuations could adversely affect our gross margins, or force us to increase the retail and wholesale prices for our products.

Increasing labor costs could adversely affect our results of operations and cash flows.

Many of our employees are hourly employees whose wages may be affected by increases in the federal, state or municipal "living wage" rates. Numerous proposals have been made on federal, state and local levels to increase minimum wage levels. An increase in the minimum wage may create pressure to increase the pay scale for our employees, which would increase our labor costs and those of our franchisees.

We face significant competition in recruiting qualified employees and managers for our retail stores. A shortage in the labor pool, an increase in the costs of employee benefits or other general inflationary pressures could also increase labor costs. In addition, changes in labor laws or reclassifications of our employees from management to hourly employees could affect our labor cost. An increase in labor costs could have a material adverse effect on our results of operations and cash flows if we are unable to recover these increases by raising the prices we charge our customers.

Many companies in our industry face various lawsuits filed by hourly, nonexempt employees alleging various violations of wage and hour employment laws, including without limitation, overtime pay, missed meal and rest periods, and tip sharing. We are currently defending a lawsuit in California filed by a former store employee alleging that Tully's failed to provide adequate meal and rest periods for its employees. The plaintiff is seeking class action certification on behalf of all hourly employees in Tully's California stores. The details of this particular lawsuit are more fully described in "Legal Proceedings."

The products we serve contain certain ingredients, the health effects of which are not fully understood.

Our gourmet coffees and many of our other beverages contain caffeine and other ingredients, the health effects of which are not fully understood. A number of research studies conclude or suggest that excessive consumption of caffeine may lead to increased heart rate, nausea and vomiting, restlessness and anxiety, depression, headaches, tremors, sleeplessness and other adverse health effects. Harmful effects of caffeine consumed by pregnant women are also the subject of several research studies.

We also serve products that contain ingredients other than caffeine, such as sugars, fats, and carbohydrates. Public interest groups have focused attention on the marketing of high-fat and high-sodium foods to children in a stated effort to combat childhood obesity.

An unfavorable report or public opinion on the health effects of the ingredients used in our products, particularly caffeine, could significantly reduce the demand for our products, which could harm our business and reduce our sales and profitability.

Consumer preferences related to coffee, dairy and bakery products could adversely affect our revenues or our costs.

Because our business is predominantly dependent on a single product, gourmet coffee, we are vulnerable to changes in consumer preferences and economic conditions that could harm our financial results. Consumer preferences can change rapidly and without warning, moving from one trend to another among many product or retail concepts. Shifts in consumer preferences away from the gourmet coffee segment would have a material adverse effect on our results of operations. Our continued success will depend in part on our ability to anticipate, identify and respond quickly to changing consumer preferences and economic conditions.

Risks Related to Our Capital Stock

There is no trading market for our stock, and no assurance such a market will develop in the future.

There is no public market for our common stock or our preferred stock. Consequently, the liquidity of an investment in our capital stock is limited. We cannot offer any assurance that an active trading market for our common stock will develop or how liquid that market may become.

Our two largest shareholders have significant influence over matters subject to shareholder vote and may support corporate actions that conflict with other shareholders' interests.

As of March 28, 2010, we had approximately 5,000 owners of record of our common stock. Notwithstanding this large number of shareholders, as of May 31, 2010, Mr. Tom T. O'Keefe, our founder and chairman, beneficially owned approximately 14.7% of our common stock, and the estate of Mr. Keith McCaw beneficially owned approximately 4.9% of our common stock as well as 15.6% of the outstanding Series A Preferred stock. The shareholdings of Mr. O'Keefe and the estate of Mr. McCaw gives each of these shareholders individually, and on a combined basis if acting in unison, the ability to significantly influence the election of our directors and other matters brought before the shareholders for a vote, including any potential sale of Tully's. The voting power held by Mr. O'Keefe and by the estate of Mr. McCaw could prevent or significantly delay another company from acquiring or merging with us, even if the acquisition or merger was in the best interests of our shareholders.

Payment of liquidation preferences to holders of our Series A Preferred Stock could result in little or no proceeds remaining available for other shareholders.

Our articles of incorporation provide that our Series A Preferred stock is senior to the shares of common stock for a stated dollar amount of liquidation preferences, and the Series B Preferred stock is junior to a stated dollar amount of liquidation preference of both the Series A Preferred stock and the common stock. If we were acquired or sold all or a substantial portion of our assets at a time when our preferred stock is outstanding, the amounts remaining for distribution to shareholders might be less than the aggregate liquidation preferences of the more senior shareholders, and no amounts might be available for distribution to the more junior shareholders.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not Applicable.

ITEM 2. PROPERTIES

As of March 28, 2010, Tully's operated 78 retail stores in the United States, all of which are located on property leased by or otherwise provided to us. We lease approximately 17,844 feet of office, storage, and training space in Seattle, Washington, to house our headquarters pursuant to a ten-year lease expiring May 2020 and subject to two five-year options to renew and early termination provisions at five years.

ITEM 3. LEGAL PROCEEDINGS

In December 2007, a lawsuit was filed against Tully's in California state court by a former store employee alleging that Tully's failed to provide meal and rest periods for its employees. We anticipate that the plaintiff will seek class action certification on behalf of all hourly employees in Tully's California stores. The plaintiff is seeking damages, restitution, injunctive relief, and attorneys' fees and costs. Similar lawsuits alleging missed meal and rest periods have been filed in California against many other companies. We are investigating the claims and intend to vigorously defend this litigation, but cannot predict the financial impact to us of the litigation at this time. We believe that Tully's has complied with all laws that require providing meal and rest periods for its employees. We have accrued $390,000 as of March 28, 2010 to defend this litigation.

We are a party to various other legal proceedings arising in the ordinary course of our business, but are not currently a party to any other legal proceeding that we believe could have a material adverse effect on our financial position or results of operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

At the Annual Meeting of Shareholders of TC Global held on March 26, 2010, the shareholders elected each nominee for director to serve until the next annual meeting of shareholders and until such director's successor is duly elected and qualified. Shareholders also approved the adoption of our 2010 Stock Option Plan and ratified the selection of Moss Adams, LLP to serve as the Company's independent registered public accounting firm for fiscal 2010. The shareholders did not approve the shareholder proposal regarding director compensation and term limits.

The table below sets forth the voting results on each proposal submitted to our shareholders at the Annual Meeting:

	FOR	AGAINST	ABSTAIN
Election Of Directors			
Tom T. O'Keefe	2,458,601	385,015	115,587
Carl W. Pennington	2,789,046	47,929	76,626
John M. Fluke	2,004,719	790,477	128,336
Lawrence L. Hood	2,654,039	175,621	80,675
Gregory A. Hubert	2,726,309	95,844	91,447
Janet L. Hendrickson	2,731,748	87,934	90,653
Ronald G. Neubauer	2,816,710	141,333	76,752
2010 Stock Option Plan	2,578,999	189,399	208,352
Ratify Appointment Of Independent Registered Public Accounting Firm	2,847,879	29,269	99,602
Adjourn the meeting, if there are insufficient votes for approval of foregoing proposals	2,697,931	211,380	67,438
Shareholder Proposal Regarding Director Compensation And Terms	642,765	2,116,174	217,811

Note: Because the holders of our common and preferred stock voted together, as one voting group, on these proposals, each share of our Series A and Series B preferred stock voted on an as-converted to common stock basis. The number of votes cast by the holders of our preferred stock at the Annual Meeting reflects the 8:1 reverse split of our common stock, effected in June 2007.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information, Holders and Dividends

Currently there is no public market for Tully's common stock. As of March 28, 2010 there were approximately 5,000 holders of record of Tully's common stock.

A special distribution was paid on May 20, 2009, to shareholders of record on the close of business on April 30, 2009. We presently do not have a plan to pay further distributions or dividends to shareholders. We intend to retain and use earnings, if any, to finance the growth of our business for an indefinite period. Any determination to pay cash dividends will be at the discretion of the board of directors and will be dependent upon our financial condition, results of operations, capital requirements, restrictions under our borrowing agreements, and such other factors as the board of directors deems relevant.

Securities Authorized for Issuance Under Equity Compensation Plans

Equity Compensation Plan Information
(As of March 28, 2010)

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders			
1994 Option Plan	144,247	$8.79	—
2004 Option Plan	182,149	$6.62	130,269
2010 Option Plan	—	$ —	312,500
Equity compensation plans not approved by security holders*	108,228	$0.60	—
Total	434,624	$5.84	442,769

* These options were granted by our chairman to employees and third parties and may be exercised to purchase shares of Tully's Common Stock owned by our chairman. We refer to these options as being granted under the "Founder's Stock Option Plan." We do not expect any additional options to be granted under the Founder's Stock Option Plan.

In 1994, Tully's shareholders approved the 1994 Stock Option Plan, pursuant to which we issued incentive or nonqualified stock options to our employees and directors. In August 1999 our shareholders approved an amended plan (the "1994 Option Plan"), which established the maximum number of shares issuable under the 1994 Option Plan and the Employee Stock Purchase Plan at 525,000 shares. The 1994 Option Plan expired on October 19, 2004 (this will not terminate outstanding options). As of March 28, 2010, options for 144,247 shares were outstanding under the 1994 Option Plan and options for 258,545 shares had been exercised under the 1994 Option Plan, and no shares had been issued under the Employee Stock Purchase Plan.

In December 2004, Tully's shareholders approved the 2004 Stock Option Plan. The 2004 Stock Option Plan authorizes the issuance of up to 312,500 shares of common stock under the 2004 Stock Option Plan and Tully's Employee Stock Purchase Plan. As of March 28, 2010, options to purchase 130,269 common shares were outstanding under the 2004 Stock Option Plan, and no shares had been issued under the Employee Stock Purchase Plan.

In March 2010, Tully's shareholders approved the 2010 Stock Option Plan. The 2010 Stock Option Plan authorizes the issuance of up to 312,500 shares of common stock under the 2010 Stock Option Plan and Tully's Employee Stock Purchase Plan. As of March 28, 2010, no options had been granted under the 2010 Stock Option Plan, and no shares had been issued under the Employee Stock Purchase Plan.

Stock options are granted solely at the discretion of our board of directors and are issued at a price determined by our board of directors. The term of each option granted is for such period as determined by our board of directors, but not more than ten years from date of grant. Options are nontransferable and may generally be exercised based on a vesting schedule determined by our board of directors. Options may be either incentive stock options, within the meaning of Section 422 of the Internal Revenue Code, or nonqualified stock options. Our shareholders also previously approved the Employee Stock Purchase Plan, under which employees would be permitted to purchase common stock from the Company. No offerings have been made to employees under the Employee Stock Purchase Plan.

Recent Sales of Unregistered Securities

None.

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth selected historical consolidated financial data for our company. The selected financial information set forth below under the captions "Results of Operations Data" for Fiscal 2010, Fiscal 2009, and Fiscal 2008, and the selected consolidated balance sheet data as of March 28, 2010 and March 29, 2009, have been derived from our audited consolidated financial statements included elsewhere in this report. The selected historical consolidated financial information set forth below under the captions "Results of Operations Data" for Fiscal 2007 and Fiscal 2006 and the selected consolidated balance sheet data as of March 30, 2008, April 1, 2007, and April 2, 2006, have been derived from our audited financial statements that are not included in this report.

The data presented below should be read in conjunction with, and is qualified in its entirety by reference to, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our historical consolidated financial statements and the notes thereto appearing elsewhere in this report.

	FISCAL YEARS ENDED				
	Fiscal 2010	Fiscal 2009	Fiscal 2008	Fiscal 2007	Fiscal 2006
	(dollars in thousands, except per share data)				
Results of Operations Data					
Net Sales from continuing operations:					
Retail	$35,426	$38,615	$ 42,897	$ 39,334	$38,194
Specialty	$ 4,144	430	(1,952)	1,647	6,864
Total	39,570	39,045	40,945	40,981	45,058
Operating loss from continuing operations	(6,028)	(8,106)	(13,955)	(10,241)	(1,936)
Income (loss) from continuing operations	$ (5,191)	314	(16,311)	(10,527)	14,772
Discontinued operations:					
Net Sales from discontinued operations	—	39,547	28,132	20,901	13,187
Income from discontinued operations	—	22,541	2,402	773	651
Net income (loss)	$ (5,191)	$22,855	$(13,909)	$ (9,754)	$15,423
Net Income (loss) per share from continuing operations:					
Basic	$ (1.47)	$ 0.10	$ (5.59)	$ (4.61)	$ 6.68
Diluted	$ (1.47)	$ 0.05	$ (5.59)	$ (4.61)	$ 2.30
Shares used in calculation of net income (loss) per share (thousands) from continuing operations:					
Basic	3,537	3,265	2,917	2,283	2,212
Diluted	3,537	6,478	2,917	2,283	6,434
Balance Sheet Data					
Total assets from continuing operations	$13,721	$29,254	$ 13,708	$ 13,173	$16,577
Total assets held for sale	—	—	$ 5,210	$ 4,177	$ 4,950
Total assets	$13,721	$29,254	$ 18,918	$ 17,350	$21,527
Long-term obligations (including current portion) from continuing operations(1)	$ 4,157	$ 4,418	$ 15,661	$ 5,206	$ 3,310
Long-term obligations (including current portion) from liabilities held for sale	—	—	$ 66	$ 91	$ 92
Total Long-term obligations (including current portion)(2)	$ 4,157	$ 4,418	$ 15,727	$ 5,297	$ 3,402
Stockholders' equity (deficit)	$ (2,588)	$ 8,552	$(19,424)	$ (4,109)	$ 5,127
Other Data (unaudited)					
Comparable Store Sales Increase (Decrease)	(2.8)%	(6.8)%	5.0%	3.9%	(1.9)%
Retail Store Count at Period End:					
Company-operated by Tully's	78	80	93	90	88
Franchisee-operated (U.S.)	107	87	58	38	23
Total retail store count	185	167	151	128	111
International licensee stores(2)	4	2	—	—	—

Notes for Selected Financial Data

(1) Long-term obligations (including current portion) at the end of each period shown are summarized as follows:

	Fiscal Years				
	Fiscal 2010	Fiscal 2009	Fiscal 2008	Fiscal 2007	Fiscal 2006
	(dollars in thousands)				
Credit facility, current portion of long-term debt and UCC obligation and capital lease obligations	$ 157	$ 267	$12,935	$4,270	$2,209
TCAP's obligation to Limited Partner	4,000	4,000	—	—	—
Long-term debt, net of current portion	—	—	10	19	28
Capital lease obligations, net of current portion	—	—	30	53	72
Long-term UCC note payable, net of current portion	—	—	2,310	—	—
Other liabilities	—	151	442	955	1,093
Long-term obligations (including current portion)	$4,157	$4,418	$15,727	$5,297	$3,402

(2) As the result of the 2005 Sale to TCJ of Tully's trademarks, store designs, proceeds and other intellectual property assets and rights for the Tully's Business in Japan, the Tully's stores operated and franchised by TCJ in Japan are excluded from our franchised and licensed store counts after August 31, 2005. Tully's and TCJ have agreed to cooperate in the development of the Tully's brand for the mutual benefit of the two companies.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of operations for Fiscal 2010, Fiscal 2009, and Fiscal 2008, together with our consolidated financial statements and related notes appearing elsewhere in this report. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of many factors, including those set forth under "Risk Factors" and elsewhere in this report.

Business Overview

Since our founding in 1992, our objective has been to make our gourmet coffees and genuine community coffeehouse experience the first choice for consumers in our markets. To achieve this goal, we have made significant investments in marketing and building our brand and have concentrated on opening company-operated retail stores and developing our wholesale and specialty business. We have filed reports under the Securities Exchange Act of 1934 since 1999.

Between 1992 and 2001, we expanded to 114 company-operated stores. During this period, we financed our retail expansion by raising over $60 million in equity securities and convertible debt, and through licensing fees paid to us by foreign licensees of over $17 million. Between Fiscal 2001 and 2003, our financial performance was negatively impacted by the economic downturn that affected Seattle and San Francisco. During the same period, the market for new equity issues deteriorated significantly. To manage through this period and these challenges, rather than to seek additional and potentially dilutive growth capital, we chose to reduce normal operating expenses by closing certain under-performing stores and slowing our new store development plans to preserve capital. Between Fiscal 2002 and 2006, we streamlined aspects of our operations and emphasized less capital intensive business opportunities such as wholesale and franchising. From Fiscal 2006 to Fiscal 2010, we undertook a strategic business review and began implementing initiatives to improve our financial position and create a foundation for future growth, which included the sale of our wholesale business and tradenames to GMCR for $40.3 million.

We are a specialty gourmet coffee retailer. We generate revenues through two operating divisions:

- *Retail.* Our retail division operates Tully's Coffee retail stores in the United States and generates revenues through the sales of products in these stores.
- *Specialty.* Our specialty division oversees the franchising of Tully's Coffee retail stores and manages our international joint venture, foreign licensing, and business development activities. We generate revenues through licensing fees from U.S. and foreign franchisees and sales of products to foreign customers.

For most of the fiscal years since our founding, we have not generated sufficient cash to fully fund operations. We historically have financed this cash shortfall through the issuance of debt and equity securities, through borrowings, asset sales, and through cash provided under our international licensing relationships.

On March 27, 2009, we completed the sale of the assets associated with our wholesale business and supply chain (including Tully's business names and trademarks) to Green Mountain Coffee Roasters, Inc. a Delaware Corporation ("GMCR"), pursuant to the Asset Purchase Agreement dated September 15, 2008, as amended by Amendment No. 1 thereto dated November 12, 2008, and Amendment No. 2 thereto dated February 6, 2009, by and among the TC Global, Inc., GMCR and Tully's Bellaccino, LLC (the "Green Mountain Transaction").

In connection with the closing of the Green Mountain Transaction, we entered into a Supply Agreement, a License Agreement, and a Noncompetition Agreement with GMCR. We also secured a perpetual license to use the "Tully's" brand and other trade names, trademarks and service marks in connection with certain (i) retail operations worldwide (excluding Japan) and (ii) wholesale business outside of North America, utilizing an exclusive coffee supply arrangement. Our current shareholders and executive management team continue to own and operate the Company's domestic retail business (company owned, franchised and licensed retail store locations) and international retail and wholesale businesses.

The Company has classified the results of operations for the wholesale business in discontinued operations. The discontinued operations represent only those pertaining to the Green Mountain Transaction, and do not include any results relating to those activities which are expected to continue under the License Agreement due to this continuing involvement.

In connection with the Green Mountain Transaction, we changed our corporate name to "TC Global, Inc."

Trends in Our Business

Retail Division.

As of March 28, 2010, Tully's had 78 company-operated retail stores and 107 franchised stores in Washington, California, Arizona, Oregon, Idaho, Montana, Utah, Wyoming, and Colorado. Our stores are located in a variety of urban and suburban neighborhoods, and in the Seattle and San Francisco central business districts. We also operate or franchise smaller footprint stores in special venues, such as within the premises of manufacturing facilities, and kiosks and cafes that are located in grocery stores, hotels, hospitals and airports and on university campuses.

We have recently undertaken a strategic review of our retail business. As a result, we are implementing initiatives to improve our retail operations, retail distribution, store facilities and merchandising strategies. The ongoing goal of our retail division initiatives is to increase retail store average unit volume, increase comparable store sales and improve new store unit economics. We are simultaneously targeting operational improvements to enhance our retail margins and profitability. All of these initiatives are designed to collectively improve our sales and profitability.

Further, we continue to review of our retail locations and leasing arrangements. Since Fiscal 2009 we closed sixteen locations. Some of these store closures were a result of natural closures on lease arrangements, store refranchising, and lease terminations.

Specialty Division.

Our specialty division oversees the franchising of Tully's Coffee retail stores. Franchising complements our company-operated retail business by making Tully's genuine community coffeehouse experience more widely available and convenient for customers. Franchising also extends the Tully's brand and promotes consumer familiarity with Tully's products. At March 28, 2010 there were 107 U.S. franchisee-operated stores, primarily in special venues such as grocery stores, airports, hotels and university campuses.

Additionally, our specialty division oversees Tully's Coffee Asia, which seeks to develop the Tully's brand in Asia (excluding Japan) Australia and New Zealand, foreign licensing, wholesale distribution and other business activities. As of March 28, 2010 we had franchised four stores in Singapore through our master licensee Kitchen Language PTE LTD, which is obligated to develop 15 locations

On November 23, 2009, Tully's Coffee International, PTE LTD, ("Tully's Coffee International"), a wholly owned subsidiary of Tully's Coffee Asia, the joint venture formed by Tully's Coffee Asia Pacific, Inc. ("TCAP"), a wholly-owned subsidiary of TC Global, Inc., and Asia Food Culture Management Pte, Ltd ("AFCM"), a Singapore company, entered into a Master License Agreement with DK Retail Co., Ltd., ("DK Retail") a South Korean corporation, to develop the Tully's brand in South Korea. Under the terms of the Master

License Agreement, DK Retail will pay Tully's Coffee International an initial commitment fee, an additional per store fee and is obligated to develop 100 Tully's retail locations in South Korea over the next five years. The Master License Agreement has a renewable five year term, subject to payment of an extension fee. Subsequent to the fiscal year DK Retail opened its first two stores.

Revenue Trends

Our quarterly sales from our retail and specialty operations are summarized as follows:

	Fiscal Years			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(unaudited–dollars in thousands)			
Fiscal 2008	$10,575	$10,898	$11,119	$8,353
Fiscal 2009	10,830	10,107	9,049	9,059
Fiscal 2010	9,980	9,782	10,098	9,710

Our revenue levels are expected to increase during the third quarter due to holiday season sales on recent trends in comparable stores sales.

Operating Cost Trends

Retail Cost Trends. We experience both variable and fixed cost trends in our retail division cost structure. Cost of products (cost of goods sold), labor cost, occupancy costs other than rent, supplies, and other operating expenses typically increase or decrease according to broader pricing trends for our products. During Fiscal 2010 we experienced increasing pricing associated with costs for dairy, paper and baked goods, as well as minimal increases in energy-related costs. In some cases, store-level retail operating expenses may increase or decrease depending on the sales volume at a particular location. Generally, our leases provide for periodic rent increases (which are generally leveled for financial reporting purposes by "straight-line rent" accounting).

We continue to undertake certain retail business initiatives with the objective of reducing costs as a percentage of sales through increased efficiencies and operating leverage. However, initiatives intended to produce a future benefit may cause a short-term increase in costs, both in absolute dollars and as a percentage of sales. We analyze retail division operating costs as a percentage of store sales.

Specialty Cost Trends. Most of our specialty division costs consist of labor, travel and legal expenses. Labor and travel costs have increased to support our growing U.S. franchise store base as well as the development of stores associated with the Tully's Coffee Asia joint venture. We also incur legal and compliance costs in connection with our franchising operations. U.S. franchising costs continue to decrease as a percentage of franchise royalty and license revenues as we leverage our investment in franchising infrastructure and labor, travel and legal expenses while realizing the leverage from a larger franchised store base.

Marketing, General and Administrative Cost Trends. Most of our marketing expenditures are discretionary in nature and depend on the type, intensity and frequency of the marketing programs we employ. Examples of marketing expenses include point-of-sale materials, community initiatives, sponsorships and advertising. We expect marketing expenses to decrease as we initiate a limited number of retail programs in Fiscal 2011. In Fiscal 2008 the company incurred significant expenses in relation to our failed public offering.

Our general and administrative costs are less discretionary than our marketing costs. We have continued to scale back expenses for our administrative staff. During Fiscal 2010 and again in the first half of Fiscal 2011 we reduced our administrative staff by several positions and implemented other cost savings initiatives.

Retail Performance Measures

Our U.S. retail stores are summarized as follows:

	Fiscal Years		
	Fiscal 2010	Fiscal 2009	Fiscal 2008
NUMBER OF STORES:			
Company-operated stores			
Stores at beginning of the period	80	93	90
New stores	1	—	5
Closed stores	(3)	(13)	(2)
End of the period	78	80	93
Franchisee-operated stores			
Stores at beginning of the period	87	58	38
New stores	23	33	21
Closed stores	(3)	(4)	(1)
End of the period	107	87	58
Total company-operated and franchised stores			
Stores at beginning of the period	167	151	128
New stores	24	33	26
Closed stores	(6)	(17)	(3)
End of the period	185	167	151

International franchised and licensed stores at the end of each respective fiscal year are set forth in the table below:

	Fiscal Years		
	Fiscal 2010	Fiscal 2009	Fiscal 2008
International franchise and licensees	4	2	—

Our quarterly comparable store sales increases (decreases) over prior year's comparable quarter are summarized as follows:

	Fiscal Years			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Fiscal 2008	9.5%	7.6%	8.8%	2.1%
Fiscal 2009	(0.4)%	(5.5)%	(14.1)%	(7.9)%
Fiscal 2010	(8.4)%	(6.1)%	4.2%	(0.2)%

Results of Operations

As a result of the Green Mountain Transaction, the results of operations for the wholesale operations are reported in discontinued operations, in accordance with the guidance provided in FASB ASC 360, *Accounting for the Impairment or Disposal of Long-Lived Assets* ("FASB ASC 360").

	Fiscal Years		
	Fiscal 2010	Fiscal 2009	Fiscal 2008
	(dollars in thousands)		
Continuing Operations:			
Net Sales			
Retail store sales	$35,426	$38,615	$42,897
Specialty sales of products	$ 3,620	47	203
Total sales of products	39,046	38,662	43,100
Licenses, royalties, and fees	484	383	234
Specialty—Recognition of deferred revenue	40	—	(2,389)
Total net sales	$39,570	$39,045	$40,945
Cost of Goods Sold and Related Occupancy Expenses			
Retail cost of goods sold	$12,704	$13,969	$15,697
Retail occupancy expenses	4,396	4,527	5,323
Specialty	2,449	37	214
Total	$19,549	$18,533	$21,234
Operating Expenses			
Store operating expenses	$15,638	$17,546	$19,474
Other operating expenses:			
Specialty—U.S. franchising expenses	1,565	700	506
Specialty—international division expenses	772	406	1,046
Total other operating expenses	$ 2,337	$ 1,106	$ 1,552
Marketing, general and administrative expenses	$ 6,515	$ 7,742	$10,435
Discontinued Operations			
Net sales	$ —	$39,547	$28,132
Cost of Goods Sold	—	27,920	19,858

For additional information about our operating divisions, see Note 21 of the Notes to the Consolidated Financial Statements.

	Fiscal Years		
	Fiscal 2010	Fiscal 2009	Fiscal 2008
Total Net Sales Metrics			
Amounts as Percent of Total Net Sales			
Retail store sales	89.6%	98.9%	104.8%
Specialty—international product sales	9.1%	0.1%	0.5%
Total sales of products	98.7%	99.0%	105.3%
Specialty—Licenses, royalties and fees	1.2%	1.0%	0.6%
Specialty—Recognition of deferred revenue	0.1%	— %	(5.9)%
Total net sales	100.0%	100.0%	100.0%
Retail Metrics			
Amounts as Percent of retail store sales			
Retail cost of goods sold	35.9%	36.2%	36.6%
Retail occupancy expenses	12.4%	11.7%	12.4%
Store operating expenses	44.1%	45.4%	45.4%

Fiscal 2010 Compared To Fiscal 2009

Net Sales

Sales of products from company-operated retail stores decreased $3,189,000, to $35,426,000, principally due to the effects of closing or selling company-owned retail locations and a decrease in comparable retail stores sales of 2.8%, or $1,014,000.

The divisional breakout in total net sales increase was comprised as follows:

Total company **Fiscal 2010 Compared To Fiscal 2009** **(dollars in thousands)**	**Increase (Decrease) in Net Sales**
Retail	$(3,189)
Specialty	3,714
Total company	$ 525

The retail sales decrease represented an 8.3% decrease compared to Fiscal 2009. For Fiscal 2010 comparable retail store sales declined 2.8% as a result of the economic downturn that negatively impacted our business. The factors comprising the retail sales decrease are summarized as follows:

Retail division **Components of net sales increase (decrease)** **Fiscal 2010 Compared To Fiscal 2009** **(dollars in thousands)**	**Increase (Decrease) in Net Sales**
Comparable stores sales decrease	$(1,014)
Sales increase from new stores	226
Sales decrease from stores closed during Fiscal 2010 and Fiscal 2009	(2,401)
Total retail division	$(3,189)

Net sales for the specialty division increased by $3,714,000 for Fiscal 2010 as compared to Fiscal 2009. The increase reflects the Company's significant ramp in business on product sales throughout the franchise units and international expansion. Further, in prior periods the Company allocated product sales to licensed and franchise stores in the wholesale business. The Company did not reclassify these revenues out of discontinued operations as immaterial in previous periods.

Cost of Goods Sold and Operating Expenses

Cost of goods sold and related occupancy costs decreased $1,396,000, or 7.5%, to $17,100,000 for Fiscal 2010 as compared to Fiscal 2009. Retail cost of goods sold as a percent of retail store sales remained steady at 35.9% in Fiscal 2010 as compared to 36.2% in Fiscal 2009 reflecting continued initiatives on product costs, product mix, and discounts reflected in sales for the stored value card loyalty programs. Retail occupancy expenses as a percent of retail store sales increased from 11.7% in Fiscal 2009 to 12.4% in Fiscal 2010, reflecting increased occupancy levels as a percent of sales with the decreased revenue levels as described above.

Store operating expenses decreased to 44.1% as a percent of retail store sales in Fiscal 2010 and as compared to 45.4% in Fiscal 2009 as a result of continued initiatives to focus on costs associated with programs to improve retail store service levels, including store staffing and new training programs.

Other operating expenses (expenses associated with all operations other than company-operated retail stores) increased $1,123,000 to $2,337,000 during Fiscal 2010 from $1,106,000 in Fiscal 2009. The increase reflects our continued focus to increase U.S. and International franchise and license businesses.

Marketing, general and administrative costs decreased significantly by $1,227,000 or 15.8%, to $6,515,000 during Fiscal 2010 from $7,742,000 in Fiscal 2009. This decrease was primarily due to a $566,000 reduction in labor related expenses coupled with the $236,000 reduction in legal fees and $243,000 in occupancy expenses.

Depreciation and amortization expense decreased $514,000, or 30.1%, to $1,191,000 for Fiscal 2010 from $1,705,000 for Fiscal 2009, reflecting a lower level of depreciable assets as we reduce corporate office space and lower our depreciable store base.

Other Income (Expense)

Interest expense decreased $3,244,000 or 99.7% to $10,000 for Fiscal 2010 as compared to $3,254,000 for Fiscal 2009, primarily due to the repayment of outstanding indebtedness under the Benaroya Credit Facility and Northrim Credit Facility in the prior year.

Noncontrolling Interest

A gain of $188,000 was attributable to AFCM, the limited partner in Tully's Coffee Asia, for Fiscal 2010, compared to $214,000 as the net loss attributable to Tully's Coffee Asia decreased slightly.

Income Taxes

In Fiscal 2010 we experienced a $764,000 income tax benefit reflecting the five year Alternative Minimum Tax, or AMT, carryback changes enacted as part of the stimulus package for our fiscal years beginning Fiscal 2005. In Fiscal 2009 we experienced an income tax benefit of $11,474,000 reflecting the estimated income tax and AMT consequences from the Green Mountain Transaction in Fiscal 2009.

At March 28, 2010, we had federal and state net operating loss carryforwards of approximately $30,500,000 and $11,900,000, respectively. The federal net operating loss carryforwards expire between 2027 and 2030 and the state net operating losses expire between 2011 and 2030. Our net operating loss carryforwards are one of our deferred income tax assets; however, the ultimate realization of these deferred income tax assets is dependent upon generation of future taxable income. Due to the uncertainty of future taxable income, deferred tax assets resulting from these net operating losses have been fully reserved. In accordance with SFAS 109, *Accounting for Income Taxes*, we will assess the continuing need for a valuation allowance that results from uncertainty regarding our ability to realize the benefits of our deferred tax assets.

Net Income (Loss)

As a result of the factors described above, we had a net loss of $5,191,000 for Fiscal 2010 as compared to net income of $22,855,000 for Fiscal 2009.

Fiscal 2009 Compared To Fiscal 2008

Net Sales

Sales of products from company-operated retail stores decreased $4,282,000, to $38,615,000, due to the effect, $2,888,000 of closing or selling a total of thirteen company-owned retail locations and a decrease in comparable retail stores sales of 6.8% or 2,511,000.

The divisional increases and decreases in net sales was comprised as follows:

Total company Fiscal 2009 Compared To Fiscal 2008 (dollars in thousands)	Increase (Decrease) in Net Sales
Retail	$(4,282)
Specialty	2,382
Total company	$(1,900)

The retail sales decrease represented a 10.0% decrease compared to Fiscal 2008. For Fiscal 2009 comparable retail store sales declined 6.8% as a result of the economic downturn that negatively impacted our business 14.1% and 7.9% in the quarters ended December 30, 2008 and March 29, 2009, respectively. The factors comprising the retail sales decrease are summarized as follows:

Retail division **Components of net sales increase (decrease)** **Fiscal 2009 Compared To Fiscal 2008** **(dollars in thousands)**	**Increase (Decrease) in Net Sales**
Comparable stores sales decrease	$(2,511)
Sales increase from new stores	1,122
Sales decrease from stores closed during Fiscal 2009 and Fiscal 2008	(2,888)
Other	(5)
Total retail division	$(4,282)

Net sales for the specialty division increased by $2,382,000 for Fiscal 2009 as compared to Fiscal 2008, reflecting the ($2,389,000) net effect from the reversal of previously recognized deferred revenue in relation to the repossession of the licensing right with our UCC settlement in the fourth quarter of Fiscal 2008.

Cost of Goods Sold and Operating Expenses

Cost of goods sold and related occupancy costs decreased $2,701,000, or 12.7%, to $18,533,000 for Fiscal 2009 as compared to Fiscal 2008. Retail cost of goods sold remained steady at 36.2% in Fiscal 2009 as compared to 36.6% in Fiscal 2008 reflecting continued initiatives on product costs, product mix, and discounts reflected in sales for the stored value card loyalty programs. Retail occupancy cost of goods sold decreased from 12.4% in Fiscal 2008 to 11.7% in Fiscal 2009, reflecting the closing of stores with higher occupancy costs, and opening of stores with lower relative occupancy costs.

Store operating expenses remained consistent at 45.4% as a percent of retail store sales in both Fiscal 2009 and 2008 as a result of continued initiatives to focus on start-up costs at new stores, and costs associated with programs to improve retail store service levels, including store staffing and new training programs.

Other operating expenses (expenses associated with all operations other than company-operated retail stores) decreased $446,000 to $1,106,000 during Fiscal 2009 from $1,552,000 in Fiscal 2008. The decrease reflects $799,000 of legal fees and costs related to the UCC litigation in Fiscal 2008, offset by increased expenses of $194,000 in FY 2009 related to our U.S. franchise and license business.

Marketing, general and administrative costs decreased significantly by $1,260,000 or 14.0%, to $7,742,000 during Fiscal 2009 from $9,002,000 in Fiscal 2008. This decrease was primarily due to a $884,000 reduction in labor related expenses coupled with the reduction in IPO offering costs of $1,432,000 in Fiscal 2008. Additionally costs associated with the business improvement initiatives in Fiscal 2008 were cut back, including but not limited to recruiting and job fair activities which decreased $145,000.

Depreciation and amortization expense decreased $481,000, or 27.9%, to $1,705,000 for Fiscal 2009 from $2,186,000 for Fiscal 2008, reflecting a lower level of depreciable assets in the current period as a result of the sale of asset in connection with the Green Mountain Transaction.

Other Income (Expense)

Interest expense increased $1,118,000 or 52.3% to $3,254,000 for Fiscal 2009 as compared to $2,136,000 for Fiscal 2008, reflecting a higher average balance on our credit line and Benaroya Credit Facility.

Non-controlling interest

A gain of $214,000 was attributable to our Limited Partner, AFCM, for Fiscal 2009, no such transaction occurred in Fiscal 2008.

Income Taxes

We experienced an income tax benefit of $11,474,000 Fiscal 2009, as compared to an expense of $2,000 during Fiscal 2008 reflecting the estimated income tax and Alternative Minimum Tax, or AMT, consequences from the Green Mountain Transaction in Fiscal 2009.

At March 29, 2009, we had federal and state net operating loss carryforwards of approximately $20,800,000 and $9,500,000, respectively. The federal net operating loss carryforwards expire between 2021 and 2029 and the state net operating losses expire between 2009 and 2030. Our net operating loss carryforwards are one of our deferred income tax assets; however, the ultimate realization of these deferred income tax assets is dependent upon generation of future taxable income. Due to the uncertainty of future taxable income, deferred tax assets resulting from these net operating losses have been fully reserved. In accordance with SFAS 109, *Accounting for Income Taxes*, we will assess the continuing need for a valuation allowance that results from uncertainty regarding our ability to realize the benefits of our deferred tax assets.

Discontinued Operations

Wholesale net sales, which was included in discontinued operations, increased $11,415,000, or 40.6%, to $39,547,000 for Fiscal 2009 from $28,132,000 for Fiscal 2008. The increase reflects sales increase in the grocery channel (due primarily to growth in the number of grocery retailers selling Tully's coffee, increased sales to current grocery retailers, and sales of our new Bellaccino bottled beverages) and sales of our new K-Cup products.

Wholesale cost of goods sold remained consistent at 70.6% as a percent of wholesale sales in both Fiscal 2009 and Fiscal 2008 reflecting margins initiatives implemented in throughout the roasting facility in Fiscal 2009.

During Fiscal 2009, Tully's recognized a gain of $28,656,000 on the Green Mountain Transaction, which did not occur in Fiscal 2008.

Income from discontinued operations increased $20,139,000 to $22,541,000 for Fiscal 2009, as compared to $2,402,000 for Fiscal 2008. This increase related to our ability to reduce our labor and operating expenses while increasing our net sales by 40.6%, and the related income tax expense of $12,407,000 reflecting the estimated income tax and Alternative Minimum Tax, or AMT, consequences from the Green Mountain Transaction in Fiscal 2009

Net Income (Loss)

As a result of the factors described above, we had net income of $28,855,000 for Fiscal 2009 as compared to a net loss of $13,909,000 for Fiscal 2008, an improvement of $42,599,000.

Liquidity and Financial Condition

Sources and Uses of Cash in our Business

The following table sets forth, for the periods indicated selected statements of cash flows data:

	Fiscal Years		
	Fiscal 2010	Fiscal 2009	Fiscal 2008
	(dollars in thousands)		
STATEMENTS OF CASH FLOWS DATA			
Cash provided by (used for):			
Net income (loss)	$(5,191)	$ 22,855	$(13,909)
Gain on Green Mountain Transaction	—	(28,656)	—
Franchise revenue repossession and refund provision	—	—	5,295
Adjustments for depreciation and other non-cash operating statement amounts	1,532	3,629	971
Net loss adjusted for non-cash operating statement amounts	(3,659)	(2,172)	(7,643)
Cash provided by (used) for other changes in assets and liabilities	1,795	(6,999)	1,138
Net cash used in operating activities	(1,864)	(9,171)	(6,505)
Cash proceeds from Green Mountain Transaction	—	36,800	—
Purchases of property and equipment	(641)	(976)	(2,309)
Other investing activities	(13)	271	6
Non-controlling interest in joint venture not included in other non-cash operating statements amounts	—	—	3,000
Net borrowings (repayments) of Northrim Credit Facility and capital leases	(470)	(5,034)	42
Proceeds form the Sale of Development rights	526	469	
Repayment on UCC note payable	—	(4,120)	(2,000)
Proceeds from Benaroya Credit Facility	—	(7,482)	7,482
Foreign currency translation adjustment	(7)	(34)	—
Shareholder distribution	(5,994)	—	—
Cash in lieu of fractional stock on reverse split	—	—	(12)
Proceeds from warrant and stock option exercise	27	—	137
Net increase (decrease) in cash and cash equivalents	$(8,436)	$ 10,723	$ (159)

Overall, our operating activities, investing activities, and financing activities used $8,436,000 of cash during Fiscal 2010 as compared to providing $10,723,000 of cash during Fiscal 2009, primarily due to the special shareholder distribution on May 20, 2009.

Cash used by operating activities for Fiscal 2010 was $1,864,000, a change of $7,307,000 compared to Fiscal 2009 when operating activities used cash of $9,171,000. This related primarily to collections of accounts receivable of $4,785,000 due to final collection of certain trade receivables related to the discontinued wholesale business, offset by a cash usage in accounts payable and accrued liabilities of $5,094,000 as the company made final payments to wholesale vendors as required under the GMCR Agreement.

Investing activities used cash of $128,000 in Fiscal 2010, as capital expenses decreased with minimal company owned store investments in the period, offset by development fees collected in the prior period.

Financing activities used cash of $6,444,000 in Fiscal 2010, which included the special distribution of $5,994,000 paid on May 20, 2009, to shareholders of record on the close of business on April 30, 2009.

Contractual Commitments

We did not have any off-balance sheet arrangements as of March 28, 2010. The following table summarizes our principal financial commitments (other than ordinary trade obligations such as accounts payable and accrued liabilities) as of March 28, 2010:

	Payments Due by Fiscal Year				
	Total	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
	(dollars in thousands)				
TCAP obligation to Limited Partner	$ 4,000	$4,000	—	—	—
Other debt	157	157	—	—	—
Operating leases	12,249	3,328	4,490	2,462	1,969
	$16,406	$7,485	$4,490	$2,462	$1,969

Liquidity and Capital Resources

On March 27, 2009, we completed the sale of the assets associated with our wholesale business and supply chain (including Tully's business names and trademarks) to GMCR and, in consideration therefor, received $40,300,000. We used these proceeds to improve our liquidity without shareholder dilution, repay our debt, provide for a shareholder distribution paid May 20, 2009, and develop our domestic retail and franchise and our international retail, wholesale, and franchise businesses.

As of March 28, 2010 we had cash and cash equivalents and escrow receivable (collected March 29, 2010) of $7,058,000, of which $1,043,000 was held in Tully's Coffee Asia and limited in use, and a working capital deficit of $2,927,000, which also includes TCAP's $4,000,000 obligation to AFCM, which obligation is not expected to be satisfied by funds held by TC Global, Inc. As discussed in Note 12, On March 27, 2009, TCAP agreed to purchase, or cause a third party to purchase, one-half of AFCM's partnership interest in Tully's Coffee Asia, at a purchase price of US$4,000,000. As of March 28, 2010, TCAP had not met its obligation. TCAP and AFCM continue to work on a settlement and to seek a buyer for AFCM's partnership interest. If TCAP is unsuccessful in either finding a buyer for AFCM's interest or in its settlement negotiations, it could have an adverse impact on TCAP's financial position or results of operations.

Historically we have not required a significant net investment in working capital and operated with current liabilities in excess of our current assets. Our inventory levels are expected to increase during winter due to holiday season merchandise. Inventories are also subject to short-term fluctuations based upon the timing of coffee receipts.

We believe that the operating cash flows, financing cash flows, and investing cash flows projected for Fiscal 2011, and the cash and cash equivalents and escrow receivable (collected March 29, 2010) of $7,058,000, of which $1,043,000 was held in Tully's Coffee Asia and limited in use, will be sufficient to fund our ongoing operations through Fiscal 2011. Our current operating plan does not depend upon obtaining financing and if achieved, would allow us to meet our anticipated cash needs for the next 12 months.

Because we do not believe that we are able to achieve additional material cost reductions, if our sales volumes decline significantly more than we expect during Fiscal 2011 we may be unable to generate enough cash flow from operations to cover our working capital and capital expenditure requirements beginning Fiscal 2012.

Further, based on our current projections beyond Fiscal 2011, we expect that we will deplete our cash in the first half of Fiscal 2012. As such, we believe we will likely need to secure financing in the next 18 months in order to fund our working capital requirements in Fiscal 2012. Although we believe we have financing alternatives available to us, these alternatives would likely involve significant interest and other costs or would likely be highly dilutive to our existing shareholders. We continue to monitor whether credit facilities may be available to us on acceptable terms. There can be no assurance any debt or equity financing arrangement will be available to us when needed on acceptable terms, if at all. In addition, there can be no assurance that these financing alternatives would provide us with sufficient funds to meet our long term capital requirements. If we are unable to secure additional financing or generate sufficient cash flow from operations to fund our working capital and capital expenditures requirements, we could be required to sell stores or other significant assets to provide capital to fund our business. The sale of stores or other income-producing assets could adversely affect our future operating results and cash flows.

Seasonality

Our business is subject to moderate seasonal fluctuations. Greater portions of Tully's net sales are generally realized during the third quarter of Tully's fiscal year, which includes the December holiday season. Seasonal patterns are generally applicable to both of our operating divisions. In addition, quarterly results are affected by the timing of the opening of new stores (by Tully's and our franchisees) or the closure of stores not meeting our expectations. Because of these factors, results for any quarter are not necessarily indicative of the results that may be achieved for the full fiscal year. The sale of the wholesale business may have an unexpected impact on the historical seasonality trends of our business.

Application of Critical Accounting Policies

We have identified the policies below as critical to our business operations and the understanding of our results of operations. The impact and any associated risks related to these policies on our business operations are discussed throughout Management's Discussion and Analysis of Financial Condition and Results of Operations where such policies affect our reported and expected financial results. For a detailed discussion on the application of these and other accounting policies, see Note 1 of the Notes to the Consolidated Financial Statements. Note that our preparation of the consolidated financial statements requires us to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of our financial statements, and the reported amounts of revenue and expenses during the reporting period. There can be no assurance that actual results will not differ from those estimates.

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. We believe the following critical accounting policies affect our more significant judgments and estimates used in our consolidated financial statements, and should be read in conjunction with the Consolidated Financial Statements. Our critical accounting policies relate particularly to (1) revenue recognition, (2) evaluation of long-lived assets for impairment, and (3) share based payments.

Revenue recognition

Sales are generally recognized at the time of the sale at retail store locations. Customer payments received on the issuance and replenishment of our Tully's coffee cards (stored value payment cards) are deferred and recognized as revenues when the cards are redeemed, net of the estimated amounts of customer incentives and discounts associated with the cards. Management's judgment is involved in determining the applicable timing for recognition of these incentives and discounts in revenues. Sales of product for specialty divisions are recognized upon shipment of the products.

Revenues from advance license fees and similar agreements are recognized on the straight-line basis over the expected life of the agreements. Management's judgment is involved in determining the applicable amortization periods for these advance license fees. Royalty revenues for specialty licensees are recognized in accordance with the license agreements based upon sales at specific licensee store locations. Initial franchise fees for new stores franchised by Tully's are recognized when Tully's has completed the services required to earn these fees and make them non-refundable, which is generally upon opening of a store. Royalty revenues from franchisee operated stores are recognized according to the relevant franchise agreements.

Evaluation of long-lived assets for impairment and assets held for sale

We periodically review the carrying value of our long-lived assets for continued appropriateness. This review is based upon our projections of anticipated future cash flows. We record impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amount of those items. Our cash flow estimates are based on historical results adjusted to reflect our best estimate of future market and operating conditions. While we believe that our estimates of future cash flows are reasonable, different assumptions regarding such cash flows could materially affect our evaluations. The net carrying value of assets not recoverable are reduced to their fair value. Our estimates of fair value represent our best estimate, based primarily on discounted cash flows.

Assets and liabilities to be disposed of by sale are, among other factors, classified as “Held for Sale” at which point management has committed to a plan for the disposition, the sale is probable and expected to occur within 12 months and the assets are in sellable condition. No such impairment was recorded in Fiscal 2010 as expected closure asset sales are expected to exceed costs. Disclose the impairment recorded in 2010

Share Based Payments

We grant stock options to purchase our common stock to certain employees under the 2004 Stock Option Plan. Additionally, we have outstanding options that were granted under an earlier stock option plan. The determination of fair value of stock option awards on the date of grant using the Black-Scholes model is affected by our stock price and subjective assumptions. These assumptions include, but are not limited to, the expected term of stock options and expected stock price volatility over the term of the awards. Our stock options have characteristics significantly different from those of traded options, and changes in the assumptions can materially affect the fair value estimates.

Statement of Financial Accounting Standards No. 123, “Accounting for Stock-Based Compensation” (“SFAS No. 123”) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. When actual forfeitures vary from our estimates, we recognize the difference in compensation expense in the period the actual forfeitures occur or when options vest.

New Accounting Standards

In September 2009, the Company adopted changes issued by the Financial Accounting Standards Board (FASB) to the authoritative hierarchy of GAAP. These changes establish the FASB Accounting Standards CodificationTM (Codification) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The FASB will no longer issue new standards in the form of Statements, FASB Staff Positions, or Emerging Issues Task Force Abstracts; instead the FASB will issue Accounting Standards Updates. Accounting Standards Updates will not be authoritative in their own right as they will only serve to update the Codification. These changes and the Codification itself do not change GAAP. Other than the manner in which new accounting guidance is referenced, the adoption of these changes had no impact on the Financial Statements.

In December 2006, the FASB issued FASB ASC 820 – Fair Value Measurements and Disclosures. The guidance defines fair value, establishes a market-based framework or hierarchy for measuring fair value, and expands disclosures about fair value measurements. FASB ASC 820 – Fair Value Measurements and Disclosures is applicable whenever another accounting pronouncement requires or permits assets and liabilities to be measured at fair value. FASB ASC 820 – Fair Value Measurements and Disclosures does not expand or require any new fair value measures; however, the application of this statement may change current practice. The requirements of the guidance are effective for our fiscal year beginning March 31, 2008. The adoption had no impact on our condensed consolidated financial position, results of operations, cash flows or financial statement disclosures. See also discussion of the interpretation of this pronouncement below.

In December 2007, the FASB issued FASB ASC 805 – Business Combinations. The guidance retains the fundamental requirements in FASB ASC 805 – Business Combinations that the acquisition method of accounting (which FASB ASC 805 – Business Combinations called the *purchase method*) be used for all business combinations and for an acquirer to be identified for each business combination. FASB ASC 805 – Business Combinations also establishes principles and requirements for how the acquirer: (a) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree; (b) improves the completeness of the information reported about a business combination by changing the requirements for recognizing assets acquired and liabilities assumed arising from contingencies; (c) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and (d) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. FASB ASC 805 – Business Combinations applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008 (for acquisitions closed on or after January 1, 2009 for the Company). Early application is not permitted. We have not yet determined the impact, if any, will have on our consolidated financial statements.

In December 2007, the FASB issued established accounting and reporting standards for the noncontrolling interest (currently referred to as non-controlling interest) in a subsidiary and for the deconsolidation of a subsidiary. The guidance establishes a single method of accounting for changes in a parent's ownership interest in a subsidiary that do not result in deconsolidation by requiring that ownership transactions not resulting in deconsolidation be accounted for as equity with no gain or loss recognition in the income statement. The guidance also requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated, which is the date the parent ceases to have a controlling financial interest in the subsidiary. The guidance, which was effective for the Company at the beginning of the fiscal year 2010, is applied prospectively upon adoption except for the presentation and disclosure provisions, which require retrospective application for all periods presented. The presentation provisions require that (1) the noncontrolling interest be reclassified to equity, (2) consolidated net income be adjusted to include the net income attributed to the noncontrolling interest and (3) consolidated comprehensive income be adjusted to include the comprehensive income attributed to the noncontrolling interest. The adoption had no impact on our condensed consolidated financial position, results of operations, cash flows or financial statement disclosures.

On June 29, 2009, the Company adopted changes issued by the FASB to accounting for and disclosure of events that occur after the balance sheet date, but before financial statements are issued or are available to be issued, otherwise known as "subsequent events." Specifically, these changes set forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. The adoption of these changes had no impact on the financial statements as management already followed a similar approach prior to the adoption of this new guidance. We have evaluated subsequent events after the balance sheet date to June 28, 2010 which is the date the financial statements were issued.

In June 2009, the FASB amended the consolidation guidance that applies to variable interest entities and the definition of a variable interest entity and requires enhanced disclosures to provide more information about an enterprise's involvement in a variable interest entity. This Statement also requires ongoing assessments of whether an enterprise is the primary beneficiary of a variable interest entity. We have not yet determined the impact, if any, will have on our consolidated financial statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The supply and price of coffees are subject to significant volatility and can be affected by multiple factors in green coffee producing countries, including weather, political and economic conditions. In addition, green coffee bean 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 beans through agreements establishing export quotas or restricting coffee bean supplies worldwide. Because we purchase the majority of our coffee under a Supply Agreement with GMCR we are limited to offsetting the cost exposure of the main commodity used in our business, as we are unable to enter into fixed-price purchase commitments with other roasters. We estimate that a ten percent increase in coffee bean pricing could reduce operating income by $250,000 to $350,000 annually if we were unable to adjust our retail prices.

We currently have no foreign currency exchange rate exposure related to our purchasing of coffee beans because all material purchase transactions are denominated in U.S. dollars.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following consolidated financial statements, and related notes thereto, of TC Global, Inc., and the Report of Independent Registered Public Accounting Firm, are filed as a part of this Annual Report on Form 10-K.

Index to Consolidated Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
TC Global, Inc.

We have audited the accompanying consolidated balance sheets of TC Global, Inc. and subsidiaries as of March 28, 2010 and March 29, 2009 and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows for each of the periods ended March 28, 2010, March 29, 2009 and March 30, 2008. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of TC Global, Inc. as of March 28, 2010 and March 29, 2009, and the consolidated results of its operations and its cash flows for each of the periods ended March 28, 2010, March 29, 2009 and March 30, 2008, in conformity with accounting principles generally accepted in the United States of America.

/s/ Moss Adams LLP
Seattle, Washington
June 28, 2010

TC GLOBAL, INC.

CONSOLIDATED BALANCE SHEETS

	March 28, 2010	March 29, 2009
	(dollars in thousands, except share data)	
Assets		
Current assets		
Cash and cash equivalents	$ 3,558	$ 11,994
Escrow receivable	3,500	3,500
Income tax receivable	931	—
Accounts receivable, net of allowance for doubtful accounts of $704 and $578 at 2010 and 2009, respectively	585	6,617
Inventories	1,381	1,112
Prepaid expenses and other current assets	274	538
Related party receivable	—	1,162
Total current assets	10,229	24,923
Property and equipment, net	2,184	2,783
Goodwill	45	332
Related party receivable, net of current portion	1,000	1,000
Other assets	263	216
Total assets	$ 13,721	$ 29,254
Liabilities and Stockholders' Equity (Deficit)		
Current liabilities		
Accounts payable	$ 2,498	$ 4,973
Accrued liabilities	2,061	4,613
Credit line and current portion of long-term debt	157	266
Current portion of capital lease obligations	—	1
Deferred revenue	4,271	3,369
Current portion of deferred gain on sale of wholesale segment	169	169
Note payable due to limited partnerin TCAP	4,000	4,000
Total current liabilities	13,156	17,391
Other liabilities	—	151
Deferred lease costs	249	416
Deferred revenue, net of current portion	715	386
Deferred gain on Sale of Wholesale Segment, net of current portion	2,189	2,358
Total liabilities	16,309	20,702
Commitments and contingencies (Note 17)		
Stockholders' equity (deficit)		
Series A Convertible Preferred stock, no par value; 31,000,000 shares authorized, 12,790,874 and 12,790,874 issued and outstanding at 2010 and 2009, respectively; stated value of $2.50 per share liquidation preference	28,473	28,473
Common stock, no par value; 120,000,000 shares authorized; 3,563,867 and 3,288,772 shares issued and outstanding at 2010 and 2009, respectively, stated value of $18.00 per share liquidation preference	19,706	19,594
Series B Convertible Preferred stock, no par value; 8,000,000 shares authorized, 3,590,349 and 3,584,349 issued and outstanding at 2010 and 2009, respectively, stated value of $2.50 per share liquidation preference	7,958	7,958
Additional paid-in capital	24,089	29,955
Accumulated other comprehensive loss	(41)	(34)
Accumulated deficit	(84,371)	(79,180)
Total stockholders' equity (deficit) attributable to TC Global, Inc.	(4,186)	6,766
Non-Controlling interest	1,598	1,786
	(2,588)	8,552
Total liabilities and stockholders' equity	$ 13,721	$ 29,254

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

TC GLOBAL, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Years ended		
	March 28, 2010	**March 29, 2009**	**March 30, 2008**
	(dollars in thousands, except per share data)		
Net sales			
Retail store sales	$35,426	$ 38,615	$ 42,897
Specialty sales of products	3,620	47	203
Total sales of products	39,046	38,662	43,100
Licenses, royalties, and fees	484	383	234
Recognition of deferred license revenue	40	—	(2,389)
Net sales	39,570	39,045	40,945
Cost of goods sold and operating expenses			
Retail cost of goods sold	12,704	13,969	15,697
Retail occupancy expenses	4,396	4,527	5,323
Total retail cost of goods sold and related occupancy expenses	17,100	18,496	21,020
Specialty cost of goods sold	2,449	37	214
Cost of goods sold and related occupancy expenses	19,549	18,533	21,234
Store operating expenses	15,638	17,546	19,474
Other operating expenses	2,337	1,106	1,552
Marketing, general and administrative costs	6,515	7,742	9,002
Depreciation and amortization	1,191	1,705	2,186
Impairment of goodwill and long-lived assets	368	237	—
Recognition of deferred offering costs	—	—	1,433
Store closure and lease termination costs	—	282	19
Total cost of goods sold and operating expenses	45,598	47,151	54,900
Operating loss	(6,028)	(8,106)	(13,955)
Other income (expense)			
Interest expense	(10)	(3,254)	(2,136)
Interest income	5	43	—
Miscellaneous income (expense)	(110)	74	4
Loan guarantee fee expense	—	(131)	(222)
Total other income (expense)	(115)	(3,268)	(2,354)
Income (loss) from continuing operations before income taxes	(6,143)	(11,374)	(16,309)
Income tax benefit (expense)	764	11,474	(2)
Net income (loss) from continuing operations	$ (5,379)	$ 100	$(16,311)
Non-controlling interest	188	214	—
Net income (loss) from continuing operations attributable to TC Global, Inc.	$ (5,191)	$ 314	$(16,311)
Discontinued operations (Note 3)			
Income from discontinued operations	$ —	$ 34,948	$ 2,402
Income tax benefit (expense)	—	(12,407)	—
Income from discontinued operations	$ —	$ 22,541	$ 2,402
Net income (loss) attributable to TC Global, Inc.	$ (5,191)	$ 22,855	$(13,909)
Continuing operations—basic and diluted			
Continuing operations—basic	$ (1.47)	$ 0.10	$ (5.59)
Continuing operations—diluted	$ (1.47)	$ 0.05	$ (5.59)
Discontinued operations—basic and diluted			
Discontinued operations—basic	$ —	$ 6.90	$ 0.82
Discontinued operations—diluted	$ —	$ 3.48	$ 0.82
Earnings (loss) per share—basic and diluted			
Earnings (loss) per share—basic	$ (1.47)	$ 7.00	$ (4.77)
Earnings (loss) per share—diluted	$ (1.47)	$ 3.53	$ (4.77)
Weighted average shares used in computing basic and diluted earnings (loss) per share (in thousands)			
Earnings (loss) per share—basic	3,537	3,265	2,917
Earnings (loss) per share—diluted	3,537	6,478	2,917

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

TC Global, Inc.

Consolidated Statements of Changes in Stockholders' Equity (Deficit)
Years Ended March 28, 2010, March 29, 2009, and March 30, 2008

	Convertible Preferred Stock				Common Stock						
	Series A Shares	Series A Amount	Series B Shares	Series B Amount	Shares	Amount	Additional paid-in capital	Subscription receivable	Accumulated deficit	Non-controlling interest	Total
					(dollars in thousands, except per share data)						
Balance, April 1, 2007	15,559,152	$34,639	4,920,709	$10,911	2,406,570	$ 9,822	$28,645	$ —	$ (88,126)		$ (4,109)
Exercise of common stock warrants					258,278	394					394
Series A Preferred stock converted to common stock	(2,628,778)	(5,856)			371,491	5,856					—
Series B Preferred stock converted to common stock			(1,307,360)	(2,902)	163,416	2,902					—
Exercise of stock options					40,082	6					6
Issuance of common stock warrants for loan fees							635				635
Issuance of common stock warrants for loan guarantee							185				185
Issuance of common stock under terms of legal settlement					11,719	132					132
Cash in lieu of fractional stock on reverse split					335	(12)					(12)
Stock option expense							199				199
Accrued expense paid through grant of stock options							55				55
Non-controlling interest in joint venture										6,000	6,000
Subscription receivable								(3,000)			(3,000)
Net loss									(13,909)		(13,909)
Balance, March 30, 2008	12,930,374	$28,783	3,613,349	$ 8,009	3,251,891	$19,100	$29,719	$(3,000)	$(102,035)	$6,000	$(13,424)

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

TC Global, Inc.

Consolidated Statements of Changes in Stockholders' Equity (Deficit)
Years Ended March 28, 2010, March 29, 2009, and March 30, 2008
(continued)

	Convertible Preferred Stock				Common Stock							
	Series A Shares	Series A Amount	Series B Shares	Series B Amount	Shares	Amount	Additional paid-in capital	Subscription receivable	Accumulated Other Comprehensive Loss	Accumulated deficit	Non-controlling interest	Total
	(dollars in thousands, except per share data)											
Balance, March 30, 2008	12,930,374	$28,783	3,613,349	$8,009	3,251,891	$19,100	$29,719	$(3,000)		$(102,035)	$ 6,000	$(13,424)
Exercise of common stock warrants					1,914	—						—
Series A Preferred stock converted to common stock	(139,500)	(310)			19,717	310						—
Series B Preferred stock converted to common stock			(29,000)	(51)	2,875	51						—
Exercise of stock options					655	—						—
Issuance of common stock under terms of legal settlement					11,720	133						133
Stock option expense							201					201
Accrued expense paid through grant of stock options							35					35
Subscription receivable								3,000				3,000
Obligation to minority shareholder in TCAP											(4,000)	(4,000)
Net Income										22,855	(214)	22,641
Foreign currency translation adjustment									(34)			(34)
Total comprehensive income												22,821
Balance, March 29, 2009	12,790,874	$28,473	3,584,349	$7,958	3,288,772	$19,594	$29,955	$ —	(34)	$ (79,180)	$ 1,786	$ 8,552

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

TC Global, Inc.

Consolidated Statements of Changes in Stockholders' Equity (Deficit)
Years Ended March 28, 2010, March 29, 2009, and March 30, 2008
(continued)

	Convertible Preferred Stock				Common Stock						
	Series A Shares	Series A Amount	Series B Shares	Series B Amount	Shares	Amount	Additional paid-in capital	Accumulated Other Comprehensive Loss	Accumulated deficit	Non-controlling interest	Total
					(dollars in thousands, except per share data)						
Balance, March 29, 2009	12,790,874	$28,473	3,584,349	$7,958	3,288,772	$19,594	$29,955	$(34)	$(79,180)	$1,786	$ 8,552
Exercise of common stock warrants					205,332	$ 32					$ 32
Exercise of stock options					51,851	$ 3					$ 3
Exercise of stock options utilizing net exercise					10,880	$ (8)					$ (8)
Adjustments to Preferred B Shares			6,000								
Stock option expense							$ 128				128
Shareholder Distribution							$ (5,994)				$(5,994)
Liability paid through issuance of stock					7,032	$ 85					$ 85
Net loss									$ (5,191)	(188)	$(5,379)
Foreign currency translation adjustment								$ (7)			(7)
Comprehensive loss											(5,386)
Balance, March 28, 2010	12,790,874	$28,473	3,590,349	$7,958	3,563,867	$19,706	$24,089	$(41)	$(84,371)	$1,598	$(2,588)

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

TC Global, Inc.

Consolidated Statements of Cash Flows

	Years ended		
	March 28, 2010	March 29, 2009	March 30, 2008
	(dollars in thousands)		
Cash flows from operating activities			
Net income (loss)	$ (5,191)	$ 22,855	$(13,909)
Adjustments to reconcile net income (loss) to net cash used in operating activities			
Depreciation and amortization	1,191	1,705	2,764
Impairment of goodwill and long-lived assets	368	237	—
Store closure costs charged to operations	—	282	19
(Gain) loss on sale of property and equipment	(23)	(72)	(3)
Gain on Sale of Wholesale Segment	—	(28,656)	—
Stock option expense	128	201	199
Provision for doubtful accounts	316	287	121
Loan guarantee fee expense	—	131	222
Non-cash interest expense	—	1,101	529
Reversal of deferred license revenue	—	—	(1,800)
Non-controlling interest	(188)	(214)	—
Franchise revenue repossession and refund provision	—	—	5,295
Recognition of deferred gain on Sale of Wholesale Business	(169)	—	—
Recognition of deferred revenue	(91)	(29)	(1,080)
Changes in assets and liabilities			
Accounts receivable	4,785	1,257	(1,523)
Restricted Cash (Escrow Receivable)	—	(3,500)	—
Inventories	(268)	325	(887)
Prepaid expenses and other current assets	1,743	(1,550)	556
Accounts payable	(2,475)	(3,626)	2,642
Accrued liabilities	(2,619)	(195)	165
Deferred revenue	796	683	504
Deferred lease costs	(167)	(393)	(319)
Net cash used in operating activities	(1,864)	(9,171)	(6,505)
Cash flows from investing activities			
Net proceeds from Sale of Wholesale Segment	—	36,800	—
Proceeds from sale of fixed assets	25	256	—
Proceeds from sale of development rights	526	469	—
Purchases of property and equipment	(641)	(976)	(2,309)
Other	(38)	15	6
Net cash (used in) provided by investing activities	(128)	36,564	(2,303)
Cash flows from financing activities			
Net borrowings (repayments) under Northrim credit facility	—	(4,652)	596
Payments on long-term debt (including convertible note) and capital leases	(470)	(382)	(554)
Proceeds (repayments) under Benaroya credit facility	—	(7,482)	7,482
Repayment on UCC note payable	—	(4,120)	(2,000)
Non-controlling interest contribution to joint venture	—	—	3,000
Cash in lieu of fractional stock on reverse split	—	—	(12)
Foreign currency translation adjustment	(7)	(34)	—
Shareholder distribution	(5,994)	—	—
Proceeds from exercise of stock options and warrants	27	—	137
Net cash (used in) provided by financing activities	(6,444)	(16,670)	8,649
Net increase (decrease) in cash and cash equivalents	(8,436)	10,723	(159)
Cash and cash equivalents			
Beginning of period	11,994	1,271	1,430
End of period	$ 3,558	$ 11,994	$ 1,271

TC Global, Inc.

Consolidated Statements of Cash Flows
(continued)

	Years ended		
	March 28, 2010	March 29, 2009	March 30, 2008
	(dollars in thousands)		
Supplemental disclosure of cash flow information and non-cash investing and financing activities:			
Cash paid during the period for interest	$ 10	$3,254	$2,136
Non-cash activity			
Issuance of note payable to UCC for franchise repossession	—	—	$6,000
Accrued expense paid through grant of stock options	128	35	55
Warrant issued for loan commitment fee	—	—	635
Discount recorded for note proceeds	—	—	582
Discount recorded for UCC note	—	—	690
Warrants issued for loan guarantee	—	—	185
Insurance premiums financed through note payable	360	545	341
Liability paid through issuance of stock	85	132	132

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

TC GLOBAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. The Company and significant accounting policies

The Company and nature of operations

TC Global, Inc. (formerly Tully's Coffee Corporation") was formed in 1992 and is a specialty retailer licensing the Tully's Coffee business names and trademarks in the fast-casual categories of specialty coffee, snacks and non-alcoholic beverages, within the broader quick-service restaurant industry. Tully's is known for gourmet coffees, wide selection of barista beverages, delicious assortment of breakfast and lunch offerings and anytime snacks, desserts and specialty beverages, and our genuine community coffeehouse experience. Our specialty division oversees the franchising of Tully's Coffee retail stores. Franchising complements our company-operated retail business by making Tully's genuine community coffeehouse experience more widely available and convenient for customers. Additionally, our specialty division oversees our Asian joint venture, which we refer to as "Tully's Coffee Asia," which seeks to develop the Tully's brand in Asia (excluding Japan) Australia and New Zealand, foreign licensing, wholesale distribution and other business activities through our wholly owned subsidiary Tully's Coffee Asia Pacific, Inc. ("TCAP").

In these consolidated financial statements, references to "we," "us," "Tully's" or the "Company" refer to TC Global, Inc. Tully's-branded retail stores are operated by our Retail division and are also operated by other parties under license or franchise. Tully's stores sell our high quality, premium roasted whole bean coffees, and serve a wide selection of hot and cold beverages that feature our coffees and our premium softened ice cream. Tully's stores also sell baked goods and pastries and other complementary snack and food items and coffee-related accessories, supplies, and equipment.

Principles of Consolidation

The accompanying consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The consolidated financial statements reflect the financial position and operating results of Tully's, including wholly owned subsidiaries and joint ventures, controlled by the Company. Intercompany transactions and balances have been eliminated.

Fiscal periods

We end our fiscal year on the Sunday closest to March 31. As a result, we record our revenue and expenses on a 52 or 53 week period, depending on the year. In this report, we refer to our fiscal periods as follows:

Reference in this report	Fiscal year ending (number of weeks)
Fiscal 2010	March 28, 2010 (52 weeks)
Fiscal 2009	March 29, 2009 (52 weeks)
Fiscal 2008	March 30, 2008 (52 weeks)
Fiscal 2007	April 1, 2007 (52 weeks)
Fiscal 2006	April 2, 2006 (52 weeks)

Reverse stock split

On June 28, 2007, our articles of incorporation were amended to effect a one-for-eight reverse stock split of our common stock, as described in Note 19. All common share information (including information related to options and warrants to purchase common stock) and all "per share" information related to our common stock in the consolidated financial statements have been restated to reflect the one-for-eight reverse split.

Use of estimates

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

Cash and Cash Equivalents

Cash equivalents in excess of current operating requirements are invested in short-term, interest-bearing instruments with maturities of three months or less at the date of purchase and are stated at cost, which approximates market value.

Accounts Receivable

Tully's provides products to approved customers and franchisees on an open account basis. We generally do not require collateral on trade receivables. Tully's reviews a customer's credit history before extending credit and establishes an allowance for doubtful accounts based on the risk of specific customers. Historically, credit related losses on trade receivables have not been significant. In Fiscal 2010 we significantly increased or allowance for doubtful accounts consistent to our history of collections within our Specialty division.

Escrow and Related Party Receivable

On March 27, 2009, we completed the sale of the assets associated with our wholesale business and supply chain (including Tully's business names and trademarks) to Green Mountain Coffee Roasters, Inc. ("GMCR") pursuant to the Asset Purchase Agreement, dated September 15, 2008, as amended by Amendment No. 1 thereto dated November 12, 2008, and Amendment No. 2 thereto dated February 6, 2009, by and among the Green Mountain Coffee Roasters, Inc., Tully's Coffee Corporation, and Tully's Bellaccino, LLC (the "Green Mountain Transaction"). The total purchase price included an indemnification claim escrow holdback equal to $3,500,000 (the "Escrow"). The Escrow was subject to a twelve-month holdback. On March 29, 2010, the full $3,500,000 was released from the Escrow and paid to the Company.

In December 2008 TCAP granted Asia Food Culture Management Pte. Ltd., a Singapore company and the limited partner in Tully's Coffee Asia ("AFCM"), a $1,000,000 loan to be paid through future distributions of Tully's Coffee Asia.

Inventories

Inventories are stated at the lower of cost (on the first-in, first-out basis) or market. Our sourcing and merchandising process is centralized, but each store generally orders its individual requirements from our distribution facility and our authorized vendors.

Property and equipment

Property and equipment are carried at cost less accumulated depreciation and amortization. Depreciation of property and equipment includes amortization of assets under capital leases and is provided on the straight-line method over the estimated economic lives. Machinery and equipment are depreciated over 5 to 7 years. Leasehold improvements are depreciated over the shorter of their estimated economic lives (generally ten years) or the applicable lease term as defined under GAAP. Software is depreciated over 3 years. The cost of property held under capital lease is equal to the lower of the net present value of the minimum lease payments or the fair value of the leased property at the inception of the lease. Expenditures for additions and improvements are capitalized and expenditures for repairs and maintenance are charged to expense as incurred. The cost and accumulated depreciation of assets sold or retired are removed from the accounts, and the related gains and losses are included in the results of operations. Certain properties and equipment have been reduced due to impairment charges.

Assets held for sale and impairment of long-lived assets

Accounting for the impairment or disposal of long-lived assets requires that long-lived assets and certain intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. If impairment has occurred, an impairment loss must be recognized.

As part of our review, assets are grouped and evaluated at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. Tully's has identified this lowest level to be principally individual stores. We consider historical performance and future estimated results in our evaluation of potential impairment and then compare the carrying amount of the asset to the estimated future, cash flows expected to result from the use of the asset. If the carrying amount of the asset exceeds estimated expected undiscounted future cash flows, we measure the amount of the impairment by comparing the carrying amount of the asset to its fair value. The estimation of fair value is measured by discounting expected future cash flows.

Assets and liabilities to be disposed of by sale are, among other factors, classified as "Held for Sale" at which point management has committed to a plan for the disposition, the sale is probable and expected to occur within 12 months and the assets are in sellable condition.

Lease termination costs

Periodically, Tully's will determine that certain leases will be terminated and the location will be closed. At such determination, we accrue for the net future minimum lease payments of the related lease agreements. Amounts accrued as net future minimum losses include the discounted estimated future rental payments, lease termination fees, and sub-lease recoveries.

Foreign Currency Translation

The Company has determined that the functional currency of its foreign subsidiary is the subsidiary's local currency. The assets and liabilities of this subsidiary are translated at the applicable exchange rate as of the balance sheet date and revenue and expenses are translated at an average rate over the period. Currency translation adjustments are recorded as a component of accumulated other comprehensive income (loss). Gains and losses on inter-company transactions are recorded in operating expenses and have not been material for the periods presented.

Segment reporting

We present segment information in accordance with guidance which established reporting and disclosure standards for an enterprise's operating segments. Operating segments are defined as components of an enterprise for which separate financial information is available and regularly reviewed by our senior management.

Our Retail division operates Tully's Coffee retail stores in the United States and generates revenues through the sales of products in these stores. We complement our Retail division's operations with additional channels for distribution of our licensed products, which we manage as separate business segments, our Specialty division, which sells Tully's coffee and related products and supplies to our foreign licensees and manages the relationships with these licensees.

Revenue recognition

Sales are generally recognized at the time of the sale at retail store locations. Customer payments received on the issuance and replenishment of our Tully's coffee cards (stored value payment cards) are deferred and recognized as revenues when the cards are redeemed, net of the estimated amounts of customer incentives and discounts associated with the cards. Management's judgment is involved in determining the applicable timing for recognition of these incentives and discounts in revenues. Sales of product for specialty divisions are recognized upon shipment of the products.

Revenues from advance license fees and similar agreements are recognized on the straight-line basis over the expected life of the agreements. Management's judgment is involved in determining the applicable amortization periods for these advance license fees. Royalty revenues for specialty licensees are recognized in accordance with the license agreements based upon sales at specific licensee store locations. Initial franchise fees for new stores franchised by Tully's are recognized when Tully's has completed the services required to earn these fees and make them non-refundable, which is generally upon opening of a store. Royalty revenues from franchisee operated stores are recognized according to the relevant franchise agreements.

Concentrations of credit risk

We sell to various individuals and organizations while extending credit to customers and franchisees and are therefore subject to credit risk. Tully's maintains its cash and investment balances with what we believe to be high credit quality financial institutions.

Store pre-opening costs

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

Advertising costs

Costs incurred for advertising and marketing are expensed in the periods to which the promotions are applicable and totaled $822,000, $943,000, and $1,518,000 during Fiscal 2010, Fiscal 2009, and Fiscal 2008, respectively. Local store advertising and marketing costs are reported in store operating expenses, while general advertising and marketing costs for the Company and our Retail and Specialty divisions are reported in marketing, general and administrative costs.

Rent expense

Tully's operates in leased buildings. Certain lease agreements provide for scheduled rent increases during the lease terms or for rental payments commencing on a date other than the date of initial occupancy. Such "stepped" rent expense is recorded on a straight-line basis over the respective terms of the leases. Certain leases require contingent rent based on gross sales and such rent expense is recognized as incurred. Certain leases have rent holiday ("free rent") periods, and Tully's recognizes these rental credits on a straight-line basis over the respective lease terms.

Asset Retirement Obligations

The Company is required to recognize a liability for the fair value of required asset retirement obligations ("ARO"), if such liability is expected, when the obligations are incurred. The Company's potential AROs are primarily associated with lease arrangements and leasehold improvements arising in the Company owned locations which, in some instances at the end of a lease, the Company is contractually obligated to remove all assets in order to comply with the lease agreement if they cannot successfully find a replacement tenant, sell the improvements or enter into alternative agreements with the landlords. The future obligation are to be estimated based on a number of assumptions requiring management's judgment, including net store closing costs, cost inflation rates and discount rates, and is to be accreted to its projected future value over time. The capitalized asset is to be depreciated using the convention for depreciation of leasehold improvement assets. Upon satisfaction of the ARO conditions, any difference between the recorded ARO liability and the actual retirement costs incurred is recognized as an operating gain or loss in the consolidated statements of earnings. As of March 28, 2010 and March 29, 2009, management has determined that the potential obligation is not significant due to the nature of the lease arrangements and related leasehold improvements and the historical costs related to store closures and /or lease terminations.

Litigation costs

From time to time, the Company may become involved in litigation or similar claims. Such matters are evaluated, and, if it is determined that a loss is probable and estimable, the estimated amount is recorded, including the estimated costs of defending the matter (if applicable). Potential gains associated with such litigation are recognized if and when they are realized by us.

Income taxes

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

Tully's has recorded a valuation allowance against net deferred tax assets as we could not conclude that it was more likely than not that the tax benefits from temporary differences and net operating loss carryforwards would be realized. In subsequent periods, we may reduce the valuation allowance, provided that the possibility of utilization of the deferred tax assets is more likely than not.

In April 2007, the FASB issued established accounting and reporting standards *Accounting for Uncertainty in Income Taxes* which defines the threshold for recognizing the benefits of tax return positions in the financial statements as "more-likely-than-not" to be sustained by the taxing authority. The guidance applies to all tax positions accounted for under FASB ASC 740, "Accounting for Income Taxes." There was no adjustment required to be made to our opening retained earnings balance upon adoption of the guidance. We have elected to treat interest and penalties accrued on unrecognized tax benefits as a component of income tax expense within our financial statements. See Note 10 for additional detail on the Company's tax positions.

Fair value of financial instruments

The carrying amount of cash and cash equivalents and other current assets and liabilities, such as accounts receivable and accounts payable as presented in the consolidated financial statements, approximates fair value based on the short-term nature of these instruments. Historically, the carrying amount of our credit facilities approximated fair value because the interest rates are subject to change with, or approximate, market interest rates.

Stock-based compensation

Our stock-based awards consist primarily of stock options granted to employees and directors.

The compensation cost for awards granted prior to April 3, 2006 is based on the grant-date fair value of the stock-based award estimated in accordance with the pro forma provisions of FASB ASC 718, while awards granted after April 2, 2006 follow the provisions of FASB ASC 718. Compensation cost for awards granted prior to April 2, 2006 is recognized on a straight-line basis over the requisite service period for each separately remaining vesting portion of the award, while compensation cost for awards granted after April 2, 2006 is recognized on a straight-line basis over the requisite service period for the entire award.

For all of these stock-based awards, we have used the Black-Scholes option pricing model for the valuation for stock option awards on the date of grant. These computations are affected by the estimated fair value of our stock at the grant date as well as assumptions regarding a number of subjective variables. These variables include, but are not limited to, the expected life of the award, our expected stock price volatility over the term of the award and actual and projected exercise behaviors. Although the fair value of stock option awards is determined in accordance with FASB ASC 718, the Black-Scholes option pricing model requires the input of subjective assumptions, and other reasonable assumptions could provide differing results.

Earnings (loss) per share

Basic earnings (loss) per share is calculated as net income (loss) applicable to the common shareholders divided by the weighted-average number of shares of common stock outstanding during the period. Diluted earnings (loss) per share is based on the weighted-average number of shares of common stock and common stock equivalents outstanding during the period, including options, warrants, convertible preferred stock and convertible debt computed using the treasury stock method. The computation of net income (loss) per share is summarized in Note 22.

Reclassifications

Reclassifications of prior year balances have been made to conform to the current year classifications and have no impact on net income (loss) or financial position. In September of 2008, the Company entered into an agreement to sell its wholesale division. (See "Note 3—Discontinued Operations—Sale of Wholesale Segment) For purposes of comparability, the results of these operations have been reclassified from continuing operations to discontinued operations for all years presented in the accompanying consolidated statements of operations.

Consolidation of Asian Joint Venture

During Fiscal 2008, TCAP became the general partner of Tully's Coffee Asia, a limited partnership. Tully's Coffee Asia seeks to develop the Tully's brand in Asia (excluding Japan), Australia and New Zealand (the "Licensed Territories") through franchising and licensing activities, retail store operations, coffee roasting, wholesale distribution and other business activities. Tully's partner in this venture, AFCM, is managed by the founder and former chief executive officer of TCJ. AFCM has limited rights with respect to the management and control of Tully's Coffee Asia. TCAP, as the general partner of Tully's Coffee Asia, has control of the partnership and full voting rights.

On March 27, 2009, TCAP agreed to purchase, or cause a third party to purchase, one-half of AFCM's partnership interest in Tully's Coffee Asia, equal to twenty-five percent (25%) of the total partnership interests outstanding, at a purchase price of US$4,000,000, within twelve (12) months of the closing of the GMCR Transaction. TCAP has classified this obligation as a current liability and offset AFCM's non-controlling interest equally.

As of March 28, 2010 TCAP had not met this obligation. TCAP and AFCM continue to work on a settlement and to seek a buyer for AFCM's interest. If TCAP is unsuccessful in either finding a buyer for AFCM interest or in the settlement negotiations we could face adverse economic consequences surrounding our wholly owned subsidiary TCAP. This obligation is not currently guaranteed by TC Global, Inc. and there are currently no intentions of repayment aside from those funds available in TCAP or successfully finding a third party buyer for the 25% interest.

New accounting standards

In September 2009, the Company adopted changes issued by the Financial Accounting Standards Board (FASB) to the authoritative hierarchy of GAAP. These changes establish the FASB Accounting Standards CodificationTM (Codification) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The FASB will no longer issue new standards in the form of Statements, FASB Staff Positions, or Emerging Issues Task Force Abstracts; instead the FASB will issue Accounting Standards Updates. Accounting Standards Updates will not be authoritative in their own right as they will only serve to update the Codification. These changes and the Codification itself do not change GAAP. Other than the manner in which new accounting guidance is referenced, the adoption of these changes had no impact on the Financial Statements.

In December 2006, the FASB issued FASB ASC 820 – Fair Value Measurements and Disclosures. The guidance defines fair value, establishes a market-based framework or hierarchy for measuring fair value, and expands disclosures about fair value measurements. FASB ASC 820 – Fair Value Measurements and Disclosures is applicable whenever another accounting pronouncement requires or permits assets and liabilities to be measured at fair value. FASB ASC 820 – Fair Value Measurements and Disclosures does not expand or require any new fair value measures; however, the application of this statement may change current practice. The requirements of the guidance are effective for our fiscal year beginning March 31, 2008. See notes 8 and 9 below regarding the impact of the adoption of this standard. See also discussion of the interpretation of this pronouncement below.

In December 2007, the FASB issued FASB ASC 805 – Business Combinations. The guidance retains the fundamental requirements in FASB ASC 805 – Business Combinations that the acquisition method of accounting (which FASB ASC 805 – Business Combinations called the *purchase method*) be used for all business combinations and for an acquirer to be identified for each business combination. FASB ASC 805 – Business Combinations also establishes principles and requirements for how the acquirer: (a) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree; (b) improves the completeness of the information reported about a business combination by changing the requirements for recognizing assets acquired and liabilities assumed arising from contingencies; (c) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and (d) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. FASB ASC 805 – Business Combinations applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008 (for acquisitions closed on or after January 1, 2009 for the Company). Early application is not permitted. The adoption of this standard did not have a material impact on the consolidated financial statements.

In December 2007, the FASB issued established accounting and reporting standards for the noncontrolling interest (currently referred to as non-controlling interest) in a subsidiary and for the deconsolidation of a subsidiary. The guidance establishes a single method of accounting for changes in a parent's ownership interest in a subsidiary that do not result in deconsolidation by requiring that ownership transactions not resulting in deconsolidation be accounted for as equity with no gain or loss recognition in the income statement. The guidance also requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated, which is the date the parent ceases to have a controlling financial interest in the subsidiary. The guidance, which was effective for the Company at the beginning of the fiscal year 2010, is applied prospectively upon adoption, except for the presentation and disclosure provisions, which require retrospective application for all periods presented. The presentation provisions require that (1) the noncontrolling interest be reclassified to equity, (2) consolidated net income be adjusted to include the net income attributed to the noncontrolling interest and (3) consolidated comprehensive income be adjusted to include the comprehensive income attributed to the noncontrolling interest. The adoption of this standard has affected the presentation of noncontrolling interest on consolidated balance sheets, statement of stockholders equity (deficit), and statements of operations as noncontrolling interest is presented as a component of equity and net income (loss) is adjusted to include noncontrolling interest.

On June 29, 2009, the Company adopted changes issued by the FASB to accounting for and disclosure of events that occur after the balance sheet date, but before financial statements are issued or are available to be issued, otherwise known as "subsequent events." Specifically, these changes set forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. The adoption of these changes had no impact on the financial statements as management already followed a similar approach prior to the adoption of this new guidance. We have evaluated subsequent events after the balance sheet date to June 28, 2010 which is the date the financial statements were issued.

In June 2009, the FASB amended the consolidation guidance that applies to variable interest entities and the definition of a variable interest entity and requires enhanced disclosures to provide more information about an enterprise's involvement in a variable interest entity. This Statement also requires ongoing assessments of whether an enterprise is the primary beneficiary of a variable interest entity. The adoption of this standard did not have a material impact on the consolidated financial statements.

2. Liquidity

On March 27, 2009, we completed the sale of the assets associated with our business names, trademarks, and wholesale business to GMCR and, in consideration therefor, received $40,300,000. We used these proceeds to improve our liquidity without shareholder dilution, repay our debt, provide for a shareholder distribution paid May 20, 2009, and develop our domestic retail and franchise and our international retail, wholesale, and franchise businesses.

As of March 28, 2010 we had cash and cash equivalents and escrow receivable (collected March 29, 2010) of $7,058,000, of which $1,043,000 was held in Tully's Coffee Asia and limited in use, and a working capital deficit of $2,927,000, which also includes TCAP's $4,000,000 obligation to AFCM, which obligation is not expected to be satisfied by funds held by TC Global, Inc. As discussed in Note 12, On March 27, 2009, TCAP agreed to purchase, or cause a third party to purchase, one-half of AFCM's partnership interest in Tully's Coffee Asia, at a purchase price of US$4,000,000. As of March 28, 2010, TCAP had not met its obligation. TCAP and AFCM continue to work on a settlement and to seek a buyer for AFCM's partnership interest. If TCAP is unsuccessful in either finding a buyer for AFCM's interest or in its settlement negotiations, it could have an adverse impact on TCAP's financial position or results of operations.

Historically we have not required a significant net investment in working capital and operated with current liabilities in excess of our current assets. Our inventory levels are expected to increase during winter due to holiday season merchandise. Inventories are also subject to short-term fluctuations based upon the timing of coffee receipts.

We believe that the operating cash flows, financing cash flows, and investing cash flows projected for Fiscal 2011, and the cash and cash equivalents and escrow receivable (collected March 29, 2010) of $7,058,000, of which $1,043,000 was held in Tully's Coffee Asia and limited in use, will be sufficient to fund our ongoing operations through Fiscal 2011. Our current operating plan does not depend upon obtaining financing and if achieved, would allow us to meet our anticipated cash needs for the next 12 months.

Because we do not believe that we are able to achieve additional material cost reductions, if our sales volumes decline significantly more than we expect during Fiscal 2011 we may be unable to generate enough cash flow from operations to cover our working capital and capital expenditure requirements beginning Fiscal 2012.

Further, based on our current projections beyond Fiscal 2011, we expect that we will deplete our cash in the first half of Fiscal 2012. As such, we believe we will likely need to secure financing in the next 18 months in order to fund our working capital requirements in Fiscal 2012. Although we believe we have financing alternatives available to us, these alternatives would likely involve significant interest and other costs or would likely be highly dilutive to our existing shareholders. We continue to monitor whether credit facilities may be available to us on acceptable terms. There can be no assurance any debt or equity financing arrangement will be available to us when needed on acceptable terms, if at all. In addition, there can be no assurance that these financing alternatives would provide us with sufficient funds to meet our long term capital requirements. If we are unable to secure additional financing or generate sufficient cash flow from operations to fund our working capital and capital expenditures requirements, we could be required to sell stores or other significant assets to provide capital to fund our business. The sale of stores or other income-producing assets could adversely affect our future operating results and cash flows.

3. Discontinued Operations—Sale of Wholesale Segment

On March 27, 2009, we completed the sale of the assets associated with our wholesale business and supply chain (including Tully's business names and trademarks) to GMCR, pursuant to the Asset Purchase Agreement dated September 15, 2008, as amended by Amendment No. 1 thereto dated November 12, 2008, and Amendment No. 2 thereto dated February 6, 2009, by and among the TC Global, Inc., GMCR and Tully's Bellaccino, LLC. GMCR paid a total purchase price of $40.3 million under the agreement.

Therefore, the Company classified the results of operations for the wholesale operations in discontinued operations, in accordance with the guidance provided in FASB ASC 360, *Accounting for the Impairment or Disposal of Long-Lived Assets* ("FASB ASC 360"). The discontinued operations and assets held for sale represent only those pertaining to the Green Mountain Transaction, and do not include any results relating to those activities which are expected to continue under the license agreement due to this continuing involvement.

Upon closing the Green Mountain Transaction, Tully's received $36,800,000; the remaining $3,500,000 of the purchase price was placed in escrow and received March 29, 2009. Tully's recognized a gain of $28,656,000 on the sale, as follows (dollars in thousands):

Cash sales price for the Green Mountain Transaction	$40,300
Deferred Gain:	
License Agreement(1)	(2,523)
Supply Agreement(2)	(4)
Sale of PP&E related to the Green Mountain Transaction	(2,862)
Sale of Inventory related to the Green Mountain Transaction	(2,413)
Write-off of assets and intangible assets not sold and related to wholesale segment	(123)
Less—transaction costs	(3,719)
Gain on Sale of Wholesale Segment	$28,656

(1) Utilizing a valuation method that included the income approach and relief from royalty rate method, the company has valued the use of the trademarks in the License Agreement at $2,523,000 and will amortize the deferred gain of the perpetual license over a 15 year period.

(2) Since there are no direct revenue streams related to the Supply Agreement and it is at market rates, we determined that a market participant would pay no more than the costs required to replace or recreate the Supply Agreement. Therefore, the Company valued the Supply Agreement at $4,400 and will amortize the deferred gain over a 5 year period.

Operation of Roasting Facility

Under the terms of the GMCR Agreement, we operated our roasting and distribution facility for the benefit and at the financial obligation of GMCR through November 2009, when GMCR transitioned roasting and packaging into a new facility.

Supply Agreement

Under the terms of the Supply Agreement, (i) GMCR will use commercially reasonable efforts to supply us with all of our requirements of Products and Other Coffee Products during the term of the Supply Agreement; and (ii) we will agree to purchase all of our requirements of Products and Other Coffee Products from GMCR during the term of the Supply Agreement. As used in the Supply Agreement:

- "Products" means certain 5-lb. bulk, Retail Coffee Bags and fractional pack coffee for use at Licensed Retail Stores (as defined in the License Agreement);

- “Retail Coffee Bags” mean whole bean and ground coffee specifically packaged for retail sale. We expect that the Supply Agreement will support our product sourcing needs for our ongoing retail and specialty businesses; and
- “Other Coffee Products” means grocery bagged coffees, K-Cup portion packs, and certain fractional pack coffees.

Pricing for a specified annual volume of Products will be established on a “cost plus” basis, with the “plus” premium reflecting a negotiated, commercially reasonable margin over GMCR’s cost of goods. Because GMCR’s pricing to us under the Supply Agreement will be tied to its own costs, we expect that the “cost plus” pricing for the Products will be competitive with market prices generally. If Tully’s requires a higher aggregate volume of Products in a given contract year and GMCR does not elect to continue the “cost plus” pricing for one or more Products after the specified volume is exceeded, the Products will be priced at GMCR’s best list price offered to like customers, provided that we will have the option to use a secondary vendor to supply such Products.

In addition, subject to the limitations set forth in the Supply Agreement, we may use a secondary vendor to supply a specific product (except K-Cup portion packs) if GMCR:

- is unable to fill a purchase order for any such Product or Other Coffee Product within 30 days after the delivery date set forth in such order;
- discontinues producing any such Product or Other Coffee Product;
- elects not to produce a new Product or Other Coffee Product requested by us;
- elects not to supply us with any seasonal, promotional or special event related coffee product requested by us; or
- changes the cost-plus pricing for certain Products without our prior written approval.

The initial term of the Supply Agreement runs for five years (expiring March 27, 2014) and may be renewed thereafter for separate additional terms of one year each unless either party provides written notice of non-renewal to the other party at least 120 days in advance of the end of the initial five year term or additional term, as the case may be.

We must provide forecasting to GMCR on our estimated quarterly volume requirements. If our actual purchases under the Supply Agreement vary by more than 25% from our estimates, then we would be subject to a penalty fee.

The Supply Agreement contains certain restrictions on transferability, including that we may not assign the agreement without the prior written consent of GMCR, which may not be unreasonably withheld. Pursuant to the terms of the Supply Agreement, it is reasonable for GMCR to withhold its consent to a proposed assignment of the agreement by Tully’s to a third party if the proposed assignee does not meet GMCR’s standards as to general creditworthiness or the proposed assignee is a direct competitor of GMCR in the coffee business. In addition, it will be a condition of GMCR’s obligation to consent to any such proposed assignment that the proposed assignee agrees to assume our obligations under the Company Noncompetition Agreement (as described below).

In evaluating the Supply Agreement, we made certain estimates of the mix of products that were to be purchased as well as the distribution and competitor prices we would be getting on the products supplied from GMCR.

License Agreement

Under the License Agreement, for a payment by us of one dollar annually, GMCR has granted to us an exclusive, worldwide (excluding Japan), perpetual, fully paid-up license to use the Tully's business names and trademarks set forth in the License Agreement (the "Licensed Marks") in connection with:

(a) the retail sale of certain 5-lb. bulk, Retail Coffee Bags and fractional pack coffee for use at Licensed Retail Stores (as defined below), together with certain other coffee products we may be permitted to offer for retail sale (the "Licensed Products"), solely at or from Licensed Retail Stores;

(b) the operation of Licensed Retail Stores where Licensed Products are used and/or sold;

(c) the making, having made and selling of merchandising items (such as hats, t-shirts and mugs) under and/or bearing the Licensed Marks, but for resale solely in Licensed Retail Stores or at other stores or outlets wholly-owned by Tully's, and only in a manner that is incidental to, and for the purpose of promoting or supporting, the operation of Licensed Retail Stores under the rights granted in the License Agreement; and to support the aforementioned licensed activities with promotional and advertising material under the Licensed Marks solely for the purpose of, and confined to, the support of exercise of the rights granted in the License Agreement;

(d) the use of the Licensed Marks outside of North America (except Japan) in connection with the wholesale sale of Licensed Products;

(e) the use of the Licensed Marks outside of North America (except Japan) to make, have made and sell merchandising items only in a manner that is incidental to, and for the purpose of promoting or supporting, the wholesale operations of Tully's;

(f) the use of the Licensed Marks as solely provided for in our existing license agreement with Tully's Coffee Asia Pacific Partners, L.P.; and

(g) the use of the Licensed Marks in connection with the operation of websites for the purpose of (i) providing information to consumers regarding the Licensed Products, merchandising items and/or Licensed Retail Stores, and for supporting any marketing efforts of Tully's and (ii) the wholesale sale outside of North America of Licensed Products, Other Coffee Products, and merchandising items.

Tully's may sublicense, either directly, as part of a franchise arrangement or otherwise, any or all of the rights granted to it under the License Agreement, in whole or in part, provided that: (i) all sublicenses are in writing and name GMCR as an express third party beneficiary; (ii) we provide a copy of all sublicense agreements to GMCR; (iii) all sublicenses obligate the sublicensees to maintain quality and otherwise comply with the applicable provisions of the License Agreement; and (iv) we remain jointly and severally liable for the conduct of sublicensees.

As used in the License Agreement, "Licensed Retail Stores" means all physical retail locations operating under certain Licensed Marks under the License Agreement by us or our sublicensees at which brewed coffee is the primary product sold to the end-use consumer for on-and off-premises consumption. The term Licensed Retail Store includes both standalone locations and physical retail locations within larger environments with their own separate menus and facilities (e.g., counter space, cash register or order pick-up), such as coffee "Kiosks," store-in-store locations (such as a coffee bar located within a supermarket), locations sharing space with food service establishments, and locations within other large-scale facilities (e.g., airports, hospitals, manufacturing facilities and educational institutions).

The License Agreement also contains the following provisions which may affect the exclusivity of the license granted to us:

(a) Our exclusive license rights to operate retail stores in North America will revert to non-exclusive rights in North America if Tully's fails to maintain at least 20 Benchmark Stores in North America. As used in the License Agreement, a "Benchmark Store" means a standalone Licensed Retail Store open for business in the ordinary and commercially reasonable course for such store.

(b) Commencing five years after the effective date of the License Agreement, GMCR may provide written notice to us of its desire to open its own Benchmark Store in a specific country outside of North America where, at that time, no Benchmark Store exists (“Retail Notice”). The Company or its sublicensee shall have one year (and up to an additional six months in the case of a force majeure event), after receipt of the Retail Notice, to open such Benchmark Store or to make substantial progress toward opening such Benchmark Store. If we fail to do so, GMCR shall have the right for two years (including up to an additional six months in the case of a force majeure event) to open its own Benchmark Store or to make substantial progress toward opening its own Benchmark Store, during which time our license rights set forth in the License Agreement in the country set forth in the Retail Notice shall revert to non-exclusive rights. Provided GMCR makes substantial progress toward opening its own Benchmark Store or upon GMCR opening its own Benchmark Store, our license rights set forth in the License Agreement in the country set forth in the Retail Notice shall permanently revert to non-exclusive rights. If GMCR fails to do so, our license rights in such country shall revert to being exclusive and GMCR’s right to exploit that particular Retail Notice shall terminate. GMCR may provide up to three Retail Notices per year to us after the fifth anniversary of the effective date of the License Agreement.

(c) Commencing two years after the effective date of the License Agreement, GMCR may provide written notice to us of its desire to engage in the wholesale sale of Licensed Products to a specific country outside of North America where, at that time, no wholesale sale of any Licensed Products to wholesale customers exists (“Wholesale Notice”). The Company or its sublicensee shall have one year (and up to an additional six months in the case of a force majeure event) after receipt of the Wholesale Notice to engage in active wholesale operations of the Licensed Products to such country or to make substantial progress toward engaging in active wholesale operations of any of the Licensed Products to such country. If we fail to do so, GMCR shall have the right for two years to engage in active wholesale operations of the Licensed Products to such country or to make substantial progress toward engaging in active wholesale operations of the Licensed Products to such country, during which time our license rights set forth in the License Agreement in the country set forth in the Wholesale Notice shall revert to non-exclusive rights. Provided GMCR does so engage in active wholesale operations of the Licensed Products, our license rights set forth in the License Agreement in the country set forth in the Wholesale Notice shall permanently revert to non-exclusive rights. If GMCR fails to do so, our license rights in such country shall revert to being exclusive and GMCR’s right to exploit that particular Wholesale Notice shall terminate. GMCR may provide up to three Wholesale Notices per year after the second anniversary of the effective date of the License Agreement.

The License Agreement has a perpetual term but is terminable by either party upon written notice to the other party in the event of any breach by the other party of a material obligation under the License Agreement, which the receiving party fails to cure within 30 days after receiving such notice, or in the event the other party (i) discontinues its business operations; (ii) makes an assignment for the benefit of its creditors or an admission of its inability to pay its obligations as they become due; or (iii) files or has filed against it a petition in bankruptcy or any similar proceeding or files any pleading seeking any reorganization, liquidation or dissolution under any law, or admits or fails to contest the material allegations of any such pleading filed against it, or is adjudicated as bankrupt or insolvent, or a receiver is appointed for a substantial part of such party’s assets, or the claims of creditors of such party are abated or subject to a moratorium under any law.

The License Agreement also contains customary terms such as requirements for Tully’s and its sublicensees to maintain the quality of the Licensed Products.

Noncompetition Agreements

The Company and Tom T. O’Keefe, our founder and chairman, have entered into separate noncompetition agreements with GMCR. We refer to these agreements collectively as the “Noncompetition Agreements” and individually as the “Company Noncompetition Agreement” and the “O’Keefe Noncompetition Agreement.”

Under the terms of the Company Noncompetition Agreement, we have agreed that, for a period of nine years after the closing of the Green Mountain Transaction, we will not directly or indirectly operate in the "coffee business" in the United States, Canada, Mexico, and the Caribbean (the "Excluded Territory"); provided, however, that we may continue to operate and expand "licensed retail stores" in the Excluded Territory.

Similarly, under the terms of the O'Keefe Noncompetition Agreement, Mr. O'Keefe has agreed that, for a period of five years after the closing of the Green Mountain Transaction, he will not directly or indirectly operate in the "coffee business" in the Excluded Territory; provided that he is not prohibited from (i) participating in the operation of our "licensed retail stores" in the Excluded Territory or (ii) serving as an officer, director or employee of the Company.

As used in the Noncompetition Agreements, the term "coffee business" means the business of roasting, packaging, brewing, selling, distributing or otherwise providing whole bean and ground coffees, hot or cold coffee beverages or related products, including coffee brewers, in the United States, Canada, Mexico and the Caribbean. As used in the Noncompetition Agreements, "licensed retail stores" mean a physical retail location operating under the "licensed marks" under the License Agreement (as defined below) by Tully's or its sublicensees at which brewed coffee is the primary product sold to the end-use consumer for on- and off-premises consumption. Licensed retail stores include both standalone locations and physical retail locations within larger environments with their own separate menus and facilities (e.g., counter space, cash register or order pick-up), such as coffee "kiosks," store-in-store locations (such as a coffee bar located within a supermarket), locations sharing space with food service establishments, and locations within other large-scale facilities (e.g., airports, hospitals, manufacturing facilities, and educational institutions); provided nothing within such larger environments constitutes a "licensed retail store" except the specific areas where coffee is ordered, brewed, sold and consumed.

Accordingly, under the Noncompetition Agreements, Mr. O'Keefe and the Company are prohibited in engaging in all aspects of the coffee business unless it involves the operation of a licensed retail store. This distinction means that we may continue to operate and expand our existing retail store locations as well as our licensed and franchise store business because each of these are included within the definition of "licensed retail stores." We cannot continue to operate and expand our general United States, Canada, Mexico and the Caribbean wholesale coffee segment because that business is not included as a "licensed retail store."

In addition to the non-competition covenants described above, both Tully's and Mr. O'Keefe have agreed that, for a period of two years after the closing of the Green Mountain Transaction, neither Tully's nor Mr. O'Keefe will solicit for employment any of our current employees who accept employment with GMCR in connection with the Green Mountain Transaction. As partial consideration for our agreement to enter into the Company Noncompetition Agreement, GMCR paid us $300,000 at closing. Mr. O'Keefe agreed to enter into the O'Keefe Noncompetition Agreement to induce GMCR to enter into the Asset Purchase Agreement, and he did not receive any cash consideration under the O'Keefe Noncompetition Agreement.

Discontinued Operations

The table below summarizes the major categories of assets and liabilities held for sale at March 30, 2008:

	March 30, 2008
Assets Held for Sale	
Inventory	$2,612
Prepaid expenses and other current assets	134
Property and equipment and other intangible assets, net	2,294
Goodwill	124
Other Assets	46
Total Assets Held for Sale	$5,210
Liabilities Held for Sale	
Long-term debt	$ 19
Capital lease obligations	47
Total Liabilities Held for Sale	$ 66

The operating results of discontinued operations for the wholesale segment included in the accompanying consolidated statements of operations are as follows:

	March 29, 2009	March 30, 2008	April 1, 2007
	(dollars in thousands)		
Net Sales	$ 39,547	$28,132	$20,901
Operating Income from Discontinued Operations	6,292	2,402	773
Gain on Sale of Wholesale Segment	28,656	—	—
Income taxes	(12,407)	—	—
Income from discontinued operations	$ 22,541	$ 2,402	$ 773

4. Income tax receivable, Accounts receivable and allowance for doubtful accounts

Accounts receivable represent amounts billed to customers. The allowance for doubtful accounts reflects our best estimate of probable losses inherent in the accounts receivable balance. We determine the allowance based on known troubled accounts, historical experience, and other currently available evidence. Accounts receivable determined to be uncollectible are charged against the allowance for doubtful accounts and recoveries are credited to the allowance for doubtful accounts.

The allowance for doubtful accounts is summarized as follows:

	Years ended	
	March 28, 2010	March 29, 2009
	(dollars in thousands)	
Balance, beginning of the year	$ 578	$321
Additions charged to costs and expenses	316	287
Write-offs and other deductions	(190)	(30)
Balance, end of the year	$ 704	$578

In Fiscal 2010 we experienced a $764,000 income tax benefit reflecting the five year Alternative Minimum Tax, or AMT, carryback changes enacted as part of the stimulus package for our fiscal years beginning Fiscal 2005. As a result of this benefit the company recorded a $931,000 income tax receivable.

5. Inventories

Inventories consist of the following:

	March 28, 2010	March 29, 2009
	(dollars in thousands)	
Coffee		
Roasted	320	186
Other goods held for sale	457	478
Packaging and other supplies	604	448
Total	$1,381	$1,112

6. Related Party Receivable and Other Assets

Other assets consist of the following:

	March 28, 2010	March 29, 2009
	(dollars in thousands)	
Receivable from Limited Partner in TCAP Joint Venture	$ —	$1,162
Long-term receivable from Limited Partner in TCAP Joint Venture	1,000	1,000
Total receivable from Limited Partner in TCAP joint venture	$1,000	$2,162
Security deposits and other assets	$ 263	$ 216

In December 2008, TCAP granted AFCM a $1,000,000 loan to be paid through future distributions of Tully's Coffee Asia. Further, as of March 29, 2009, $1,162,000 was receivable from AFCM in full satisfaction of TCAP's promissory note owed by TCAP to Tully's Coffee Asia and on March 27, 2009 paid to AFCM directly and subsequently distributed by AFCM to Tully's Coffee Asia on April 22, 2009.

7. Property and equipment

Property and equipment consist of the following:

	March 28, 2010	March 29, 2009
	(dollars in thousands)	
Machinery and equipment	$ 8,020	$ 7,854
Leasehold improvements	11,814	12,021
Furniture and fixtures	2,886	2,732
Software	281	271
	23,001	22,878
Less: Accumulated depreciation and amortization	(20,817)	(20,095)
Total	$ 2,184	$ 2,783

8. Goodwill and intangible assets

As of March 28, 2010 and March 29, 2009 goodwill was $45,000 and $332,000, respectively. Under FASB ASC 350, goodwill is to be periodically reevaluated and the carrying amount for goodwill is required to be reduced if impairment is identified. Tully's has determined that this analysis will be performed annually during the fourth quarter of each fiscal year. The analysis was performed using a discounted cash flow approach with the reporting unit at the retail store level. An impairment charge of of $287,000 was incurred in Fiscal 2010, which was calculated using level 3 inputs, as defined under ASC 820, *Fair Value Measurements*. No such impairment occurred for Fiscal 2009 and Fiscal 2008.

9. Impairment of long-lived assets

Tully's recognized non-cash impairment losses of $82,000 and $237,000 in the fourth quarter of Fiscal 2010 and Fiscal 2009 respectively, in accordance with the provisions of FASB ASC 360. This relates to impairment of leasehold improvements and equipment. The impairment analysis was performed first testing for recoverability, then measuring for impairment, consistent with the provisions of ASC 360. The impairment charge of $82,000 in Fiscal 2010 was calculated using a discounted cash flow approach which is considered level 3 inputs as defined under ASC 820. These reviews were performed in connection with the development and implementation of our annual business plans.

10. Income taxes

Our benefit primarily relates to federal alternative minimum tax ("AMT") refund claims. The Worker, Homeownership, and Business Assistance Act of 2009 ("2009 Worker Act") was enacted in November 2009. The 2009 Worker Act provided for an extended five year net operating loss carryback period and suspended the AMT net operating loss limits.

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

	March 28, 2010	March 29, 2009
Deferred tax assets		
Net operating loss carryforwards	$ 10,421	$ 7,101
Stock options	111	83
Deferred revenue	836	1,052
Property and equipment	2,240	1,206
Store closures and lease termination costs	4	42
Deferred lease costs	88	148
Tax credit	48	803
Allowance for doubtful accounts	249	205
Accrued vacation and other liabilities	175	677
Investment in joint venture	2,291	3,161
Other	38	139
Total deferred tax assets	$ 16,501	$ 14,617
Deferred tax liabilities		
Prepaid expenses and other	(269)	—
Less: Valuation allowance	$(16,232)	$(14,617)
Net deferred tax asset	—	—

At March 28, 2010, we had federal and state net operating loss carryforwards of approximately $30,500,000 and $11,900,000, respectively. The federal net operating loss carryforwards expire between 2027 and 2030 and the state net operating losses expire between 2011 and 2030.

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

The provision for income taxes for continuing and discontinued operations is summarized as follows (dollars in thousands):

	Years ended		
	March 28, 2010	March 29, 2009	March 30, 2008
Current taxes			
Federal	$(754)	$493	$—
State	(4)	395	2
Total current	(758)	888	2
Deferred taxes	—	—	—
Income tax expense	$(758)	$888	$ 2

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

	Years ended		
	March 28, 2010	March 29, 2009	March 30, 2008
Tax expense (benefit)			
Federal statutory rate	34.0%	34.0%	(34.0%)
State income taxes, net of federal benefit	1.3%	1.5%	(1.9%)
Rate change	(0.1%)	0.5%	3.7%
Stock compensation	(0.2%)	6.7%	(2.3%)
Other	4.3%	7.9%	3.5%
Valuation allowance	(26.5%)	(46.9%)	31.0%
Effective income tax rate	12.8%	3.7%	0.0%

As of March 28, 2010 and March 29, 2009, the Company had no unrecognized tax benefits or associated interest and penalties. The Company will recognize interest and penalties related to unrecognized tax benefits as a component of income tax expense.

The Company is subject to federal and state income taxes. To the extent allowed by law, the tax authorities may have the right to examine prior periods where net operating losses were generated and carried forward, and make adjustments up to the amount of the net operating loss balance.

The Company is not currently under Internal Revenue Service (IRS) or state examination.

11. Accrued liabilities

Accrued liabilities consist of the following:

	March 28, 2010	March 29, 2009
	(dollars in thousands)	
Employee wages and taxes	$1,073	$1,398
Professional fees and services	390	696
Accrued lease termination and store closure costs	11	117
Accrued real estate and property taxes	188	140
Accrued discounts and allowances	7	616
Accrued interest	—	42
Federal and state taxes payable	240	1,164
Other	152	440
Total	$2,061	$4,613

12. Credit lines and long term debt

Benaroya Credit Facility

On April 26, 2007, we borrowed $4,000,000 from Benaroya Capital (less an initial loan fee of $100,000) and issued a promissory note ("the Benaroya Note") to evidence that indebtedness. In connection with the loan, we granted warrants to purchase 12,411 shares of common stock at an exercise price of $2.64 per share to Benaroya Capital, which were recorded at their estimated aggregate fair value of $109,000 when granted. On July 12, 2007, the Benaroya Note amount was amended to establish a credit facility (the "Benaroya credit facility") with allowable borrowings of up to $10 million, to reduce the interest rate from 15% to 13.5% per annum (effective July 12, 2007) and to extend its maturity date. Loan fees of $482,000 were added to the principal balance in connection with the amendment and warrants to purchase 59,780 shares of common stock at an exercise price of $2.64 per share were issued to Benaroya Capital, which were recorded at their estimated aggregate fair value of $526,000 when granted. The Benaroya Capital warrants became exercisable on April 26, 2008.

Our chairman guaranteed our obligations under the Benaroya credit facility, and another shareholder guaranteed up to $3,000,000 under the Benaroya credit facility. Our chairman was not compensated for his guaranty. We agreed to compensate the second guarantor through the cash payment of a $167,000 commitment fee and a grant of warrants to purchase 21,000 shares of our common stock at an exercise price of $2.64 per share, which were recorded at their estimated aggregate fair value of $185,000 when granted (these warrants became exercisable on July 12, 2008).

On March 27, 2009, outstanding indebtedness under the Benaroya credit facility of $9,566,000 was repaid in full satisfaction of outstanding principal and accrued interest. Concurrently with the repayment of the Benaroya credit facility, the guaranty agreements between Tully’s and the guarantors were terminated and Benaroya Capital and the guarantors released their conditional security interest in Tully’s assets.

Northrim Credit Facility

On June 22, 2005, Tully’s entered into a credit facility with Northrim Funding (the “Northrim Facility”). Under this credit facility, Tully’s was allowed to borrow up to $6,500,000, subject to the amount of eligible accounts receivable and inventories. Borrowings under this facility accrued interest at the prime rate plus 7.0% with a floor of 12.0% and a ceiling of 14.0% and were secured by our inventories and through the assignment (with recourse) of our accounts receivable.

On March 27, 2009, outstanding indebtedness under the Northrim Facility of $5,777,000 was repaid in full satisfaction of outstanding principal and accrued interest. Concurrently with the repayment of the Northrim Facility, Northrim Funding released its conditional security interest in Tully’s assets.

UCC Settlement Promissory Note

In April 2001, Tully’s granted UCC Ueshima Coffee Company, Ltd. (“UCC”) a license to establish and operate Tully’s specialty coffee stores, including a license to use Tully’s business names, trademarks and intellectual property rights for purposes of establishing and operating Tully’s stores, and to sell Tully’s coffee at wholesale, in 25 Asian territories (excluding Japan which is served by Tully’s Coffee Japan).

In November 2006, UCC commenced a lawsuit against the Company relating to the license agreement. In January 2008, Tully’s and UCC settled their respective claims. Under the settlement agreement, the parties agreed to a mutual release of claims and to the dismissal of the lawsuit with prejudice. UCC also assigned all of its rights and interest under the 2001 license agreement to Tully’s.

In consideration for the settlement, Tully’s agreed to pay $6.0 million to UCC, consisting of $2.0 million paid to UCC on January 8, 2008, and a $4.0 million promissory note issued by TCAP, a wholly owned subsidiary of Tully’s, to UCC. The promissory note accrued interest at 3.0% per year and is due in annual principal installments of $1,000,000 commencing on December 28, 2008. Tully’s had issued a limited guaranty for TCAP obligations under the note, which was generally secured by the assets of Tully’s and TCAP related to the licensed territories, including Tully’s stock in TCAP, TCAP’s interest in Tully’s Coffee Asia, Tully’s trademarks for the Licensed Territories and Tully’s interest as licensor of Tully’s Coffee Asia, but was non-recourse as to Tully’s other assets.

On March 27, 2009, the promissory note with UCC was repaid in full. Concurrently with the repayment of the promissory note, UCC released its conditional security interest in Tully’s assets.

Tully's Coffee Asia Pacific – Limited Partnership Loan

On December 31, 2008, pursuant to the Limited Partnership Agreement dated December 21, 2007 between TCAP, and AFCM, TCAP issued a promissory note in the principal amount of $1,120,000 (the "GP Loan") to Tully's Coffee Asia . The GP Loan accrued interest at an annualized rate of 15%.

Also on December 31, 2008 as subsequently amended by Amendment No. 1 dated March 6, 2009, and amendment No. 2 on March 17, 2009, Tully's Coffee Asia issued a convertible promissory note to AFCM in the principal amount of $1,120,000 (the "*LP Loan*"). The LP Loan bears interest of an annualized rate of 0.44%. The LP Loan is due and payable five business days after the date that Tully's Coffee Asia has made distributions to AFCM in an amount equal to all principal and accrued interest on the LP Loan or in the event the partners clear certain security interests in partnership obligations. In connection, Tully's has granted AFCM a preferential right to receive from Tully's Coffee Asia, prior to any future distribution to Tully's, cash distributions equal to US$500,000 out of Tully's Coffee Asia profits available for distribution, and that, after receipt by AFCM of the full preference amount all subsequent cash distributions of profits shall be shared equally between TCAP and AFCM. Any subsequent cash distributions to AFCM would first be applied to retire the LP Loan.

Tully's Coffee Asia Pacific – Limited Partnership Interest Obligation

On March 27, 2009, TCAP agreed to purchase, or cause a third party to purchase, one-half of AFCM's partnership interest in Tully's Coffee Asia, equal to twenty-five percent (25%) of the total partnership interests outstanding, at a purchase price of US$4,000,000, by March 27, 2010. As of March 28, 2010, TCAP had not met its obligation. TCAP and AFCM continue to work on a settlement and to seek a buyer for AFCM's partnership interest. If TCAP is unsuccessful in either finding a buyer for AFCM's interest or in its settlement negotiations, we could face adverse economic consequences surrounding our wholly owned subsidiary TCAP.

Other Obligations

Other obligations under credit lines and long-term debt consist of the following:

	March 28, 2010	March 29, 2009
	(dollars in thousands)	
Note payable for purchase of insurance, payable in variable monthly installments of approximately $16,000—$43,000 including interest at 4.31%, through March 2011 collateralized by unearned or return insurance premiums, accrued dividends and loss payments	157	257
Vehicle purchase note payable in monthly installments of approximately $833 including interest at 3.98%, through March 2010, secured by the related vehicles	—	10
	157	267
Less: Current portion	(157)	(267)
Long-term debt, net of current portion	$ —	$ —

13. International licenses and deferred revenue

UCC Ueshima Coffee Company, Ltd.

At the April 2001 commencement of the UCC license term, UCC paid a license fee of $12.0 million to Tully's. The license agreement provided that this fee was fully earned upon payment. Tully's initially recorded the $12.0 million license fee as deferred revenue, and has recognized it as revenue on a periodic basis during the zero royalty period, during which it was expected that Tully's would have substantial performance obligations associated with supporting the opening and operation of Tully's stores by UCC.

In the fourth quarter of Fiscal 2008, Tully's determined that the termination of the license agreement under the Settlement Agreement (defined in Note 17, "Commitments and Contingencies") and the resulting $6.0 million note payable represented a "repossession" under FASB ASC 952, *Accounting for Franchise Fee Revenue*. In accordance with SFAS 45, Tully's reversed $3.5 million in previously recognized license revenue and $1.8 million in deferred license fee revenue.

Deferred licensing revenue recognized under the agreements with Tully's Coffee Japan and the license agreement with UCC is summarized as follows (dollars in thousands):

	Years ended		
	March 28, 2010	March 29, 2009	March 30, 2008
Recognition of deferred license revenue under international agreements			
Periodic recognition of deferred license revenue under UCC license agreement	—	—	1,080
Reversal of previously recognized deferred license revenue under UCC license agreement	—	—	(3,469)
Total deferred license revenue recognized under agreements with Tully's Coffee Japan and UCC	$—	$—	$(2,389)

Deferred licensing revenue recognized under international and domestic license agreements and store value cards is summarized as follows (dollars in thousands):

	March 28, 2010
Deferred licensing revenue:	
Additions to deferred licensing revenue in the period	$ 426
Less: Deferred licensing revenue recognized in net sales	(40)
Net decrease in deferred licensing revenue for the period	386
Deferred license revenue	
Beginning of period	488
End of period	874
Less: Non-current portion	715
Current portion of deferred licensing revenue	159
Deferred revenue from stored value cards	4,112
Current portion deferred revenue	$4,271

14. Investment in Joint Venture

On January 7, 2008, TCAP, a wholly owned subsidiary of Tully's, and AFCM, a Singapore company, entered into a limited partnership agreement that established a new joint venture called Tully's Coffee Asia Pacific Partners, LP ("Tully's Coffee Asia"). The joint venture seeks to develop the Tully's brand in Asia (excluding Japan), Australia and New Zealand (the "Licensed Territories") through franchising and licensing activities, retail store operations, coffee roasting, wholesale distribution and other business activities. Tully's partner in this venture, AFCM, is managed by the founder and former chief executive officer of TCJ.

In connection with the formation of Tully's Coffee Asia, TCAP assigned its rights (under an October 12, 2007 exclusive license agreement between Tully's and TCAP) to use Tully's business names, trademarks and intellectual property rights in the Licensed Territories to Tully's Coffee Asia. AFCM agreed to contribute $6.0 million to the venture, of which $2.5 million was paid to Tully's Coffee Asia on January 7, 2008, $500,000 paid on January 31, 2008, and the $3.0 million balance was paid on March 31, 2008. Of the capital contributed by

AFCM, $3.0 million was distributed by Tully's Coffee Asia to TCAP, and the remaining $3.0 million will be used by Tully's Coffee Asia for development of its business. The $3.0 million capital distribution from Tully's Coffee Asia to TCAP includes (1) $500,000 cash distributed to Tully's on January 8, 2008, (2) $2,000,000 paid to UCC on January 8, 2008, and (3) $500,000 paid to TCAP on January 31, 2008. Each of TCAP (general partner) and AFCM (limited partner) owns 50% of the partnership interests of Tully's Coffee Asia. Under its license agreement with Tully's, Tully's Coffee Asia is obligated to pay Tully's a royalty equal to one percent of the applicable revenue base from operations in the Licensed Territories, commencing on April 1, 2008. Revenues associated with TCAP will be reported under our Specialty segment.

On March 27, 2009, TCAP agreed to purchase, or cause a third party to purchase, one-half of AFCM's partnership interest in Tully's Coffee Asia, equal to twenty-five percent (25%) of the total partnership interests outstanding, at a purchase price of US$4,000,000, by March 27, 2010. As of March 28, 2010, TCAP had not met its obligation. TCAP and AFCM continue to work on a settlement and to seek a buyer for AFCM's partnership interest. If TCAP is unsuccessful in either finding a buyer for AFCM's interest or in its settlement negotiations, we could face adverse economic consequences surrounding our wholly owned subsidiary TCAP.

15. Related-party transactions

In February 2006, an affiliate of Northrim acquired a 24% ownership interest in Pacific Wealth Advisors, LLC ("PWA"), a newly formed company which is the successor by merger to Pacific Portfolio Consulting ("Pacific Portfolio"). PWA is a wealth management and investment advisory services holding company. A member of the Tully's Board of Directors is the president of PWA and Pacific Portfolio and has an ownership interest of more than 10% in PWA. During Fiscal 2009, Tully's paid approximately $594,000 to Northrim for interest on the amounts borrowed, All outstanding debt to Northrim was fully repaid on March 27, 2009. Also, Pacific Portfolio provided investment advisory consulting services for the Tully's employee 401(k) savings plan (see Note 20) and received fees of approximately $5,059 for this service in Fiscal 2010, $6,300 for this service in Fiscal 2009 and $6,700 in Fiscal 2008.

16. Store closure and lease termination costs

We periodically close stores that do not meet our performance criteria and stores for which extension of the lease term is not practicable. During Fiscal 2010 we did not incur any store closure expenses in relation to our closure of three stores. In Fiscal 2009 we closed thirteen locations at a cost of approximately $282,000, of which five were sold and franchised in Southern California. During Fiscal 2008, we closed two stores at a cost of approximately $19,000.

17. Commitments and contingencies

Lease commitments

We lease all of our retail, roasting plant and office space under operating leases, which expire through 2016. The leases provide for minimum annual payments, and (in certain cases) contingent rentals based upon gross sales, escalation clauses and/or options to renew. Rental expense is recorded on a straight-line basis over the respective terms of the leases. Rental expense under these operating leases was approximately $4,354,000, $4,870,000, and $5,300,000, for Fiscal 2010, Fiscal 2009 and Fiscal 2008, respectively. Contingent rental expense was approximately $335,000, $309,000, and $344,000, Fiscal 2010, Fiscal 2009 and Fiscal 2008, respectively and is recognized as incurred.

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

Minimum future rental payments under noncancellable operating leases as of March 28, 2010 are summarized as follows:

Fiscal year (dollars in thousands)	
2011	$ 3,328
2012	2,437
2013	2,053
2014	1,502
2015	960
Thereafter	1,969
Total	$12,249

We have subleased some of our leased premises to third parties under subleases with varying terms through 2014. Expected future sublease receipts under such sub-lease agreements are summarized as follows:

Fiscal year (dollars in thousands)	
2011	$ 55
2012	43
2013	—
2014	—
2015	—
Thereafter	
Total	$ 98

Employment Agreements and Compensatory Arrangements

Pursuant to the employment letters for members of Tully's senior management team, Tully's has agreed to pay severance compensation to certain executives in the event their employment by Tully's is terminated for reasons other than certain excluded circumstances. The amount of severance to be paid would depend upon the rate of salary at the time of termination and other factors. As of March 28, 2010, the aggregate contingent obligation for severance to these individuals was approximately $199,000. Also, pursuant to the employment letters for members of Tully's senior management team, Tully's has agreed to pay severance compensation to these executives in the event that there was a change in control. The amount of severance to be paid would depend upon the rate of salary at the time of termination and other factors. As of March 28, 2010, the aggregate contingent obligation for severance to these individuals for the change in control provision was approximately $397,000.

Contingencies

In February 2004 a lawsuit was filed against Tully's in Superior Court of California, Los Angeles County (the "Court") by two former store managers on behalf of themselves and on behalf of other former and current store managers in the state of California. The suit alleged that Tully's improperly classified such managers as exempt under California's wage and hour laws and sought damages, restitution, reclassification and attorneys' fees and costs. On April 21, 2005, the parties entered into a memorandum of understanding regarding the settlement of this matter, which was subsequently reflected by the parties in a Joint Stipulation of Settlement and Release (the "Settlement Agreement"). On September 14, 2006, the Court granted final approval of the Settlement Agreement and dismissed the suit with prejudice. In Fiscal 2005, Tully's incurred a one-time charge of approximately $1.6 million for the settlement and associated costs. In connection with the final approval of the settlement, Tully's incurred additional expenses of $72,000 in Fiscal 2007. Under the settlement, Tully's agreed to make cash payments totaling approximately $800,000 to the settlement class over a three year period starting in October 2006 and to issue 37,500 shares of its common stock, with an agreed value of $450,000, to the settlement class during that period. In October 2006, Tully's issued 7,000 shares of common stock and paid

$164,000 to the settlement class. In October 2007 and October 2008, Tully's issued 11,719 shares of common stock and paid $266,000 to the settlement class in both periods. In October 2009 Tully's issued 7,032 shares of common stock and paid $159,000 as final payment to the class.

On January 7, 2008, Tully's and UCC entered into a settlement agreement to settle a lawsuit, see Note 13. Under the settlement agreement, the parties agreed to a mutual release of claims and to the dismissal of the lawsuit with prejudice. UCC also assigned all of its rights and interest under the 2001 license agreement to Tully's. The settlement agreement was finalized and became effective on January 7, 2008. In consideration for the settlement, Tully's agreed to pay $6.0 million to UCC, consisting of $2.0 million paid to UCC on January 8, 2008, and a $4.0 million promissory note issued by TCAP, a wholly owned subsidiary of Tully's, to UCC. The promissory note was paid in full on March 27, 2009.

In December 2007, a lawsuit was filed against Tully's in California state court by a former store employee alleging that Tully's failed to provide meal and rest periods for its employees. We anticipate that the plaintiff will seek class action certification on behalf of all hourly employees in Tully's California stores. The plaintiff is seeking damages, restitution, injunctive relief, and attorneys' fees and costs. Similar lawsuits alleging missed meal and rest periods have been filed in California against many other companies. We are investigating the claims and intend to vigorously defend this litigation, but cannot predict the financial impact to us of the litigation at this time. We believe that Tully's has complied with all laws that require providing meal and rest periods for its employees. We have accrued $390,000 as of March 28, 2010 to defend this litigation.

We are a party to various other legal proceedings arising in the ordinary course of our business, but are not currently a party to any other legal proceeding that we believe could have a material adverse effect on our financial position or results of operations.

18. Stock options

Company Stock Incentive Plan

In 1994, Tully's shareholders approved a Stock Incentive Plan (the "1994 Plan"). In August 1999 our shareholders approved an amended plan, which established the maximum number of shares issuable under the 1994 Plan and the Employee Stock Purchase Plan at 525,000, and in June 2003, our Board of Directors further amended the 1994 Plan. By its terms, the 1994 Plan expired in October 2004 (this did not terminate outstanding options).

In December 2004, Tully's shareholders approved the 2004 Stock Option Plan,. The 2004 Stock Option Plan authorizes the issuance of up to 312,500 shares of common stock under the 2004 Stock Option Plan and Tully's Employee Stock Purchase Plan.

On March 2010, Tully's shareholders approved the 2010 Stock Option Plan. The 2010 Stock Option Plan authorizes the issuance of up to 312,500 shares of common stock under the 2010 Stock Option Plan and Tully's Employee Stock Purchase Plan. As of March 28, 2010, no options had been granted under the 2010 Stock Option Plan. The provisions of the 2010 Stock Option Plan, 2004 Stock Option Plan (and the 1994 Plan prior to its expiration) are summarized as follows. We may issue incentive or nonqualified stock options to our employees and directors. Stock options are granted solely at the discretion of our Board of Directors and are issued at a price determined by our Board of Directors. The term of each option granted is for such period as determined by our Board of Directors, but not more than ten years from date of grant. Options are nontransferable and may generally be exercised based on a vesting schedule determined by our Board of Directors. The plan provides for acceleration of outstanding options under certain conditions, including certain changes in control of Tully's.

Founder's Stock Option Plan

In addition to options granted under the 1994 Plan, our chairman and founder has granted options to purchase shares of his stock to employees and third parties (the "Founder's Plan"). No options have been granted by the Chairman under the Founder's Plan since Fiscal 2002. These options have vesting periods ranging from immediate vesting to five year vesting and have a twenty-five year life. In October 2005, the chairman and founder contributed his holdings of Tully's common stock to TTOK, LLC, a limited liability company owned by the chairman, and the Founder's Plan stock option obligations were assigned to TTOK, LLC.

Other Equity Instruments

Tully's has issued warrants to purchase common stock. These warrants have up to one year vesting periods and generally have ten year lives. Issued, outstanding and exercisable warrants as of March 28, 2010 are summarized as follows:

	Outstanding warrants	Number exercisable	Exercise Prices
Issued with Series A Preferred Stock investment units	6,318	6,318	$ 2.64
Issued to guarantors of debt	93,191	93,191	$ 0.40
Other	8,719	8,719	$0.08-$2.64
Totals	108,228	108,228	

Stock Options

We issue new shares of common stock upon the exercise of stock options granted under the 1994 Plan, 2004 and 2010 Stock Option Plan. The exercise of options granted under the Founder's Plan results in a transfer of shares to the exercising optionee from the shares owned by TTOK, LLC, and does not affect the total outstanding shares of stock or provide cash proceeds to Tully's.

Determining Fair Value Under FASB ASC 718

Valuation and Amortization Method.

We estimated the fair value of stock option awards granted using the Black-Scholes option valuation model. We amortize the fair value of all awards on a straight-line basis over the requisite service periods, which are generally the vesting periods.

Expected Life.

The expected life of awards granted represents the period of time that they are expected to be outstanding. We determined the expected life based primarily on historical experience with similar awards, giving consideration to the contractual terms, vesting schedules, expected exercises and post-vesting forfeitures.

Expected Volatility.

We estimated the volatility of our common stock at the date of grant based on the historical volatility of our common stock. The volatility factor we use in the Black-Scholes option valuation model is based on our historical stock prices over the most recent period commensurate with the estimated expected life of the award.

Risk-Free Interest Rate.

We based our risk-free interest rate used in the Black-Scholes option valuation model on the implied risk-free interest rate with an equivalent remaining term equal to the expected life of the award.

Expected Dividend Yield.

We use an expected dividend yield of zero in the Black-Scholes option valuation model, consistent with historical experience on the date of grant.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. A summary of the weighted average assumptions and resulting weighted average fair value results for options granted during the periods presented is as follows:

	Years ended		
	March 28, 2010	March 29, 2009	March 30, 2008
Weighted average risk free interest rate	0.53%	1.91%	3.22%
Expected dividend yield	0%	0%	0%
Expected lives	3 years	3 years	5 years
Weighted average expected volatility	191%	80%	80%
Weighted average fair value at date of grant	$ 1.27	$ 5.93	$ 7.26

Expected Forfeitures.

We primarily use historical data to estimate pre-vesting option forfeitures. We record stock-based compensation only for those awards that are expected to vest. For Fiscal 2010 we estimated our pre-vesting option forfeiture rate at 18%.

Stock-based Compensation Under SFAS 123(R)

Stock-based compensation expense related to stock-based awards under FASB ASC 718 for Fiscal 2010, Fiscal 2009 and Fiscal 2008 totaled $128,000, $201,000 and $199,000, respectively, which is included in marketing, general and administrative costs in our Consolidated Statements of Operations.

As of March 28, 2010, we had approximately $276,000 of total unrecognized compensation cost related to the 41,835 non-vested stock-based awards granted under all equity compensation plans. We expect to recognize this cost over a period of approximately three years.

Stock Award Activity

As of March 28, 2010 options for 326,396 shares were outstanding under the 1994 Plan and the 2004 Stock Option Plan, of which 284,561 were fully vested.

The following table summarizes activity under our stock option plans:

Exercise price per share	Number of Shares	Weighted-average exercise price Per Share	Weighted-average remaining contractual life (years)	Aggregate intrinsic value
Outstanding at April 1, 2007	768,704	$ 5.85		
Granted	70,730	11.36		
Exercised	(44,304)	.14		
Forfeited	(135,406)	11.54		
Outstanding at March 30, 2008	659,724	5.64		
Granted	6,500	11.28		
Exercised	(655)	.08		
Forfeited	(116,594)	8.11		
Outstanding at March 29, 2009	548,975	5.29		
Granted	6,500	11.28		
Exercised	(189,805)	.08		
Forfeited	(39,274)	10.15		
Outstanding at March 28, 2010	326,396	$ 7.81		
Exercisable or convertible at the end of the period	284,561	$ 7.20	8.43	$138,063

The aggregate intrinsic value of options outstanding at March 29, 2009 is calculated as the difference between the market price of the underlying common stock and the exercise price of the options for the 88,502 exercisable options that had exercise prices that were lower than the $1.64 fair market value, as determined by our Board of Directors, of our common stock at March 29, 2009.

The total intrinsic value of options exercised during the Fiscal 2010, Fiscal 2009, and Fiscal 2008 using the March 29, 2009 $1.64 fair market value was $311,000, $3,000, and $494,000 respectively.

19. Stockholders' equity

Shareholder Distribution

On May 5, 2009, our Board of Directors declared a special cash distribution of:

- $1.03 per share of Common Stock calculated on a post split basis;
- $0.14560 per share of Series A Preferred Stock (calculated on an unconverted basis); and
- $0.12875 per share of Series B Preferred Stock (calculated on an unconverted basis).

Calculated on an "as-converted to common stock" basis, all classes of our outstanding stock (including our preferred stock) received $1.03 per share.

The special distribution totaled $5,994,000 and was paid on May 20, 2009, to shareholders of record on the close of business on April 30, 2009. We have recorded the shareholder distribution as a reduction to additional paid-in capital.

March 26, 2009 Articles Amendment

As previously disclosed, our shareholders approved amendments to our Amended and Restated Articles of Incorporation in connection with the Green Mountain Transaction (the "Articles Amendments"). On March 26, 2009, we filed the Articles Amendments with the Washington Secretary of State.

The Articles Amendments amended our amended and restated articles of incorporation to:

(i) clarify that completion of the Green Mountain Transaction would not cause a liquidating distribution to our shareholders; and

(ii) enable the board to determine the amount of any future cash distribution to our shareholders without considering amounts that would be needed, if we were dissolved at the time of the distribution, to satisfy any liquidation rights that are superior to the rights of those shareholders receiving the distribution.

Preferred stock

Each outstanding share of our Series A Preferred Stock is convertible at any time by the holder thereof into shares of common stock at the then-effective conversion price. In addition, each outstanding share of Series A Preferred Stock is automatically convertible into shares of common stock if Tully's completes an underwritten public offering of Tully's shares of common stock with gross proceeds to Tully's in excess of $15 million ("Qualified Offering"). The Series A Preferred Stock contains an anti-dilution protection right that provides for a weighted average adjustment of the conversion price in the event we issue shares of capital stock at an effective price less than the Series A Preferred conversion price then in effect, subject to certain limitations and exclusions. At March 28, 2010, each eight shares of our outstanding Series A Convertible Preferred were convertible into approximately 1.12 shares of common stock (giving effect to the one-for-eight reverse split of our common stock).

Voting rights of the Series A Preferred Stock are subject to adjustment for the anti-dilution adjustment; as well as Series A Preferred shareholders may exercise cumulative voting rights with respect to the election of Directors.

In the event of any liquidation or winding up of Tully's, each share of Series A Preferred Stock is entitled to receive, prior and in preference to all other payments to the holders of Series B Preferred Stock and the shares of common stock, an amount equal to $2.50, plus any and all declared but unpaid dividends with respect to such share of Series A Preferred Stock (the "Series A Liquidation Preference"). Assuming distribution of the full Series A Liquidation Preference, common stock liquidation preference (described below), and the Series B Liquidation Preference (described below), and subject to the rights of any additional preferred stock that may in the future be designated and issued by Tully's, our remaining assets available for distribution to shareholders would be distributed pro rata among the holders of the Series A Preferred Stock, Series B Preferred Stock and shares of common stock, treating the shares of Series A Preferred Stock and Series B Preferred Stock on an as-converted basis.

Certain holders of Series A Preferred Stock have certain rights to require us to register the shares of common stock issued upon conversion of the Series A Preferred Stock. These rights generally allow persons holding the underlying shares of common stock to require Tully's to use its best efforts to register the shares for resale under the Securities Act of 1933, as amended, and under such state securities laws as may be necessary. These rights include the right to demand that we file a registration statement for the underlying shares of common stock at the shareholders' option no more than one time following an initial public offering, if any, and thereafter, unlimited rights once Tully's is eligible to use Form S-3.

Each outstanding share of Series B Preferred Stock is convertible at any time by the holder thereof into shares of common stock at the then-effective conversion price. In addition, each outstanding share of Series B Preferred Stock is automatically convertible into shares of common stock at the then-effective conversion price when and if we make a Qualified Offering. The conversion price for the Series B Preferred shares is subject to an anti-dilution adjustment, but no adjustment has been required. Giving effect to the one-for-eight reverse split of our common stock, each eight Series B Preferred shares could be converted at the option of the shareholder into one share of common stock as of March 28, 2010. Each eight shares of Series B Preferred Stock also are entitled to cast one vote on all matters submitted to a vote of the shareholders of Tully's (giving effect to the one-for-eight reverse split of our common stock).

In the event of any liquidation or winding up of Tully's, each share of Series B Preferred Stock is entitled to receive, after full satisfaction of the Series A Liquidation Preference and the common stock liquidation preference (described below), and prior and in preference to all other payments to the holders of shares of common stock, an amount equal to $2.50, plus any and all declared but unpaid dividends with respect to such share of Series B Preferred Stock (the "Series B Liquidation Preference"). Assuming distribution of the full Series A Liquidation Preference, common stock liquidation preference and the Series B Liquidation Preference, and subject to the rights of any additional series or classes of preferred stock that may in the future be designated and issued by Tully's, the remaining assets of Tully's available for distribution to shareholders would be distributed pro rata among the holders of the Series A Preferred Stock, Series B Preferred Stock and shares of common stock, treating the shares of Series A Preferred Stock and Series B Preferred Stock on an as-converted basis.

Common stock and Warrants

In the event of any liquidation or winding up of Tully's, after distribution of the full Series A Liquidation Preference, each common share is entitled to receive an amount per share equal to $18.00 (giving effect to the one-for-eight reverse split of our common stock), plus any and all declared but unpaid dividends with respect to such share of common stock (the "common stock liquidation preference"). Assuming distribution of the full Series A Liquidation Preference, common stock liquidation preference and the Series B Liquidation Preference (described above), and subject to the rights of any additional preferred stock that may in the future be designated and issued by us, our remaining assets available for distribution to shareholders would be distributed pro rata among the holders of the Series A Preferred Stock, Series B Preferred Stock and shares of common stock, treating the shares of Series A Preferred Stock and Series B Preferred Stock on an as-converted basis.

20. Employee 401(k) savings plan

During Fiscal 2000, we adopted a 401(k) savings plan for employees. Eligible employees may contribute up to 20% of their salaries to the plan. Eligible employees are employees over the age of 18 who have been employed by Tully's for six months. There is no mandatory match from Tully's. Most plan administrative costs are paid by the 401(k) savings plan.

21. Segment Reporting

We present segment information in accordance with FASB ASC 280, *Disclosures about Segments of an Enterprise and Related Information (*"SFAS 131"), which established reporting and disclosure standards for an enterprise's operating segments. Operating segments are defined as components of an enterprise for which separate financial information is available and regularly reviewed by our senior management.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies in Note 1. We do not allocate our assets among our business units for purposes of making business decisions, and therefore do not present asset information by operating segment. Earnings before interest, taxes, depreciation and amortization ("EBITDA") is a non-GAAP financial measurement we use to measure the operating performance of our operating segments. EBITDA excludes the effects of financing costs, income taxes, and non-cash depreciation and amortization.

The Wholesale Segment is included in discounted operations and therefore not included in the table below.

The tables below present information by operating segment:

	Years Ended		
	March 28, 2010	March 29, 2009	March 30, 2008
	(dollars in thousands)		
Net sales			
Retail division	$35,426	$38,615	$ 42,897
Specialty division(1)	4,144	430	(1,952)
Net sales	$39,570	$39,045	$ 40,945
Earnings before interest, taxes, depreciation and amortization			
Retail division(2)	$ 2,686	$ 2,055	$ 2,384
Specialty division(1)	(1,101)	(714)	(3,718)
Corporate and other expenses	(6,422)	(7,742)	(10,431)
Earnings before interest, taxes, depreciation and amortization	(4,837)	(6,401)	(11,765)
Depreciation and amortization	(1,191)	(1,705)	(2,186)
Income taxes	764	11,474	(2)
Non-controlling interest	188	214	—
Interest income, interest expense, and loan guarantee fees	(115)	(3,268)	(2,358)
Net income (loss) attributable to TC Global, Inc.	$ (5,191)	$ 314	$(16,311)
Depreciation and amortization			
Retail division	$ 971	$ 1,377	$ 1,880
Specialty division	10	1	**
Corporate and other expenses	210	327	306
Total depreciation and amortization	$ 1,191	$ 1,705	$ 2,186

** Not material—less than $1,000

(1) Specialty division net sales and operating income for Fiscal 2008 include a $3,469,000 net reversal of deferred revenue previously recognized as a result of the repossession of a franchise under the UCC settlement described in Note 13

(2) The Retail division operating results include adjustments for impairment of long-lived assets of $161,000 (Fiscal 2010), $237,000 (Fiscal 2009) and for amounts required to close stores and terminate store leases totaling $282,000 (Fiscal 2009), and $19,000 (Fiscal 2008)

22. Earnings (loss) per share

Basic earnings (loss) per share is computed by dividing net income (loss) by the weighted-average number of common shares outstanding during the period. Diluted earnings (loss) per share is computed by dividing net income (loss) adjusted to eliminate the interest on convertible debt (if assumed to be converted), by the sum of the weighted average number of common shares and the effect of dilutive common share equivalents.

Tully's has granted options and issued warrants to purchase common stock, and issued preferred stock and debt convertible into common stock (collectively, the "common share equivalent instruments"). Under some circumstances, the common share equivalent instruments may have a dilutive effect on the calculation of earnings or loss per share. All of the common share equivalent instruments were excluded from the computation of diluted loss per share for Fiscal 2008 because the effect of these instruments on the calculation would have been antidilutive.

The computations of earnings (loss) per share, and of the weighted average shares used for basic earnings (loss) per share and diluted earnings (loss) per share are summarized as follows:

	Years Ended		
	March 28, 2010	March 29, 2009	March 30, 2008
	(dollars and shares in thousands, except per share data)		
Computation of basic earnings (loss) per share			
Income (loss) from continuing operations attributable to TC Global, Inc.	$(5,191)	$ 314	$(16,311)
Income from discontinued operations	$ —	$22,541	$ 2,402
Net income (loss) for basic earnings (loss) per share attributable to TC Global, Inc.	$(5,191)	$22,855	$(13,909)
Weighted average shares used in computing basic earnings (loss) per share	3,537	3,265	2,917
Basic earnings (loss) per share from continuing operations	$ (1.47)	$ 0.10	$ (5.59)
Basic earnings (loss) per share from discontinued operations	$ —	$ 6.90	$ 0.82
Basic earnings (loss) per share attributable to TC Global, Inc	$ (1.47)	$ 7.00	$ (4.77)
Computation of diluted earnings (loss) per share			
Income (loss) from continuing operations attributable to TC Global, Inc	$(5,191)	$ 314	$(16,311)
Income from discontinued operations	$ —	$22,541	$ 2,402
Net income (loss) for diluted earnings (loss) per share attributable to TC Global, Inc	$(5,191)	$22,855	$(13,909)
Weighted average shares used in computing diluted earnings (loss) per share	3,537	6,478	2,917
Diluted earnings (loss) per share from continuing operations attributable to TC Global, Inc	$ (1.47)	$ 0.05	$ (5.59)
Diluted earnings (loss) per share from discontinued operations	$ —	$ 3.48	$ 0.82
Diluted earnings (loss) per share attributable to TC Global, Inc	$ (1.47)	$ 3.53	$ (4.77)
Weighted average shares used in computing earnings (loss) per share			
Weighted average common shares outstanding, used in computing basic earnings (loss) per share	3,537	3,265	2,917
Common share equivalent instruments for computing diluted earnings (loss) per share			
Dilutive effect of Series A Convertible Preferred stock	—	1,808	—
Dilutive effect of Series B Convertible Preferred stock	—	448	—
Dilutive effect of stock options (treasury stock method)	—	75	—
Dilutive effect of warrants (treasury stock method)	—	882	—
Total common share equivalent instruments for computing diluted earnings (loss) per share	—	—	—
Weighted average shares used in computing diluted earnings (loss) per share	3,537	6,478	2,917

23. Subsequent Events

None.

24. Selected Quarterly Financial Data (Unaudited)

Summarized quarterly financial information for Fiscal 2010, Fiscal 2009 and Fiscal 2008 is as follows. Our sales are moderately seasonal.

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total
	(dollars in thousands, except per share data)				
Fiscal 2010					
Net Sales from continuing operations	$ 9,980	$ 9,782	$10,098	$ 9,710	$ 39,570
Gross Profit from continue operations	5,144	5,004	5,199	$ 4,149	19,496
Net Income (Loss) from continue operations attributable to TC Global, Inc	(867)	(1,231)	(1,389)	$ (1,704)	$ (5,191)
Net Income (Loss) from discontinued operations	—	—	—	—	—
Basic and Diluted Income (Loss) per Share					
Net Income (Loss) per basic share	$ (0.25)	$ (0.35)	$ (0.39)	$ (0.48)	$ (1.47)
Net Income (Loss) per diluted share	$ (0.25)	$ (0.35)	$ (0.39)	$ (0.48)	$ (1.47)
Fiscal 2009					
Net Sales from continuing operations	$10,882	$10,107	$ 9,099	$ 8,957	$ 39,045
Gross Profit from continue operations	5,638	5,174	4,643	5,057	20,512
Net Income (Loss) from continue operations attributable to TC Global, Inc	(2,620)	(2,224)	(2,312)	7,470	314
Net Income (Loss) from discontinued operations	1,052	1,423	1,712	18,354	22,541
Basic and Diluted Income (Loss) per Share					
Net Income (Loss) per basic share	$ (0.48)	$ (0.24)	$ (0.19)	$ 7.91	$ 7.00
Net Income (Loss) per diluted share	$ (0.64)	$ (0.24)	$ (0.19)	$ 4.60	$ 3.53
Fiscal 2008					
Net Sales from continuing operations	$11,094	$11,302	$11,479	$ 7,070	$ 40,945
Gross Profit from continue operations	5,703	5,791	6,200	2,017	19,711
Net Income (Loss) from continue operations attributable to TC Global, Inc	(2,762)	(4,031)	(3,502)	(6,016)	$(16,311)
Net Income (Loss) from discontinued operations	1,568	749	1,079	(944)	$ 2,402
Basic and Diluted Loss per Share					
Net Loss per basic share	$ (0.86)	$ (1.20)	$ (0.77)	$ (1.94)	$ (4.77)
Net Loss per diluted share	$ (0.86)	$ (1.20)	$ (0.77)	$ (1.94)	$ (4.77)

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A(T). CONTROLS AND PROCEDURES

We maintain a set of disclosure controls and procedures and internal controls designed to ensure that information required to be disclosed in our filings pursuant to Rule 13a-15(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms in a manner that allows timely decisions regarding required disclosures. We carried out, under the supervision and with the participation of management, including our Chief Executive Officer, President, and principal executive officer ("CEO") and our Chief Financial Officer and Vice President and principal financial officer ("CFO"), an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of March 28, 2010. Based on their evaluation as of March 28, 2010, our CEO and CFO concluded that the current disclosure controls and procedures are not effective due to the untimely filings and our inability to meet required filing timelines, including required amendments to such filings, and are uncertain the impact that the announced departure of our Chief Financial Officer will have on our ongoing disclosure controls.

Management is committed to improving its internal controls and will continue to work to put effective controls in place to file complete regulatory filing requirements in a timely manner.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control system was designed to provide reasonable assurance to the Company's management and board of directors regarding the preparation and fair presentation of published financial statements. Internal control over financial reporting is defined in Rule 13a-15(f) promulgated under the Securities Exchange Act of 1934 and includes those policies and procedures that: (a) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (b) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (c) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements. All internal controls, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statements preparation and presentation.

Our management assessed the effectiveness of the Company's internal control over financial reporting as of March 28, 2010. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control—Integrated Framework. Based on this assessment we concluded that, as of March 28, 2010, our internal control over financial reporting was effective.

This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

Changes in Internal Control Over Financial Reporting

There have been no significant changes in our internal control over financial reporting that occurred during our fourth quarter ended March 28, 2010, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. We are currently assessing the impact that the announced departure of our Chief Financial Officer, and pending replacement plans, will have on our internal controls over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

The following table sets forth certain information regarding our executive officers and directors as of the date of this report:

Name	Age	Position with Tully's	Director Since
Tom T. O'Keefe(3)	55	Chairman of the Board	1992
Carl W. Pennington, Sr.	72	President and Director	2008
Andrew M. Wynne	35	Chief Financial Officer	
John M. Fluke(1*)(2)	67	Director	2005
Lawrence L. Hood(1)(3)	51	Director	1994
Gregory A. Hubert(2*)	59	Director	2004
Janet L. Hendrickson(1)(3*)	55	Director	2004
Ronald G. Neubauer(2)(3)	78	Director	2004

(1) Member of the Audit Committee
(2) Member of the Compensation Committee
(3) Member of the Governance and Nominating Committee
* Designates committee chair.

Nominees for Election to the Board of Directors

The principal occupation for the last five years of each nominee for director of TC Global, Inc., as well as other information, is set forth as follows:

Tom T. O'Keefe—Chairman of the Board, Founder. Tom T. O'Keefe founded Tully's in 1992 and has served as a director and chairman of the Board of Directors since that date. Mr. O'Keefe served as chief executive officer of Tully's from 1992 until March 2001. Mr. O'Keefe is also president and chief executive officer of O'Keefe Development Corporation, a real estate development and investment firm he founded. Tom and his wife Cathy have been actively involved in community organizations for over 25 years and their charitable efforts focus largely on the health, education and welfare of the children in our community. The O'Keefe's were co-founders of the Patrons of Cystic Fibrosis and of the Juvenile Diabetes Foundation of Seattle guilds. The O'Keefe's have chaired many fundraisers for these and other similar entities that encompass grassroots campaigns to multi-million dollar earning galas. O'Keefe is presently serving as a Trustee of The Museum of Flight and is a board member for the Juvenile Diabetes Guild of Seattle and the Patrons of Cystic Fibrosis. O'Keefe formerly served as a board member or trustee for Virginia Mason Hospital, the Seattle Preparatory Academy, Villa Academy, Pacific Northwest Ballet, Leukemia and Lymphoma Society, Cystic Fibrosis Foundation, Children's Hospital and the Bellevue Boy's and Girl's Club.

Carl W. Pennington, Sr.—President, Chief Executive Officer, and Director. Mr. Pennington was appointed President on January 15, 2008 and Chief Executive Officer on June 25, 2009. Mr. Pennington was appointed to the Board of Directors in January 2008. From June 2005 until January 15, 2008, Mr. Pennington founded and managed Pinnacle Management, a management company. From March 2001 to June 2007, Mr. Pennington was the founder and CEO of PinnPointe Consulting Group, a consulting company advising retail and wholesale companies. Mr. Pennington brings extensive retail and wholesale expertise to Tully's, having previously served as Executive Vice President of Sales, Marketing and Merchandising at Albertson's, the nation's second largest retail food chain, from 1995 to 2001. He directed and had responsibility for leading the operations, sales, marketing, and merchandising functions of the Company. Mr. Pennington also held various other positions including division vice president, district manager, senior vice-president and regional manager. Mr. Pennington graduated from Fullerton State College and the Graduate School of Business at Stanford University.

John M. Fluke—Director. Mr. Fluke is chairman of Fluke Capital Management, L.P., (which he founded in 1976), and was Chairman and CEO of the John Fluke Manufacturing Co. until 1990. Mr. Fluke serves on the board of PACCAR Inc. (audit committee financial expert and compensation committee chair), and previously served on the boards of Cell Therapeutics, Primus International, and American Seafoods Group. Mr. Fluke is currently a trustee of the Museum of Flight, the Washington Policy Center and the Greater Seattle Chamber of Commerce. He chairs the board of Junior Achievement of Washington and serves on three advisory boards for the University of Washington. He is also a past president of the Seattle Council of Boy Scouts of America and past chairman of the Washington State China Relations Council. Mr. Fluke has served as a director since March 2005.

Lawrence L. Hood—Director. Mr. Hood is CEO and president of Pacific Wealth Advisors (founded in January 2006) and founder (1993), CEO and president of Pacific Portfolio Consulting, L.P., (which is now a wholly owned subsidiary of Pacific Wealth Advisors). Prior to 1993, Mr. Hood was a principal in charge of the investment division of Kibble & Prentice, Inc. Mr. Hood serves as a director for Elliot Cove Capital Management and Pacific Wealth Advisors. Mr. Hood has served as a director of Tully's since February 1994.

Gregory A. Hubert—Director. Mr. Hubert is president of Restaurant Development Company of America. Mr. Hubert has been owner-operator of Red Robin franchised restaurants since 1989 (currently four locations) and operates two franchised Johnny Carino's Italian Restaurants. From 1978 to 1988, Mr. Hubert was employed by Red Robin International, an operator and franchisor of upscale hamburger restaurants, and ultimately served as its president. From 1973 to 1978, Mr. Hubert was a CPA with Price Waterhouse. Mr. Hubert serves as president of Gonzaga University Board of Regents and as trustee of Seattle Preparatory High School. Mr. Hubert was elected as a director at the 2004 Annual Meeting.

Janet L. Hendrickson—Director. Since 2005 Ms. Hendrickson has served as Managing Partner in addition to co-founding Denny Hill Capital, a multi-industry, early stage venture capital firm created to help finance the Pacific Northwest's entrepreneurs. She also manages Denny Hill's predecessor fund. From 2001 to 2005 Ms. Hendrickson served as Vice President with Alexander Hutton, Seattle's largest and most established investment banking firm, where she represented companies in technology, manufacturing, services, healthcare, and consumer retail markets. She currently sits on the boards of butter LONDON, LLC, a branded nail health and beauty company, and CleverSet, Inc., a software company providing hosted product recommendations to online retailers until its recent sale to Art Technology Group, Inc. (ARTG: NASDAQ).

Ronald G. Neubauer—Director. In 2001 Mr. Neubauer founded Neubauer Capital, an early stage venture capital firm. Mr. Neubauer has sat on the boards of Leukemia Society of America, Fred Hutchinson Gala, and Screenlife Entertainment, LLC. To begin his legal career Mr. Neubauer served as Assistant U.S. Attorney, Western District of Washington. Mr. Neubauer later practiced law in Western Washington with the firms Stern, Gayton, Neubauer and Brucker, and Neubauer & Hunsinger.

Andrew M. Wynne—Vice President and Chief Financial Officer. Mr. Wynne was promoted to Vice President and Chief Financial Officer on January 28, 2008. Mr. Wynne, CPA, served as our controller from June 16, 2006 until January 27, 2008. From September 22, 2005 until June 16, 2006 he was our finance director. From December 3, 2004 until September 22, 2005 Mr. Wynne served as Corporate Assistant Controller for Fisher Broadcasting, Inc., a Seattle-based communications company that owns or manages television stations and radio stations. From August 26, 2002 until December 3, 2004, Mr. Wynne was our assistant controller. Mr. Wynne began his career at KPMG and holds a B.A. in Business Administration from Gonzaga University.

The Board has determined that each of Messrs. Neubauer, Fluke, Hood, and Hubert and Ms. Hendrickson is an "independent director" as such term is defined under the Marketplace Rules of The NASDAQ Stock Market, Inc. There are no family relationships among any of the current directors, nominees or executive officers of TC Global, Inc Additional information about our Board of Directors is set forth in this proxy statement under the caption "The Board of Directors."

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires that our directors, executive officers and greater-than-10% shareholders file reports with the Securities and Exchange Commission ("SEC") with respect to their initial beneficial ownership of our equity securities and any subsequent changes in such ownership. They must also provide us with copies of the reports.

To the Company's knowledge, based solely on the review of the copies of such reports furnished to the Company, all Section 16(a) filing requirements applicable to its officers, directors and greater than 10% beneficial owners were complied with for Fiscal 2009.

Code of Ethics

Since 2001, Tully's has had a code of business conduct. In June 2004 our Board of Directors adopted a new Code of Business Conduct (replacing the previous code), applicable to all employees including our principal executive officer, principal financial officer, controller and other finance leaders, which is a "code of ethics" as defined by applicable rules of the Securities and Exchange Commission.

If Tully's makes any amendments to this code other than technical, administrative, or other non-substantive amendments, or grants any waivers, including implicit waivers, from a provision of this code to our principal executive officer, principal financial officer, controller or other finance personnel, we will disclose the nature of the amendment or waiver, its effective date and to whom it applies in a report on Form 8-K filed with the Securities and Exchange Commission.

ITEM 11. EXECUTIVE COMPENSATION

COMPENSATION DISCUSSION AND ANALYSIS

The primary goals of the Compensation Committee of our Board of Directors with respect to executive compensation are to attract, retain and motivate the most talented and dedicated executives possible, to tie annual and long-term cash and stock incentives to achievement of specified performance objectives, and to align executives' incentives with stockholder value creation. To achieve these goals, the Compensation Committee intends to implement and maintain compensation plans that tie a substantial portion of executives' overall compensation to key strategic goals such as increasing store count as well as other financial and operational performance, as measured by metrics such as net sales, comparable store sales, average unit volume, EBITDA and Adjusted EBITDA. The Compensation Committee evaluates individual executive performance with a goal of setting compensation at levels the committee believes are comparable with executives in other companies of similar size and stage of development operating in the retail food and beverage industry while taking into account our relative performance and our own strategic goals.

There are several elements of our executive compensation package. A significant portion of our overall compensation to officers is tied to company performance. The Compensation Committee believes that a portion of the total cash compensation for executive officers should be based on our success in meeting our short-term performance objectives and contributions by the executive officers that enable us to meet our long-term objectives, and has structured the executive compensation program to reflect this philosophy. This approach creates a direct incentive for executive officers to achieve desired short-term corporate goals that also further our long-term objectives, and places a portion of each executive officer's annual compensation at risk. Stock option awards are designed to retain executive officers and to motivate them to optimize shareholder value by aligning the financial interests of executive officers with those of shareholders. We make stock option grants in an effort to encourage an ownership culture among our employees and to provide longer term performance and retention rewards.

Elements of Compensation

Elements of Compensation

Executive compensation consists of following elements:

Base Salary. Base salaries for our executives are established based on the scope of their responsibilities, taking into account competitive market compensation paid by other companies for similar positions. Generally, we believe that executive base salaries should be targeted near the median of the range of salaries for executives in similar positions with similar responsibilities at comparable companies, in line with our compensation philosophy. Base salaries are reviewed generally once per year, and adjusted from time to time to realign salaries with market levels after taking into account individual responsibilities, contractual requirements, performance and experience, as well as the Company's financial condition. During Fiscal 2004 and Fiscal 2005, when our operations continued to be negatively impacted from earlier years, we generally did not raise the base salaries of our executive officers. During Fiscal 2006 we devoted our capital resources to an expansion plan. Because we did not realize the benefits of this plan during that year, we again chose generally not to increase our executive officers' base salaries. No base salary adjustments were made for our executives in Fiscal 2007. In the fourth quarter of Fiscal 2007, the Compensation Committee reviewed these factors for each executive officer and, effective for Fiscal 2008, increased the base salaries of certain executive officers as necessary to competitively compensate and retain them. As of March 28, 2010, the Compensation Committee has no plans to change the base salaries of executive officers for Fiscal 2011.

Incentive and Discretionary Bonus Plans. The Senior Management Incentive Plan is designed to (i) attract and retain outstanding executive officers capable of leading the Company to fulfillment of its business objectives, and (ii) establish an appropriate link between executive compensation and achievement of the Company's strategic and financial performance goals, including the enhancement of shareholder value. The Senior Management Incentive Plan is intended to provide rewards to participants who, because of the extent of their responsibilities, can make significant contributions to the success of the Company by their ability, loyalty and exceptional services.

Participants in the Senior Management Incentive Plan will be eligible to receive cash and equity incentive bonuses upon the achievement of objectives of the Company, as determined by the Compensation Committee. These objectives will vary depending on the individual participant, but generally relate to strategic factors such as retail sales growth and to financial factors such as improving the Company's results of operations and EBITDA growth. The particular performance criteria will be pre-determined for the given year.

The Compensation Committee may award a discretionary bonus to executive officers to reward outstanding personal achievement during the year. The actual amount of discretionary bonus is determined following a review of each executive's individual performance and contribution to our strategic goals; this review is conducted during the first quarter of the subsequent fiscal year. The Compensation Committee has not fixed a maximum payout for any officers' annual discretionary bonus. No discretionary bonuses were paid to our executive officers for Fiscal 2007, Fiscal 2008, or Fiscal 2010.

On April 15, 2009 the Compensation Committee awarded to Carl Pennington and Andy Wynne $50,000 in recognition for outstanding achievement and contributions to attaining the Company's strategic goals during the 13 week period ended March 30, 2008, and Fiscal 2009. Additionally the Compensation Committee awarded to Carl Pennington and Tom O'Keefe $50,000, and Andy Wynne, $30,000 for the successful closing of the sale of the Company's wholesale division to Green Mountain Coffee Roasters, Inc. ("GMCR"). Lastly, the Compensation Committee awarded retention bonuses to both Carl Pennington and Andy Wynne in the amount of $50,000 paid on April 30, 2010, as both continued their employment with the Company on the payment date.

Stock Options. The Compensation Committee believes that periodic grants of stock options are a key component of our executive compensation program. Stock options are awarded by the Board of Directors to executive officers based on the executive's responsibilities, and his or her actual historical contributions and anticipated future contributions to the attainment of our strategic goals.

Our stock option plan authorizes us to grant options to purchase shares of common stock to our employees, directors and consultants. Our Compensation Committee is the administrator of the stock option plan. Stock option grants are sometimes made at the commencement of employment or following a significant change in job responsibilities. The Compensation Committee reviews and approves stock option awards to executive officers based upon a review of competitive compensation data, its assessment of individual performance, a review of each executive's existing long-term incentives, and retention considerations. Periodic stock option grants are made at the discretion of the Compensation Committee to eligible employees and, in appropriate circumstances, the Compensation Committee considers the recommendations of our president, our vice president and chief financial officer, and our chairman. Periodic grants are made generally once per year for eligible employees. In Fiscal 2008, one named executive officer was awarded stock options in the amounts indicated in the section entitled "Grants of Plan-Based Awards." Stock options granted by us have an exercise price not less than the fair market value of our common stock on the date of grant, typically vest 33.33% per annum based upon continued employment over a three-year period, and generally expire ten years after the date of grant. Incentive stock options also include certain other terms necessary for compliance with the Internal Revenue Code of 1986, as amended (the "Code").

Given the absence of a trading market for our common stock, our Board of Directors, the members of which we believe had extensive business and finance experience, was required to estimate the fair value of our common stock at the time of each option grant. Our Board of Directors has considered objective and subjective factors in determining the value of our common stock at each option grant date, including the following factors: (1) contemporaneous valuation analysis using the income and market approaches; (2) the fact that the option grants involved illiquid securities; (3) contemporaneous, arms-length sales of common stock by us; and (4) the likelihood of achieving a liquidity event, such as an underwritten public offering or sale of the Company, given prevailing market conditions. In addition to the factors identified above, our board engaged outside valuation advisors to assist in its estimate of the fair value of our common stock as of March 29, 2009. The board has not engaged an outside valuation advisor since that date.

Other Compensation. Consistent with our compensation philosophy, we intend to continue to maintain our current benefits and perquisites for our executive officers; however, the Compensation Committee in its discretion may revise, amend or add to the officer's benefits and perquisites, which currently consist of a car allowance, if it deems it advisable. We believe these executive officer benefits and perquisites are currently lower than median competitive levels for comparable companies. We currently have no plans to change either the employment agreements (except as required by law or as required to clarify the benefits to which our executive officers are entitled as set forth herein) or levels of benefits and perquisites provided thereunder.

Compensation Committee's Processes and Procedures for Consideration and Determination of Executive Compensation

The Compensation Committee oversees all of our executive compensation policies and decisions, including the administration and interpretation of our benefit plans, including the 2004 Stock Option Plan. The Compensation Committee also reviews and approves executive officer compensation, including, as applicable, salary, bonus and incentive compensation levels, equity compensation, severance arrangements, change-in-control agreements, special or supplemental benefits and other forms of executive officer compensation. The Committee periodically reviews regional and industry-wide compensation practices and trends to assess the adequacy and competitiveness of our compensation programs. The Committee's membership is determined annually by the full board and includes only independent directors. The Committee meets as often as it deems appropriate, but not less frequently than annually.

The board has delegated authority to the Compensation Committee to review and make recommendations with respect to compensation matters, but has retained the authority to approve and take final action on all executive compensation awards.

Role of Executive Officers in Compensation Process

The Compensation Committee also solicits appropriate input from our chairman, our principal executive officer, and our principal financial officer regarding base salary and equity grants for our other executive officers and regarding the administration of our benefit plans.

External Advisors

The Compensation Committee has the authority to engage the services of outside advisors and purchase independent salary surveys to assist the Committee in fulfilling its duties. It did so in April 2009 and again in April 2010.

Employee Benefit Plans

Our employees, including our executive officers, are entitled to various employee benefits. These benefits include the following: medical and dental care plans; flexible spending accounts for healthcare; life, accidental death and dismemberment and disability insurance; employee assistance programs (confidential counseling); benefit advocacy counseling; a 401(k) plan; and paid time off.

401(k) Plan

During the fiscal year ended April 2, 2000, we adopted a 401(k) savings plan for employees. Eligible employees may contribute up to 20% of their salaries to the plan. Eligible employees are employees over the age of 18 who have been employed by Tully's for six months. There is no mandatory match from Tully's and no match was made for Fiscal 2009. Most plan administrative costs are paid by the 401(k) savings plan.

We do not have a policy requiring recovery of bonus payments or other compensation in the event that our performance measures or financial statements are restated or adjusted. For a description of the employment agreements executed by our executive officers and potential payments to them upon termination or a change in control of our company, see "—Employment Agreements and Employment Letters; and Potential Payments Upon Termination or Change of Control."

Section 162(m) Treatment Regarding Performance-Based Equity Awards

Section 162(m) of the Code limits the deductibility of certain compensation paid to the chief executive officer and certain other highly compensated executive officers to the extent the compensation for any such individual exceeds one million dollars for the tax year. Compensation that qualifies as "performance-based" compensation is, however, exempt from the deductibility limitation. For compensation to qualify for the performance-based exemption, among other things, the performance goals must be determined by a compensation committee, which must be comprised solely of "outside directors" as defined for purposes of Section 162(m) of the Code, the material terms under which the compensation is to be paid must be disclosed to and approved by shareholders in a separate vote prior to payment, and the compensation must be paid solely on account of the attainment of pre-established, objective performance goals, as determined by a compensation committee. Our Compensation Committee intends to preserve the deductibility of compensation payable to our executives, although deductibility will be only one among a number of factors considered in determining appropriate levels or modes of compensation.

Section 409A of the Code

Section 409A of the Code imposes certain restrictions on amounts deferred under non-qualified deferred compensation plans and imposes a 20% excise tax on amounts that are subject to, but do not comply with, Section 409A. Section 409A includes a broad definition of non-qualified deferred compensation plans, which may extend to awards granted under the 2004 Stock Option Plan. The Internal Revenue Service, or IRS, has only recently finalized regulations describing the effect of Section 409A on the types of awards that were or may be issued pursuant to our stock option plan. Our failure to administer our stock option plan in accordance with Section 409A and the regulations promulgated thereunder could subject us to penalties and interest for failing to make required withholdings in connection with option grants that do not comply with Section 409A.

Compensation Committee Interlocks and Insider Participation

During Fiscal 2010, management compensation issues generally were reviewed and approved by the Compensation Committee. During Fiscal 2010, no executive officer of Tully's served on the Board of Directors or compensation committee of another entity that had an executive officer serve on Tully's board or its compensation committee. Marc Evanger, who served on the Compensation Committee until his resignation as a director in October 2008, served as interim President and CEO of Tully's from July 2001 to May 2002.

Summary Compensation Table

The following table sets forth information regarding compensation awarded or paid to, or earned by, our principal executive officer during Fiscal 2010 and our two other most highly compensated executive officers serving as the end of Fiscal 2010 (collectively, the "Named Executive Officers").

SUMMARY COMPENSATION TABLE FOR FISCAL 2010

Name and principal position	Year	Salary ($)	Bonus ($)	Option Awards ($)(5)	All Other Compensation ($)	Total ($)
Carl W. Pennington, Sr.	2010	$290,000	$ —	$91,128	$7,200	$388,328
President(1)	2009	290,000	100,000	91,128	7,200	488,328
	2008	60,417	—	18,776	1,500	80,693
Andrew M. Wynne	2010	185,000	—	13,129	7,200	205,329
Chief Financial Officer(2)	2009	160,000	80,000	14,482	7,200	261,682
	2008	111,673	—	14,482	1,500	127,655
Tom T. O'Keefe	2010	171,310	—	—	7,125	178,435
Founder and Chairman of the Board(3)	2009	200,000	50,000	—	9,000	259,000
	2008	129,071	—	—	9,000	138,071
Ronald P. Gai	2010	135,000	33,750	13,129	7,200	189,079
Vice President of Wholesale Sales(4)	2009	135,000	—	15,205	7,200	157,405
	2008	135,000	—	20,084	7,200	162,284

(1) Mr. Pennington was appointed President and principal executive officer on January 15, 2008. Mr. Pennington's base salary for Fiscal 2010 is $290,000 paid to Pinnacle Management Inc. A car allowance of $7,200 appears in the All Other Compensation column.
(2) Mr. Wynne was appointed Chief Financial Officer on January 28, 2008. Mr. Wynne's base salary for Fiscal 2010 was increased $185,000. A car allowance of $7,200 appears in the All Other Compensation column.
(3) Mr. O'Keefe's base salary is $200,000 as of March 28, 2010 and is paid through our Asian Joint Venture. A car allowance of $7,125 appears in the All Other Compensation column.
(4) Mr. Gai's base salary for Fiscal 2009 was $135,000. A car allowance of $7,200 appears in the All Other Compensation column.
(5) These amounts were calculated utilizing fair value provision under FASB ASC 718 excluding the effects of estimated forfeitures. See Note 18 of the Notes to the Consolidated Financial Statements regarding the assumptions underlying valuation of equity awards.

Employment Agreements and Employment Letters; Potential Payments Upon Termination or Change-in-Control

Carl W. Pennington, Sr. On March 10, 2008, we entered into a service agreement with Pinnacle Management, Inc. and Mr. Pennington, regarding Mr. Pennington's service as President of Tully's effective January 15, 2008. Pinnacle Management is a corporation through which Mr. Pennington's provides personal services.

Under the terms of the agreement, Tully's will pay Pinnacle Management a fee of $24,166.66 per month (the "Monthly Fee"), or $290,000 annually, in consideration for Mr. Pennington's service to Tully's. In addition, Tully's will grant Mr. Pennington an option to purchase 62,500 shares of Tully's common stock, which option will vest and become exercisable in five equal increments of 12,500 shares, beginning on the first anniversary of the grant date. The exercise price per share for the option is the fair market value of Tully's common stock as of the grant date, $12.00 per share, as determined by the Board of Directors. Tully's will pay Pinnacle Management an additional $600 per month for Mr. Pennington's monthly vehicle costs and reimburse Mr. Pennington for actual out of pocket expenses reasonably related to carrying on his duties and responsibilities as Tully's President. Mr. Pennington will not be eligible for medical, dental, and certain other employee benefits that Tully's provides to its employees.

The agreement provides further that, in the event of "change in control," Pinnacle Management will be entitled to receive a termination fee equal to the greater of (a) $145,000 or (b) the aggregate Monthly Fee for the remaining term of the Agreement. In addition, Mr. Pennington's options will vest and become fully exercisable upon a change in control. The agreement defines "change in control" to mean (x) a sale of substantially all of the assets of Tully's to a third party other than as part of a transfer of said assets to an entity directly or indirectly controlled by existing Tully's shareholders holding a majority of the outstanding shares of the common voting stock of Tully's, or (y) a sale of more than fifty percent (50%) of the outstanding voting stock of Tully's to one or more third parties in a single transaction or series of transactions.

The service agreement has a term of one year, renewing annually based on mutual agreement between Tully's and Mr. Pennington.

Andrew M. Wynne. Mr. Wynne has served as Vice President and Chief Financial Officer since January 2008 at the base salary of $135,000, with a monthly car allowance of $600. In October, 2008, Mr. Wynne's base salary was increased to $185,000. Mr. Wynne also is entitled to all benefits offered generally to our employees.

In the event of "change in control," Mr. Wynne will be entitled to his current base salary for an additional nine months following the event. The agreement defines "change in control" to mean (x) a sale of substantially all of the assets of Tully's to a third party other than as part of a transfer of said assets to an entity directly or indirectly controlled by existing Tully's shareholders holding a majority of the outstanding shares of the common voting stock of Tully's, or (y) a sale of more than fifty percent (50%) of the outstanding voting stock of Tully's to one or more third parties in a single transaction or series of transactions.

Further, on June 8, 2010, Mr. Wynne announced that he would resign from his position as Chief Financial Officer and Secretary of the Company on July 10, 2010.

Tom T. O'Keefe. Mr. O'Keefe is our founder and has served as chairman of the board since 1992. In Fiscal 2009, Mr. O'Keefe did not participate in the compensation plan for non-employee directors, but instead received compensation as a salaried employee of the Company. As disclosed in the Summary Compensation Table above, beginning January 1, 2008, Mr. O'Keefe's base salary was $200,000, and he received a bonus of $50,000 in Fiscal 2009. Mr. O'Keefe also receives an automobile allowance of $750 per month and is entitled to all benefits offered generally to our employees. Effective June 25, 2009, we stopped paying Mr. O'Keefe's base salary. In accordance with our Fiscal 2010 director compensation plan, between June 25, 2009, and September 30, 2009, Mr. O'Keefe received directors' fees based on a quarterly cash payment of $10,000 plus a per-meeting cash fee of $1,000 per Board meeting and $500 per meeting of the Executive and Governance and Nominating committees.

Effective October 1, 2009, Tully's Coffee International, PTE LTD, ("Tully's Coffee International") a wholly owned subsidiary of Tully's Coffee Asia Pacific Partners, LP, the joint venture formed by Tully's Coffee Asia Pacific, Inc., a wholly-owned subsidiary of TC Global, Inc., and Asia Food Culture Management Pte, Ltd., agreed to pay Mr. O'Keefe an annual salary of $200,000 for his services as interim managing director of Tully's Coffee International. As of that date, Mr. O'Keefe became ineligible to receive directors' fees or salary from TC Global, Inc.

Further, At the Annual Meeting of the Shareholders of the Company, held on March 26, 2010, Mr. O'Keefe announced that he would retire from his position as Chairman of the Board of Directors of the Company and will retire as a director on June 30, 2010.

We do not have formal employment agreements with any of our other executive officers; however, certain elements of these executives' compensation and other arrangements are set forth in employment letters provided to each of them. These employment letters are described below.

Ronald P. Gai. Tully's promoted Mr. Gai to Vice President of Wholesale Division in April 2003 at the base salary of $90,000, with a monthly car allowance of $600. In March, 2009, Mr. Gai became Vice President of Specialty Division. Mr. Gai's base salary for Fiscal 2010 is $135,000. In the event of "change in control," Mr. Gai will be entitled to his current base salary for an additional three months following the event.

Under our stock option plan, vesting and exercise of employee stock options, including those of the executive officers, accelerate in the event of certain change of control events. Also, pursuant to the employment letters for members of Tully's senior management team, Tully's has agreed to pay severance compensation to these executives in the event that there is a change in control. The amount of severance to be paid would depend upon the rate of salary at the time of termination and other factors. As of March 28, 2010, the contingent obligation for severance to these individuals for the change in control provision was as follows: Mr. Pennington $224,849; Mr. Wynne $138,750; and Mr. Gai $33,750.

Accordingly, in the event that a termination of the employment of the foregoing named executive officers had occurred as of March 28, 2010, the last business day of Fiscal 2010, we would not have been obligated to make any contractual severance payments to any of those officers, except that if we had terminated certain officers. Pursuant to the employment letters for members of Tully's senior management team, Tully's has agreed to pay severance compensation to these executives in the event their employment by Tully's is terminated for reasons other than certain excluded circumstances. The amount of severance to be paid would depend upon the rate of salary at the time of termination and other factors. As of March 28, 2010, the contingent obligation for severance to these individuals was as follows: Mr. Pennington $72,500; Mr. Wynne $92,500; and Mr. Gai $33,750.

In the event that a change of control transaction described in our 1994 and our 2004 stock option plans had occurred as of March 29, 2009, holders of unvested options, including the Named Executive Officers, would have had the right to exercise the full number of shares covered by those options. The value of that right for the Named Executive Officers as of March 28, 2010 would have been as follows: Mr. Pennington $750,000 and Mr. Wynne $47,000.

Grants of Plan-Based Awards

The Compensation Committee recommended, and our board approved, awards under our 2004 stock option plan to one of our Named Executive Officers in Fiscal 2008. Our Compensation Committee has not established guidelines for the grant of plan-based awards for Fiscal 2009, Fiscal 2010 or Fiscal 2011. There were no awards granted during Fiscal 2009 or Fiscal 2010.

Outstanding Equity Awards At Fiscal Year-End

We had no outstanding stock awards at fiscal year end. The following table summarizes the outstanding equity award holdings held by our Named Executive Officers:

OUTSTANDING EQUITY AWARDS AT FISCAL 2010 YEAR-END

	OPTION AWARDS			
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options(1) (#) Unexercisable	Option Exercise Price ($)(a)	Option Expiration Date
Carl K. Pennington, Sr. President	25,000	37,500(a)	12.00	1/15/2018
Andrew M. Wynne Chief Financial Officer	6,250	— *	11.28	2/22/2017
Tom T. O'Keefe(b) Founder and Chairman of the Board	—	—	—	—
Ronald Gai Vice President of Wholesale Sales	3,125	— *	2.48	10/23/2013
	2,500	— *	12.00	5/16/2015
	6,250	— *	11.28	2/22/2017

(a) The underlying options vest ratably over a three year period beginning on the grant date of 1/15/08.
(b) The named executive officer has no outstanding equity awards at March 28, 2010.
* The underlying options related to this grant are fully vested.

Option Exercises and Stock Vested in Fiscal 2010

	Option Awards Vested		Option Awards Exercised	
Name	Number of Shares Vested (#)	Value realized on Vesting ($)(a)	Number of Shares Acquired on Exercise (#)	Value realized on Exercise ($)(a)
Tom T. O'Keefe	12,500	$20,500	—	—
Founder and Chairman of the Board	—	—	37,999	$62,318
Ronald Gai Vice President of Wholesale Sales	2,084	$ 3,418	6,250	$ 1.64

(a) Amounts reflect the $1.64 fair market value, as determined by our Board of Directors, of our common stock at March 29, 2009.

Pension Benefits

None of our Named Executive Officers participate in or have account balances in qualified or non-qualified defined benefit plans sponsored by us.

Nonqualified Deferred Compensation

None of our Named Executive Officers participate in or have account balances in non-qualified defined contribution plans or other deferred compensation plans maintained by us. The Compensation Committee, which will be comprised solely of "outside directors" as defined for purposes of Section 162(m) of the Internal Revenue Code, may elect to provide our officers and other employees with non-qualified defined contribution or deferred compensation benefits if the Compensation Committee determines that doing so is in our best interests.

Director Compensation

The Governance and Nominating Committee of the Board of Directors, which is comprised of two independent directors, is responsible for evaluating compensation levels and compensation programs for our Board of Directors and for making recommendations to the Board of Directors regarding appropriate compensation awards for directors. The director compensation program is designed to attract, retain and motivate experienced non-employee (outside) directors, to optimize long-term shareholder value and reward directors based on the extent of their participation on the Board of Directors and its committees. Generally, the Governance and Nominating Committee makes an annual recommendation regarding the structure of the non-employee director compensation program, considering the factors described above and considering information regarding director compensation programs for other comparable companies.

On June 25, 2009, the Board approved a director compensation policy applicable for Fiscal 2010. The policy provides that non-employee directors will receive a quarterly cash payment of $5,000 plus a per-meeting cash fee of $1,000 per Board meeting and $500 per meeting of the Audit, Compensation, Executive, and Governance and Nominating committees, paid after completion of the fiscal year. For Fiscal 2010, non-employee directors also will receive an annual grant of nonqualified options to purchase shares of common stock having a fair value on the date of grant equal to $34,000, an exercise price equal to the fair market value of the stock at the date of grant, and a term of ten years. Our Chairman of the Board will receive a quarterly cash payment of $10,000 plus a per-meeting cash fee of $1,000 per Board meeting and $500 per committee meeting.

Compensation amounts are generally subject to prorating for directors whose terms commence or expire during the fiscal year. Further, after the completion of the fiscal year, the Governance and Nominating Committee will consult with the Board and management to assess whether any directors may have provided services to the Company that may not adequately be considered in the compensation determined by the formulae set forth above, and if so, additional cash compensation or stock options may be awarded if approved by the Board.

Directors will be reimbursed for reasonable expenses incurred in attending Board and committee meetings.

DIRECTOR COMPENSATION FOR FISCAL 2010 (stock to be granted in Fiscal 2011):

Name	Fees Earned or Paid in Cash ($)	Option Awards(1)(2) ($)	Total ($)
John M. Fluke	$28,000	$34,000	$62,000
Lawrence L. Hood	$28,000	$34,000	$62,000
Gregory A. Hubert	$26,000	$34,000	$60,000
Janet L. Hendrickson	$10,357	$12,961	$23,318
Ronald G. Neubauer	$11,357	$12,961	$24,318

(1) The amounts in this column were calculated with respect to Fiscal 2009 utilizing fair value provision under FASB ASC 718 excluding the effects of estimated forfeitures. See Note 18 of the Notes to the Consolidated Financial Statements contained in our Annual Report on Form 10-K regarding assumptions underlying valuation of equity awards. The full grant date fair value of the Fiscal 2010 awards to each director, to be granted following the fiscal year is as follows:

Name	Option Shares Granted (#)	Option Awards Value ($)
John M. Fluke	25,875	$34,000
Lawrence L. Hood	25,875	$34,000
Gregory A. Hubert	25,875	$34,000
Janet L. Hendrickson	9,864	$12,961
Ronald G. Neubauer	9,864	$12,961

(2) The aggregate numbers of option awards outstanding for each director in the table set forth above as of March 28, 2010 were as follows:

Name	Aggregate Options Outstanding (#)
John M. Fluke	6,760
Lawrence L. Hood	9,750
Gregory A. Hubert	5,387
Janet L. Hendrickson	—
Ronald G. Neubauer	—

Indemnification of Officers and Directors

Our articles of incorporation and bylaws allow us to indemnify our officers and directors to the fullest extent permitted by the Washington Business Corporation Act, or WBCA. It also contains provisions that provide for the indemnification of directors of the Company for third party actions and actions by or in the right of the Company that mirror applicable provisions of the WBCA.

In addition, our articles of incorporation state that we may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, including service with respect to an employee benefit plan, against any liability asserted against such person or incurred by such person in any such capacity, or arising out of such person's status as such, and related expenses, whether or not the corporation would have the power to indemnify such person against such liability under the WBCA. We also have and intend to maintain director and officer liability insurance, if available on reasonable terms.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers or persons controlling us under the foregoing provisions, we have been informed that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

Report of Compensation Committee on Executive Compensation

The Compensation Committee of the Board has reviewed and discussed the Compensation Discussion and Analysis section of this Form 10-K with the Company's management and, based on such review and discussions, the Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Annual Report on Form 10-K.

Compensation Committee
Gregory A. Hubert, Chair

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table shows information regarding the beneficial ownership of shares of our common stock, Series A preferred stock and Series B preferred stock as of May 31, 2010 and shows the number of and percentage owned by:

- each person who is known by us to own beneficially more than 5% of our common stock, Series A preferred stock and Series B preferred stock;
- each member of our Board of Directors;
- each of our Named Executive Officers; and
- all members of our Board of Directors and our executive officers as a group.

Unless otherwise indicated in the footnotes to this table and subject to community property laws where applicable, we believe that each shareholder named in this table has sole voting and investment power with respect to the shares indicated as beneficially owned thereby, and such shareholder's address is c/o TC Global, Inc., 3100 Airport Way S., Seattle, WA 98134.

	Common Stock		Series A Preferred Stock		Series B Preferred Stock	
	Beneficial Ownership(1)	Percent Of Total	Beneficial Ownership(1)	Percent Of Total	Beneficial Ownership(1)	Percent Of Total
Tom T. O'Keefe	524,662(2)	14.7%	—	—	—	—
Estate of Keith McCaw	176,484(3)	4.9%	2,000,000	15.6%	—	—
Ronald G. Neubauer	118,143(4)	3.3%	32,500	*	—	—
Lawrence L. Hood	36,886(5)	1.0%	10,000	*	40,000	*
Carl W. Pennington, Sr.	25,000(7)	*	—	—	—	—
Ronald P. Gai	18,125(6)	*	—	—	—	—
Gregory A. Hubert	9,599(8)	*	—	—	—	—
John M. Fluke	8,901(9)	*	15,000	*	—	—
Andrew M. Wynne	6,250(10)	*	—	—	—	—
Janet L. Hendrickson	—	—	—	—	—	—
Executive officers and directors as a group (8 persons)	747,566	21.0%	57,500	*	40,000	*

* Less than 1%.

(1) Beneficial ownership is determined in accordance with the rules and regulations of the Securities and Exchange Commission and generally requires that the shareholder have voting or investment power with

respect to the securities in question. Shares of common stock issuable upon exercise of options and warrants that are exercisable within 60 days of May 31, 2010, are deemed to be beneficially owned by the holder of such securities but are not outstanding for the purpose of computing the percentage ownership of any other shareholder. As of May 31, 2010, we had 3,563,867 shares of common stock, 12,790,874 shares of Series A preferred stock, and 3,590,349 shares of Series B preferred stock issued and outstanding.

(2) Includes 424,816 shares of common stock owned by TTOK, LLC, a limited liability company owned by Mr. O'Keefe and his wife (Mr. O'Keefe contributed his personal shareholdings to TTOK, LLC, in October 2005). Also includes 72,678 owned by Mr. O'Keefe, 17,812 shares of common stock held by the O'Keefe Children's Trust, and 9,356 shares of common stock held by the Tully's Foundation.

(3) Includes 125,416 shares of common stock issuable upon exercise of options and warrants and 30,000 shares of common stock issuable upon conversion of 2,000,000 shares of Series A preferred stock.

(4) Includes 488 shares of common stock issuable upon conversion of 32,500 shares of Series A preferred stock.

(5) Includes 8,583 shares of common stock issuable upon exercise of options. Also includes 150 shares of common stock issuable upon the conversion of 10,000 Series A preferred stock.

(6) Includes 11,875 shares of common stock issuable upon exercise of options.

(7) Includes 25,000 shares of common stock issuable upon exercise of options.

(8) Includes 4,970 shares of common stock issuable upon exercise of options.

(9) Includes 6,716 shares of common stock issuable upon exercise of options and warrants and 225 shares of common stock issuable upon conversion of 15,000 shares of Series A preferred stock.

(10) Includes 6,250 shares of common stock issuable upon exercise of options.

Information regarding securities authorized for issuance under our equity compensation plans is set forth in Part II, Item 5.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Our board of directors recognizes that transactions or other arrangements between us and any of our directors, executive officers or principal shareholders may present potential or actual conflicts of interest. Accordingly, as a general matter, it is our board's preference to avoid such transactions and other arrangements. Nevertheless, our board recognizes that there are circumstances where such transactions or other arrangements may be in, or not inconsistent with, our best interests. Any transaction, arrangement or relationship in which we will be a participant and the amount involved exceeds $120,000, and in which any related person (directors, executive officers, shareholders owning at least 5% of any class of our voting securities, and the immediate family members or any person sharing the household of any such director, executive officer or shareholder) had or will have a direct or indirect material interest, we will submit to our board of directors for review, consideration and approval. We further expect that the policy will provide for periodic monitoring of pending and ongoing transactions. In approving or rejecting the proposed transaction, our board will consider the relevant facts and circumstances relating to the proposed transaction, arrangement or relationship, including:

- the related person's relationship to us and interest in the transaction,
- the material facts of the proposed transaction, including the proposed aggregate value of the transaction,
- the benefits to us,
- the availability of other sources for comparable services or products (if applicable), and
- an assessment of whether the proposed transaction is on terms that are comparable to the terms available to an unrelated third party or to our employees generally.

Our board of directors will approve only those transactions that, in light of known circumstances, are in, or are not inconsistent with, our best interests and are consistent with applicable legal requirements.

There were no transactions since the beginning of Fiscal 2010 to which we have been a party, in which the amount involved exceeded, or will exceed, $120,000 and in which any related person had or will have a direct or indirect material interest, other than compensation arrangements (including employment and change-in-control arrangements) which are described under the section of this report captioned "Compensation Discussion and Analysis."

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Fees Paid to Moss Adams LLP

The following table shows the fees billed to us by Moss Adams LLP in Fiscal 2010 and Fiscal 2009:

	Fiscal 2010	Fiscal 2009
Audit Fees(1)	$188,150	$253,062
Audit-Related Fees(2)	16,685	—
All Other Fees(3)	46,189	39,763
Total Fees	$251,024	$292,825

(1) Audit services consisted of the examination of our consolidated financial statements, quarterly reviews of interim financial statements and consultation in connection with the evaluation of a possible business integration opportunity and the attempted initial public offering.
(2) Audit-related fees relate primarily to consultation in connection with the UCC settlement and other various matters.
(3) Tax services of Moss Adams were for state, federal, and international tax compliance and tax advice services.

Audit Committee Preapproval Policy

The Audit Committee does not have a written preapproval policy. However, as a matter of practice, prior to engaging our independent registered public accounting firm for any services, we obtain the prior approval of the Audit Committee. All of the audit, audit-related, tax and other fees were approved by the Audit Committee.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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

1. **Financial Statements**—The following financial statements are included in Part II, Item 8 of this Annual Report on Form 10-K:

   Consolidated Balance Sheets as of March 28, 2010 and March 29, 2009;

   Consolidated Statements of Operations for the years ended March 28, 2010, March 29, 2009, and March 30, 2008;

   Consolidated Statements of Changes in Stockholders' Equity (Deficit) for the years ended March 28, 2010, March 29, 2009, and March 30, 2008;

   Consolidated Statements of Cash Flows for the years ended March 28, 2010, March 29, 2009, and March 30, 2008;

   Notes to Consolidated Financial Statements; and

   Report of Independent Registered Public Accounting Firm

2. **Financial Statement Schedules**—All schedules have been omitted, as they are either not required or not applicable or because the information required to be presented is included in the Consolidated Financial Statements and related notes.

3. **Exhibits**

   The Exhibits listed in the Exhibit Index, which appears immediately following the signature page and is incorporated herein by reference, are filed or incorporated by reference as part of this Annual Report on Form 10-K. Each management contract or compensatory plan or agreement listed on the Exhibit Index is identified by an asterisk.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, in Seattle, Washington on June 28, 2010.

TC GLOBAL, INC.

BY: /S/ ANDREW M. WYNNE

Vice President and Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on June 28, 2010 on behalf of the Registrant and in the capacities indicated:

Signature	Title
/S/ CARL W. PENNINGTON, SR. **Carl W. Pennington, Sr.**	Director, President (principal executive officer)
/S/ TOM T. O'KEEFE **Tom T. O'Keefe**	Chairman of the Board and Director
/S/ JOHN M. FLUKE **John M. Fluke**	Director
/S/ LARRY HOOD **Larry Hood**	Director
/S/ GREGORY A. HUBERT **Gregory A. Hubert**	Director
/S/ JANET L. HENDRICKSON **Janet L. Hendrickson**	Director
/S/ RONALD G. NEUBAUER **Ronald G. Neubauer**	Director
/S/ ANDREW M. WYNNE **Andrew M. Wynne**	Vice President and Chief Financial Officer (principal accounting and financial officer)

EXHIBIT INDEX

3.1	Amended and Restated Articles of Incorporation filed with the Washington Secretary of State on October 26, 1999 (Filed with the Registrant's Annual Report on Form 10-K for the year ended April 1, 2001 as filed with the SEC on October 19, 2001, and incorporated herein by reference)
3.1(a)	Articles of Amendment of the Restated Articles of Incorporation containing the Statement of Rights and Preferences of Series B Preferred Stock filed with the Washington Secretary of State on June 27, 2000 (Filed with the Registrant's Annual Report on Form 10-K for the year ended April 1, 2001, as filed with the Commission on October 19, 2001, and incorporated herein by reference)
3.1(b)	Articles of Correction to Amended and Restated Articles of Incorporation filed with the Washington Secretary of State on August 8, 2000 (Filed with the Registrant's Annual Report on Form 10-K for the year ended April 1, 2007, as filed with the SEC on July 13, 2007, and incorporated herein by reference)
3.1(c)	Articles of Correction to Amended and Restated Articles of Incorporation filed with the Washington Secretary of State on August 8, 2000 (Filed with the Registrant's Annual Report Form 10-K for the year ended April 1, 2007, as filed with the SEC on July 13, 2007, and incorporated herein by reference)
3.1(d)	Articles of Amendment to Amended and Restated Articles of Incorporation filed with the Washington Secretary of State on December 16, 2004 (Filed with the Registrant's Annual Report on Form 10-K for the year ended April 1, 2007, as filed with the SEC on July 13, 2007, and incorporated herein by reference)
3.1(e)	Articles of Amendment to Amended and Restated Articles of Incorporation filed with the Washington Secretary of State on December 16, 2004 (Filed with the Registrant's Current Report on Form 8-K, dated March 26, 2009, as filed with the SEC on March 27, 2009, and incorporated herein by reference)
3.1(f)	Articles of Amendment to Amended and Restated Articles of Incorporation filed with the Washington Secretary of State on June 27, 2007 (Filed with the Registrant's Annual Report on Form 10-K for the year ended April 1, 2007, as filed with the SEC on July 13, 2007, and incorporated herein by reference)
3.2	Amended and Restated Bylaws adopted on July 18, 2007 (Filed with the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 1, 2007, as filed with the SEC on July 26, 2007, and incorporated herein by reference)
4.1	Description of capital stock contained in the Amended and Restated Articles of Incorporation (see Exhibit 3.1)
4.2	Description of rights of security holders contained in the Bylaws (see Exhibit 3.2)
4.2(a)	Form of Common Stock Purchase Warrants issued in Series A Preferred Stock financing (Filed with the Registrant's Annual Report on Form 10-K for the year ended March 30, 2008, as filed with the SEC on September 18, 2008, and incorporated herein by reference)
4.2(b)	Common Stock Purchase Warrant, dated December 14, 2000, issued to KWM Investments LLC (Filed with the Registrant's Annual Report on Form 10-K for the year ended March 30, 2008, as filed with the SEC on September 18, 2008, and incorporated herein by reference)
4.2(c)	Form of Common Stock Purchase Warrants issued to Guarantors of Kent Central, LLC Promissory Note (Filed with the Registrant's Annual Report on Form 10-K for the year ended March 30, 2008, as filed with the SEC on September 18, 2008, and incorporated herein by reference)
4.2(d)	Common Stock Purchase Warrant dated April 26, 2007, issued to Benaroya Capital Company, L.L.C. (Filed with the Registrant's Annual Report on Form 10-K for the year ended March 30, 2008, as filed with the SEC on September 18, 2008, and incorporated herein by reference)
4.2(e)	Stock Purchase Warrant dated July 12, 2007, issued to Benaroya Capital Company, L.L.C. (Filed with the Registrant's Annual Report on Form 10-K for the year ended April 1, 2007, as filed with the SEC on July 13, 2007, and incorporated herein by reference)

4.2(f)	Form of Stock Purchase Warrant issued July 12, 2007 to Guarantor of Benaroya Capital credit facility (Filed with the Registrant's Annual Report on Form 10-K for the year ended April 1, 2007, as filed with the SEC on July 13, 2007, and incorporated herein by reference)
4.3	Form of Registration Rights Agreement with Series A Preferred Shareholders (Filed with the Registrant's Annual Report on Form 10-K for the year ended March 30, 2008, as filed with the SEC on September 18, 2008, and incorporated herein by reference)
4.4	Registration Rights Agreement, dated December 14, 2000 between Tully's and KWM Investments LLC (Filed with the Registrant's Annual Report on Form 10-K for the year ended March 30, 2008, as filed with the SEC on September 18, 2008, and incorporated herein by reference)
10.1	Tully's 1999 Employee Stock Purchase Plan (Filed with the Registrant's Annual Report on Form 10-K for the year ended March 30, 2008, as filed with the SEC on September 18, 2008, and incorporated herein by reference)
10.2	Tully's Second Amended and Restated 1994 Stock Option Plan (Filed with the Registrant's Annual Report on Form 10-K for the year ended March 30, 2008, as filed with the SEC on September 18, 2008, and incorporated herein by reference)
10.3	Tully's 2004 Stock Option Plan (Filed with the Registrant's Annual Report on Form 10-K for the year ended March 30, 2008, as filed with the SEC on September 18, 2008, and incorporated herein by reference)
10.4(a)	Tully's 2010 Stock Option Plan as filed with the SEC on June 3, 2010, and incorporated herein by reference
10.4(b)*	Consent of Moss Adams LLP, independent registered public accounting firm, to Tully's 2010 Stock Option Plan.
10.5	Form of Non-Qualified Stock Option Agreement (Filed with the Registrant's Annual Report on Form 10-K for the year ended March 30, 2008, as filed with the SEC on September 18, 2008, and incorporated herein by reference)
10.6	Form of Incentive Stock Option Agreement (Filed with the Registrant's Annual Report on Form 10-K for the year ended March 30, 2008, as filed with the SEC on September 18, 2008, and incorporated herein by reference)
10.7	Form of Founder's Plan Option Agreement (Filed with the Registrant's Annual Report on Form 10-K for the year ended March 30, 2008, as filed with the SEC on September 18, 2008, and incorporated herein by reference)
10.8(a)	Lease Agreement between Tully's and Kent Central, LLC, as amended (Filed with the Registrant's Annual Report on Form 10-K for the year ended April 2, 2000, as filed with the SEC on July 3, 2000, and incorporated herein by reference)
10.8(b)	First Lease Amendment between Tully's and Kent Central, LLC, dated December 17, 1999 (Filed with the Registrant's Annual Report on Form 10-K for the year ended March 30, 2008, as filed with the SEC on September 18, 2008, and incorporated herein by reference)
10.8(c)	Second Lease Amendment between Tully's and Kent Central, LLC, dated June 6, 2000 (Filed with the Registrant's Annual Report on Form 10-K for the year ended March 30, 2008, as filed with the SEC on September 18, 2008, and incorporated herein by reference)
10.8(d)	Third Lease Amendment between Tully's and Kent Central, LLC, dated November 7, 2000 (Filed with the Registrant's Annual Report on Form 10-K for the year ended March 30, 2008, as filed with the SEC on September 18, 2008, and incorporated herein by reference)
10.8(e)	Fourth Lease Amendment between Tully's and Kent Central, LLC, dated February 21, 2001 (Filed with the Registrant's Annual Report on Form 10-K for the year ended March 30, 2008, as filed with the SEC on September 18, 2008, and incorporated herein by reference)

10.8(f)	Fifth Lease Amendment between Kent Central, LLC and Tully's, dated November 1, 2002 (Filed with the Registrant's Annual Report on Form 10-K for the year ended March 30, 2008, as filed with the SEC on September 18, 2008, and incorporated herein by reference)
10.8(g)	Sixth Amendment to Lease Agreement between Tully's and Rainier Commons, LLC, dated June 26, 2003 (Filed with the Registrant's Annual Report on Form 10-K for the year ended March 30, 2008, as filed with the SEC on September 18, 2008, and incorporated herein by reference)
10.8(h)	Seventh Amendment to Lease Agreement between Tully's and Rainier Commons, LLC, dated July 23, 2004 (Filed with the Registrant's Annual Report on Form 10-K for the year ended March 30, 2008, as filed with the SEC on September 18, 2008, and incorporated herein by reference)
10.8(i)	Eighth Amendment to Lease Agreement between Tully's and Rainier Commons, LLC, dated October 7, 2004 (Filed with the Registrant's Annual Report on Form 10-K for the year ended March 30, 2008, as filed with the SEC on September 18, 2008, and incorporated herein by reference)
10.8(j)	Ninth Amendment to Lease Agreement between Tully's and Rainier Commons, LLC, dated October 7, 2004 (Filed with the Registrant's Annual Report on Form 10-K for the year ended March 30, 2008, as filed with the SEC on September 18, 2008, and incorporated herein by reference)
10.8(k)	Tenth Amendment to Lease Agreement between Tully's and Rainier Commons, LLC, dated December 16, 2005 (Filed with the Registrant's Annual Report on Form 10-K for the year ended March 30, 2008, as filed with the SEC on September 18, 2008, and incorporated herein by reference)
10.9	Tully's Coffee Exclusive License Agreement, dated April 11, 2001 between Tully's and UCC Ueshima Coffee Company, LTD (Filed with the Registrant's Annual Report on Form 10-K for the year ended March 30, 2008, as filed with the SEC on September 18, 2008, and incorporated herein by reference)
10.10	Services Agreement between Tully's Coffee Corporation, Pinnacle Management, Inc., and Carl Pennington, Sr., regarding Mr. Pennington's services as President of Tully's (Filed with the Registrant's Current Report on Form 8-K filed with the SEC on March 11, 2008 and incorporated herein by reference)
10.11	Tully's Coffee Exclusive License Agreement between Tully's Coffee Corporation and its wholly-owned subsidiary Tully's Coffee Asia Partners, Inc. dated October 12, 2007 (Filed with the Registrant's Current Report on Form 8-K filed with the SEC on January 11, 2008 and incorporated herein by reference)
10.12	Supply Agreement between Green Mountain Coffee Roasters, Inc. and Tully's Coffee Corporation dated March 27, 2009 (Filed with the Registrant's Current Report on Form 8-K, dated March 29, 2009, as filed with the SEC on June 29, 2009, and incorporated herein by reference)
10.13	License Agreement between Green Mountain Coffee Roasters, Inc. and Tully's Coffee Corporation dated March 27, 2009 (Filed with the Registrant's Current Report on Form 8-K, dated March 29, 2009, as filed with the SEC on June 29, 2009, and incorporated herein by reference)
10.14	Non-Competition Agreement Green Mountain Coffee Roasters, Inc. and Tully's Coffee Corporation dated March 27, 2009 (Filed with the Registrant's Current Report on Form 8-K, dated March 29, 2009, as filed with the SEC on June 29, 2009, and incorporated herein by reference)
10.15	Non-Competition Agreement between Tom T. O'Keefe and Green Mountain Coffee Roasters, Inc. dated March 27, 2009 (Filed with the Registrant's Current Report on Form 8-K, dated March 29, 2009, as filed with the SEC on June 29, 2009, and incorporated herein by reference)
10.16	Promissory Note made by Tully's Coffee Asia Pacific, Inc. dated December 30, 2008 (Filed with the Registrant's Current Report on Form 8-K, dated December 31, 2008, as filed with the SEC on January 7, 2009, and incorporated herein by reference)

10.17(a)	Convertible Promissory Note made by Tully's Coffee Asia Pacific Partners, LP dated December 30, 2008 (Filed with the Registrant's Current Report on Form 8-K, dated December 31, 2008, as filed with the SEC on January 7, 2009, and incorporated herein by reference)
10.17(b)	Amendment No. 1 to Convertible Promissory Note made by Tully's Coffee Asia Pacific Partners, LP dated March 6, 2009 (Filed with the Registrant's Current Report on Form 8-K, dated March 4, 2009, as filed with the SEC on March 11, 2009, and incorporated herein by reference)
10.17(c)	Amendment No. 2 to Convertible Promissory Note made by Tully's Coffee Asia Pacific Partners, LP (Filed with the Registrant's Current Report on Form 8-K, dated March 17, 2009, as filed with the SEC on March 20, 2009, and incorporated herein by reference)
10.18	Partnership Resolution, Tully's Coffee Asia Pacific Partners, LP, dated March 27, 2009 (Filed with the Registrant's Current Report on Form 8-K, dated March 27, 2009, as filed with the SEC on April 7, 2009, and incorporated herein by reference)
10.19	Voting Agreement and Irrevocable Proxy by and between Green Mountain Coffee Roasters, Inc., a Delaware corporation and Tom T. O'Keefe (Filed with the Registrant's Current Report on Form 8-K, dated September 15, 2008, as filed with the SEC on September 16, 2008, and incorporated herein by reference)
14.1	Tully's Coffee Corporation Code of Business Conduct (Filed with the Registrant's Annual Report on Form 10-K for the year ended March 28, 2004, as filed with the SEC on June 28, 2004, and incorporated herein by reference)
21.1	Subsidiaries of the Company (Filed with the Registrant's Annual Report on Form 10-K for the year ended March 30, 2008, as filed with the SEC on September 18, 2008, and incorporated herein by reference)
31.1*	Certification of principal executive officer Pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, As Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of principal financial officer Pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, As Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification of principal executive officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification of principal financial officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Filed herewith

EXHIBIT 10.4(b)

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
TC Global, Inc.:

We consent to the incorporation by reference of our report dated June 29, 2009, relating to the consolidated financial statements of the Company appearing in this Registration Statement on Form S-8 of TC Global, Inc. (formerly Tully's Coffee Corporation) for the year ended March 29, 2009.

Moss Adams LLP

Seattle, Washington
June 28, 2010

EXHIBIT 31.1

CERTIFICATION PURSUANT TO
RULE 13A-14 OF THE SECURITIES EXCHANGE ACT OF 1934
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

CERTIFICATIONS

I, Carl W. Pennington, Sr., certify that:

1. I have reviewed this annual report on Form 10-K of TC Global, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15 (e) and 15d-15 (e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15 (f) and 15d-15(f)) for the registrant and have:
   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 28, 2010

/s/ Carl W. Pennington, Sr.

Carl W. Pennington, Sr.
President (principal executive officer)

EXHIBIT 31.2

CERTIFICATION PURSUANT TO
RULE 13A-14 OF THE SECURITIES EXCHANGE ACT OF 1934
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

CERTIFICATIONS

I, Andrew M. Wynne, certify that:

1. I have reviewed this annual report on Form 10-K of TC Global, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15 (e) and 15d-15 (e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15 (f) and 15d-15(f)) for the registrant and have:
   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 28, 2010

/S/ ANDREW M. WYNNE

Andrew M. Wynne
Vice President and Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of TC Global, Inc. (the "Company") on Form 10-K for the fiscal year ended March 28, 2010, as filed with the Securities and Exchange Commission on June 28, 2010 (the "Report"), I, Carl W. Pennington, Sr., President (principal executive officer) of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/S/ CARL W. PENNINGTON, SR.

Carl W. Pennington, Sr.
President (principal executive officer)
June 28, 2010

EXHIBIT 32.2

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of TC Global, Inc. (the "Company") on Form 10-K for the fiscal year ended March 28, 2010, as filed with the Securities and Exchange Commission on June 28, 2010 (the "Report"), I, Andrew M. Wynne, Vice President and Chief Financial Officer (principal accounting officer) of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/S/ ANDREW M. WYNNE

Andrew M. Wynne
Vice President and Chief Financial Officer
(principal accounting officer)
June 28, 2010