Washington State
Liquor Control Board

State Liquor Store Rights:

Fact Sheet: Auction Approach Details

The following statements serve to define the approach for auctioning the rights to sell liquor at State Liquor Store locations.

Auction Overview

- The key objectives for this activity are
  - Obtain "maximum reasonable value" through public auction
  - Promote an orderly transition by completing the auctions by April 20, 2012 enabling the bundling of inventory and new operator start up with minimal gap in service at the location.
- Any state liquor store property for which the LCB had an established letter of intent or signed lease as of November 8, 2011 will be included in the auction process.
- All 167 State Store rights will be auctioned at the same time as individual opportunities.
  - It has been concluded that while a "pilot" may be beneficial to test theory and then apply to future auctions, the schedule impact would prevent June 1, 2012 start dates for new operators.
  - Even if it is believed that the landlord of a given location prefers to not be associated with the auction process, such location will be included. The landlord is not obligated to take any action in the event someone buys the right associated with their property. In this event, please see options under "Rights, Limits and Options of Winning Bidder" below.
- Bidders will compete on the "grandfather right" inclusive of all fixtures. Inventory will be available at a fixed rate option (i.e.: COG - $7.97/case) based on the ending inventory at each location as of May 31, 2012.
- The minimum bid will be $1,000 for each auction.
  - Although this appears to be significantly less than the probable low end market value, subject matter experts are confident that this level is high enough to weed out non-serious bidders and that ultimately market forces will drive bids to true market value.
- A 6% buyer's premium will be added to each successful bid to cover the costs incurred by the state Department of Enterprise Services (DES) (2%) and The Public Group (4%).

- To ensure conformance with public safety policy board rules (i.e.: Trade Area), DES and LCB will coordinate on any future auction of “rights” in the event a location auction takes place after June 2013.

Bidder Registration

- Any interested party who wishes to bid must complete the registration process.
- The purpose of the registration process is to:
  - Identify and create a basic profile on prospective bidders to include information such as:
    - Name, address, phone numbers, etc.;
    - Intention to operate;
    - Areas of interest such as specific store(s), inventory, etc.;
  - Explain how the auction will be conducted;
  - Explain the rights, limits and options of the successful bidder; and
  - Obtain acknowledgement and acceptance of the auction terms and conditions.

Simultaneous Auctions

- In order to ensure maximum reasonable value two auctions will be conducted simultaneously.
  - Individual stores will be available for bidding
    - A bidder could pursue a single store or multiple stores. The award would be determined based on the highest bid at each individual location.
  - An “all system” bid will also be available to buy the rights to all locations.
- It is possible that an individual’s high bid for a store or set of stores could be set aside for an all system bid that was determined to generate a higher maximum reasonable value.
- No reserve will be set for either auction as it has been determined that the bid value will likely drop for any auctions not concluded prior to June 1, 2012.
- A bid evaluation criteria will be established to determine a maximum reasonable value comparison between individual bids and any all system bids.

Rights, Limits, and Options of Winning Bidder

- A successful bidder owns the exclusive rights to apply for a spirit retail license associated with the location of the former state liquor store in its current footprint.
- The successful bidder is not guaranteed issuance of a spirit retail license; they must apply and qualify separately if they so desire.
  - If a successful bidder is unable to obtain the necessary license or permits, they can sell/transfer their "grandfather right" to another individual or hold the right for future action.
- The successful bidder is not guaranteed access to the property as that is a separate agreement that must be reached between the bidder and the landlord.
- A successful bidder is not required to create a physical presence; they may instead simply posses the right associated with the location.
  - I-1183 Section 102 (4)(c) states "Holding the rights does not require the holder of the right to operate a liquor-licensed business or apply for a liquor license."
- If a successful bidder is unable to reach agreement with the landlord, they may:
  - Resell their acquired right to another individual;
  - Request an alternate location through the licensing process; or
  - Hold their right for future action.
- The owner of the right could lease it to another; however, the owner would be required to be qualified and listed on any spirit retail license associated with such right.
- The owner of the right will be required to register their right with the LCB within 30 days of obtaining such right (either as original bidder or subsequent buyer or beneficiary). Failure to do so may lead to the termination of the right.
- The registered owner of the right will receive a title document from LCB confirming their rights, limitations, and options.

Relocation of Rights

- An alternate location will only be considered after the auction closes and when initiated by the successful bidder. Such location must be within 1 radius mile of the existing location and will be subject to local jurisdiction opinion and must not cause harm to tribal, military, and contract stores.
- The risk of whether an alternate location is approved or not remains solely on the bidder.

- In order for an alternate location to be considered, the bidder must reasonably demonstrate to the Boards satisfaction that one or more of the following conditions exist;
  - Landlord denies bidders request for lease.
  - Landlord does not want liquor sold on premise.
  - Landlord and bidder are unable to reach agreement.
- Until June 1, 2012, relocation requests from CLS and Tribal entities will take precedence over requests from successful bidders.
- After June 1, 2012, Board rules and the Licensing process will guide relocation requests for spirit retailers who are less than 10,000 ft^2

Auction Web Site

- Direct link from LCB website to a special page within The Public Groups site that is branded for our auction activity. This may include informational videos on the new business opportunities.
- Provide information on each location
  - Customized statement for each location stating its past performance
  - External store pictures
  - Google maps link
  - Income Statement
  - Average inventory level
- Clarify that fixtures are included and inventory is optional
- Clearly restate the bidder's rights, limits, and options with particular emphasis on the fact they have no guaranteed rights to the physical location or a spirit retail license.
- Inform bidders of licensing requirements in the event they elect to pursue.
- Provide contact information on landlords along with any other information or links provided by the landlord.

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