

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 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 DECEMBER 29, 2002

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934

COMMISSION FILE NUMBER 0-32233

PEET'S COFFEE & TEA, INC.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

WASHINGTON
(STATE OR OTHER JURISDICTION OF
INCORPORATION OR ORGANIZATION)
NO.)

91-0863396
(I.R.S. EMPLOYER
IDENTIFICATION

1400 PARK AVENUE
EMERYVILLE, CALIFORNIA 94608-3520
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES) (ZIP CODE)

(510) 594-2100
(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:

COMMON STOCK, NO PAR VALUE

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:

NONE

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation 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 an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes No

The approximate aggregate market value of the voting stock held by non-affiliates of the registrant based on the closing price of the Common Stock on June 30, 2002 (the registrant's most recently completed second quarter) and March 14, 2003 as reported by the Nasdaq National Market, was \$206,446,131 and \$180,755,204, respectively. Shares of Common Stock held by each officer and director and each person known to

the Company to hold 10% or more of the outstanding Common Stock have been excluded as such persons may be deemed to be affiliates of the Company. Such determination of affiliate status is not necessarily a conclusive determination for other purposes. As of March 14, 2003, 12,255,739 shares of registrant's Common Stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the proxy statement related to the registrant's 2003 annual meeting of stockholders, which proxy statement will be filed under the Securities Exchange Act of 1934 within 120 days of the end of the registrant's fiscal year ended December 29, 2002, are incorporated by reference into Part III of this Form 10-K.

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FORWARD-LOOKING STATEMENTS

Some of the matters discussed under the captions "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operation," "Business" and elsewhere in this report include forward-looking statements. We have based these forward-looking statements on our current expectations and assumptions about future events, including, among other things:

- Implementing our business strategy; - Attracting and retaining customers; - Obtaining and expanding our market presence in new geographic regions; - The availability of high quality Arabica coffee beans; - Consumers tastes and preferences; and - Competition in our market.

In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "could," "predict," "potential," "continue," "expect," "anticipate," "future," "intend," "plan," "believe," "estimate" and similar expressions (or the negative of such expressions). These statements are based on our current beliefs, expectations and assumptions and are subject to a number of risks and uncertainties. Actual results, levels of activity, performance, achievements and events may vary significantly from those implied by the forward-looking statements. A description of risks that could cause our results to vary appears under the caption "Risk Factors" and elsewhere in this report. Forward-looking statements speak only as of the date of this report and we assume no obligation to update any forward-looking statements.

PART I

ITEM 1. BUSINESS

Peet's is a specialty coffee roaster and marketer of branded fresh roasted whole bean coffee. We sell our fresh roasted coffee under strict freshness standards through multiple channels of distribution including grocery stores, online and mail order, office, restaurant and food service accounts and 68 company-operated stores in four states.

We believe that roasted coffee is a perishable product and we pursue distribution channels that are consistent with our strict freshness standards. For instance, our distribution to grocery stores emphasizes the use of an existing network of distributors who deliver fresh goods to our targeted accounts. Our online and mail order customers are shipped coffee directly from our facility and we roast to order. Our goal is to ensure that customers receive coffee within days of roasting.

Over the past five years, we have expanded from a regional retailer that operates its own outlets into a national coffee brand available through multiple channels of distribution. We extended our retail presence to Southern California in 1997, Chicago and Portland in 1998 and Boston in 1999. We signed our first office coffee distribution agreement in 1997 and have since added a number of restaurants, food service accounts, and office coffee distributors in select markets. We added online ordering capability to our website in 1997 to complement our existing mail order business and have since invested in marketing programs designed to support our online and mail order channel. In 1998, we initiated a strategic expansion into specialty grocery and gourmet food stores. In 2002, this expansion was further developed to include distribution to mainstream grocers; as we expanded our grocery accounts from 130 to over 1,400 stores primarily as a result of our distribution agreement with Safeway Inc. We believe our expansion strategy emphasizes disciplined growth and enhancement of our brand's image and quality reputation. See Note 13, "Segment Information" to the "Notes to Consolidated Financial Statements", included elsewhere in this report.

Our website is located at www.peets.com. Our annual report on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, as well as any amendments or exhibits to those reports, are available free of charge through our website at <http://investor.peets.com/edgar.cfm> as soon as reasonably practicable after we file them with, or furnish them to, the SEC. Peet's was organized as a Washington corporation in 1971.

COMPANY RETAIL STORES

We operate 68 retail stores in four states through which we sell whole bean coffee, beverages and pastries, tea, and other related items. Our stores are designed to facilitate the sale of fresh whole bean coffee and to encourage customer trial of our coffee through coffee beverages. Each store has a dedicated staff person at the bean counter to take orders and assist customers with questions and issues. Upon order, beans are scooped and ground to the customer's specific requirement. To ensure that the freshest beans are sold to customers, we implemented a policy to not sell beans beyond ten days from roasting and we trained our store managers to order and replenish coffee daily. Our beverage counter features coffee based beverages that promote the sale of whole bean coffee with a standard rotation of coffee brewed from each category of coffees we sell. It is our policy to brew a new batch of coffee every 30 minutes and not re-heat milk in espresso based drinks to ensure freshness. See "Item 2. Properties" for further discussion about our retail stores.

SPECIALTY SALES

In addition to sales through our retail stores, we have expanded the availability of our products through a network of grocery stores, including Safeway Inc., Whole Foods Markets, and Bristol Farms. To support this expansion, we have developed a direct store delivery ("DSD") sales and distribution system. Peet's DSD route sales representatives deliver to their stores weekly, properly shelve the product, work to resolve pricing discrepancies, rotate to ensure freshness, sell and erect free-standing displays, and forge store-level selling relationships. We expect to have approximately 50 DSD route sales representatives in 2003, of which approximately 30 will be full-time Peet's employees, to support the expansion into new grocery accounts in the western United States as well as existing Safeway stores. In the food service and office business, we have a staff of sales and account managers who make sales calls to potential and existing accounts and manage our distributor network. Additionally we have established relationships with office, restaurant and food service distributors to expand our account base in select markets. These distributors have their own sales and account management resources. In the online and mail order channel, we have a dedicated website and customer service representatives that provide points of contact to our customers for coffee ordering and coffee knowledge. Our website features an Express Buy function for registered customers for speed and ease, special coffee and tea programs, and a coffee and tea selector to assist the customer in choosing a product based upon certain characteristics. In addition to our website, we have a team of mail order customer service representatives who assist customers in placing customer orders, choosing a gift item, providing product information, and resolving customer issues. Customer service representatives are regularly trained on Peet's product offerings through weekly coffee and tea tastings.

OUR COFFEE

Coffee Beans

Coffee is an agricultural crop that undergoes price fluctuation and quality differences depending on weather, economic and political conditions in coffee producing countries. We purchase only Arabica coffee beans, which are considered superior to the Robusta coffee beans traded in the commodity market. Arabica beans usually grow at high elevations, absorb little moisture and mature slowly. Thus, although most coffee trades in the commodity market, the Arabica beans purchased by us tend to trade on a negotiated basis at a substantial premium above commodity coffee prices, depending upon the supply and demand at the time of purchase. Our access to high quality Arabica beans depends on our relationships with coffee brokers, exporters and growers, with whom we have built long-term relationships to ensure a steady supply of coffee beans. In 2002, we purchased over half of our coffee beans through one broker. We believe that, as a result of our reputation that has been built over 37 years, we have access to some of the highest quality coffee beans from the finest estates and growing regions around the world and we are occasionally presented with opportunities to purchase unique and special coffees.

Unlike roasted coffee beans, green coffee beans are not highly perishable. We generally turn our inventory of green coffee beans two to three times per year. We generally carry approximately \$4 million to \$8 million worth of green coffee beans in our inventory. If Arabica coffee beans from a region become unavailable or prohibitively expensive, we may be forced to discontinue particular coffee types and blends or substitute coffee beans from other regions in our blends. From time to time, we mitigate the risks associated by fluctuations in coffee prices by entering into fixed price commitments and hedging agreements for a portion of our green coffee bean requirements.

Our Roasting Method

Our roasting method was first developed by Alfred Peet and perfected by our talented and skilled roasting personnel. We roast by hand in small batches, and we rely on the skills and training of each roaster to maximize the flavor and potential in our beans. Our roasters undergo a two year apprenticeship program to learn our roasting method and to gain the skills necessary to roast coffee at Peet's.

Coffee Types and Blends

Beyond sourcing and roasting, we have developed a reputation for expert coffee blending. Our blends, such as Major Dickason's Blend(R), are well regarded by our customers for their uniqueness, consistency and special flavor characteristics. We sell approximately 32 types of coffee as regular menu items. Included in this figure are approximately 21 blends with the balance being single origin coffees from countries such as Colombia, Guatemala and Kenya. In 2001, we introduced a line of high-end reserve coffees, such as Kona, Jamaica Blue Mountain, Aged Moka Java, and JR Reserve Blend(R). We are active in seeking, roasting and selling unique special lot and one-time coffees. On average, we offer four to six such coffees every year.

TEA, FOOD AND MERCHANDISE

Peet's offers a line of hand selected whole leaf and bagged tea. Our quality standards for tea are very high. We purchase tea directly from importers and brokers and store and pack the tea at our facility in Emeryville. We offer a limited line of specialty food items, such as jellies, jams and candies. These products are carefully selected for quality and uniqueness.

Our merchandise program consists of items such as brewing equipment for coffee and tea, paper filters and brewing accessories and branded and non-branded cups, saucers, travel mugs and serveware. We do not emphasize these items, but we carry them in retail stores and offer them through online and mail order as a means to reinforce our authenticity in coffee and tea.

COMPETITIVE POSITIONING

The specialty coffee market can be characterized as highly fragmented. Our primary competitors in whole bean specialty coffee sales include Gevalia (Kraft Foods), Green Mountain Coffee, Illy Caffè, Millstone (Procter & Gamble), Seattle's Best (AFC Enterprises) and Starbucks. There are numerous smaller, regional brands that also compete in this category. We also compete indirectly against all other coffee brands on the market. A number of nationwide coffee marketers, such as Kraft Foods, Procter & Gamble and Nestle, are distributing premium coffee brands in supermarkets. These premium coffee brands may serve as substitutes for our whole bean coffee.

In addition to competing with other distributors of whole bean coffee, we compete with retailers of prepared beverages, including coffee house chains, particularly Starbucks, numerous convenience stores, restaurants, coffee shops and street vendors.

Despite competing in a fragmented category, increased consumer demand has resulted in specialty coffee brands being established across multiple distribution channels. Several competitors are aggressive in obtaining distribution in specialty grocery and gourmet food stores, and in office, restaurant and food service locations. We have only recently begun to penetrate these channels.

We believe that our customers choose among specialty coffee brands based upon quality, variety, convenience, and to a lesser extent, price. Although consumers may differentiate coffee brands based on freshness (as an element of coffee quality), to our knowledge, few significant competitors focus on product freshness and roast-dating in the same manner as Peet's. We believe that our market share in the specialty category is based on a solidly differentiated position built on our freshness standards and artisan-roasting style. Because of the fragmented nature of the specialty coffee market, we cannot accurately estimate our market share. However, many of our existing competitors have significantly greater financial, marketing and operating resources than us.

Our roasted coffee is priced in tiers. Our regular menu coffees are priced within a range of \$8.95 to \$17.95 per pound. Our line of high-end reserve coffees, which we introduced in 2001, is priced between \$49.90 and \$79.90 per pound. We believe our higher quality and freshness standards allow us to charge a higher price for our coffee products.

INTELLECTUAL PROPERTY

We regard intellectual property and other proprietary rights as important to our success. We own several trademarks and service marks that have been registered with the United States Patent and Trademark Office, including Peet's(R), Peet's Coffee & Tea(R), peets.com(R), Blend 101(R), Garuda Blend(R), JR Reserve Blend(R), Maduro Blend(R), Major Dickason's Blend(R), Pride of the Port(R), Pumphrey's Blend(R), Sierra Dorada Blend(R), Summer House(R), Top Blend(R), and Vine Street Blend(R). We also have registered trademarks on our stylized logo. In addition, we have applications pending with the United States Patent and Trademark Office for a number of additional marks, including Espresso Forte(TM) and Gaia Organic Blend(TM).

We own registered trademarks for our name and logo in Argentina, Australia, Brazil, Canada, Chile, China, the European Community, Hong Kong, Japan, Paraguay, Singapore, South Korea, Taiwan, and Thailand. We have filed additional applications for trademark protection in the Philippines. In addition to peets.com and coffee.com, we own several other domain names relating to coffee, Peet's and our roasting process.

In addition to registered and pending trademarks, we consider the packaging for our coffee beans (consisting of dark brown coloring with African-style motif and lettering with a white band running around the lower quarter of the bag) and the design of the interior of our stores (consisting of dark wood fixtures, classic lighting, granite countertops and understated color) to be strong identifiers of our brand. Although we consider our packaging and store design to be essential to our brand identity, we have not applied to register these trademarks and trade dress, and thus cannot rely on the legal protections afforded by trademark registration.

Our ability to differentiate our brand from those of our competitors depends, in part, on the strength and enforcement of our trademarks. We must constantly protect against any infringement by competitors. If a competitor infringes on our trademark rights, we may have to litigate to protect our rights, in which case, we may incur significant expenses and divert significant attention from our business operations.

INFORMATION SYSTEMS

The information systems installed at Peet's are used to manage our operations and increase the productivity of our workforce. We have recently implemented an advanced point-of-sale system to increase store productivity, provide a higher level of service to our customers and maintain timely information for performance evaluation. Our new registers have touch screen components and full point-of-sale capability. We implemented a Peet's cash card in our retail stores and website that will, in the future, allow us to implement customer loyalty programs. Currently, we are implementing business intelligence software to better support and analyze our business in all channels. In addition, we are also deploying a labor and scheduling system to increase productivity in our retail stores.

Our website is hosted at our corporate headquarters in Emeryville, California. All website applications are built on Microsoft ASP with in-house development. We offer full-functioning e-commerce and our site is integrated with our call center for access to orders placed at both locations. Online delivery confirmation is provided by United Parcel Service and United States Postal Service. Our peets.com site contains several customer-centered functions such as Express Buy (which stores customer-specific lists of favorite coffee and items), multiple "ship-to" capability on a single bill and extensive coffee search and product matching. Website and call center system functionality are designed to accommodate the need for customers to place repeat orders or automatic orders delivered on a pre-set schedule. We designed our website to provide fast, easy and effective operation when navigating and shopping on our site. We have dedicated information technology employees and marketing staffers for website maintenance, improvement, development and performance.

EMPLOYEES

As of March 14, 2003, we employed a workforce of 1,667 people, approximately 324 of whom are considered full-time employees. None of our employees are represented by a labor union. We consider our relationship with our employees to be good. Since 1979, we have provided full benefits to all employees who work at least 21 hours per week. We continue to offer competitive benefits packages to attract and retain valuable employees.

GOVERNMENT REGULATION

Our coffee roasting operations and our retail stores are subject to various governmental laws, regulations, and licenses relating to customs, health and safety, building and land use, and environmental protection. Our roasting facility is subject to state and local air-quality and emissions regulation. If we encounter difficulties in obtaining any necessary licenses or complying with these laws and regulations, then:

- The opening of new retail locations could be delayed; - The operation of existing retail locations or our coffee roasting operations could be interrupted; or - Our product offerings could be limited.

We believe that we are in compliance in all material respects with all such laws and regulations and that we have obtained all material licenses that are required for the operation of our business. We are not aware of any environmental regulations that have or that we believe will have a material adverse effect on our operations.

OUR EXECUTIVE OFFICERS

Set forth below is information with respect to the names, ages, positions and offices of our executive officers as of March 14, 2003.

NAME	AGE	POSITION
Patrick J. O'Dea	41	Chief Executive Officer, President and Director
Mark N. Rudolph	44	Chief Financial Officer, Vice President, Treasurer and Secretary
Michael J. Cloutier	48	Vice President, Information Technology
James E. Grimes	47	Vice President, Operations and Information Systems
William M. Lilla	47	Vice President, Foodservice/Office and New Business Development
Deborah McGraw	61	Vice President, Retail Operations
Peter B. Mehrberg	44	Vice President, New Store Development & International and General Counsel
James A. Reynolds	64	Vice President, Coffee and Tea

Patrick J. O'Dea has served as Chief Executive Officer, President and as a director since May 2002. From April 1997 to March 2001, he was CEO of Archway/Mother's Cookies and Mother's Cake & Cookie Company. From 1995 to 1997, Mr. O'Dea was the Vice President and General Manager of the Specialty Cheese Division of Stella Foods. From 1984 to 1995, he was with Procter & Gamble, where he marketed several of the company's snack and beverage brands.

Mark N. Rudolph has served as Chief Financial Officer since September 1988. He was appointed Vice President in September 1994 and Treasurer and Secretary in May 2001. Mr. Rudolph served as Assistant Secretary from September 1994 to May 2001.

Michael J. Cloutier has served as Vice President, Information Systems since August 1999. He was a Systems Manager for Peet's from August 1999 to December 1999. Between October 1997 and August 1999, Mr. Cloutier founded two computer consulting businesses, 1 - 2 - 1 Solutions and Pleasanton Partners, Inc. From April 1996 to October 1997, Mr. Cloutier served as Vice President, Operations of M1 Software, Inc., a software development company. From 1993 to April 1996, Mr. Cloutier was the Deputy Business and Strategic Planning Officer at the Mare Island Naval Shipyard.

James E. Grimes has served as Vice President of Operations and Information Systems since July 2002. In August 2001, Mr. Grimes founded Supply Chain Consulting, where he provided supply chain management expertise. From January 2001 through August 2001, Mr. Grimes was Senior Vice President of Strategic Planning-Operations at Parmalat Bakery Division, North America. From 1998 to 2001, he was Senior Vice President of Operations at Archway/Mother's Cookies. Previously, Mr. Grimes held various positions at Mother's Cake and Cookie Company. Before joining Mother's, he was at Frito Lay and Procter & Gamble.

William M. Lilla has served as Vice President since April 1998. He has served the Company in several roles, including Vice President, Marketing and Strategy and Vice President, Food Service and New Business Development. Before joining Peet's, Mr. Lilla was employed by The Heublein Wines Group as Vice President of Strategy from October 1997 to April 1998, Vice President of Marketing from September 1994 to October 1997, and Director of Marketing from September 1993 to September 1994.

Deborah McGraw has served as Vice President, Retail Operations since October 1995. She has worked for Peet's in various capacities since 1983. Ms. McGraw became a store manager in 1989 and was promoted to District Manager in March 1989, to Regional Director in January 1994, and to Director of Retail Operations in September 1994.

Peter B. Mehrberg has served as Vice President since 1997. He has served the Company in several roles, including Vice President, Business Development and Vice President, Real Estate. Mr. Mehrberg has also served as General Counsel since September 1994. From July 1994 to June 1997, Mr. Mehrberg was Director of Real Estate.

James A. Reynolds has served as Vice President, Coffee and Tea since February 1994, and served as Secretary from February 1988 to May 2001. He also served as a director from 1985 to 1997. He joined Peet's in 1984.

ITEM 2. PROPERTIES

Peet's headquarters are located in Emeryville, California, where the Company leases approximately 60,000 square feet of office and production space, including roasting and direct delivery fulfillment facilities. Within these facilities, we have 15,000 square feet devoted to general corporate and retail overhead and a call center for the direct delivery business. Our lease expires in 2005 and we have an option to extend the lease for an additional ten years.

We operate 68 retail stores in four states. Our retail locations are all company operated in leased facilities. Our store size averages approximately 1,800 square feet. Our stores are typically located in urban neighborhoods, suburban shopping centers (usually consisting of grocery, specialty and service stores) and high-traffic streets.

The following table lists the number of retail stores we have in each location as of March 14, 2003:

LOCATION
NUMBER

San Francisco Bay Area, California
34

San Jose, California
6

Sacramento, California
4

Santa Cruz, California
1

Santa Barbara, California
1

Greater Los Angeles, California
8

Orange County, California
1

San Diego, California
2

Chicago, Illinois
2

Portland, Oregon
3

Boston, Massachusetts
6

TOTAL
68

=====

ITEM 3. LEGAL PROCEEDINGS

In the ordinary course of our business, we may from time to time become involved in certain legal proceedings. On February 25, and March 7, 2003, two lawsuits were filed against the Company entitled Brian Taraz, et al vs. Peet's Coffee & Tea, Inc., and Tracy Coffee, et al. vs. Peet's Coffee & Tea, Inc. Each was filed in Superior Court of the State of California, County of Orange, and seeks class action certification. These suits were filed by one former and one current store manager alleging misclassification of employment position and seeking damages, restitution, reclassification and attorneys fees and costs. We are investigating and intend to vigorously defend this litigation, but because the cases are in their early stages, the financial impact to the Company, if any, cannot be predicted.

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

No matters were submitted to a vote of our security holders during the quarter ended December 29, 2002.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

MARKET FOR THE REGISTRANT'S STOCK

The Company's common stock commenced regular trading on the Nasdaq National Market System under the symbol "PEET" on January 25, 2001. Prior to that time, there was no public market for the Company's common stock. The following table sets forth, for the periods indicated, the high and low closing prices for our common stock as reported on the Nasdaq National Market since January 25, 2001.

	HIGH	LOW

FISCAL YEAR ENDED DECEMBER 29, 2002		

Fourth Quarter	\$16.240	
\$10.800		

Third Quarter	\$17.030	
\$12.000		

Second Quarter	\$18.890	
\$12.880		

First Quarter	\$16.150	
\$10.850		

FISCAL YEAR ENDED DECEMBER 30, 2001		

Fourth Quarter	\$11.500	\$
7.350		

Third Quarter	\$ 9.060	\$
6.180		

Second Quarter	\$10.000	\$
7.250		

First Quarter (commencing January 25, 2001)	\$16.125	\$
6.125		

As of March 14, 2003, there were approximately 282 registered holders of record of the Company's common stock. On March 14, 2003, the last sale price reported on the Nasdaq National Market System for the common stock was \$15.79 per share.

DIVIDEND POLICY

We have not declared or paid any dividends on our capital stock since 1990. We expect to retain any future earnings to fund the development and expansion our business. Therefore, we do not anticipate paying cash dividends on our common stock in the foreseeable future. Our current credit facility restricts our ability to pay dividends. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources."

USE OF PROCEEDS FROM SALES OF REGISTERED SECURITIES

We completed our initial public offering of our common stock in January and February 2001 pursuant to a Registration Statement on Form S-1 initially filed on October 13, 2000, as subsequently amended (the "Registration Statement") (File No. 333-47597). As of March 14, 2003, \$17.4 million of the net proceeds from the offering had been used for debt reduction, and the remainder of the net proceeds was invested in short-term, interest-bearing, investment grade securities.

We completed our secondary public offering of our common stock in April 2002 pursuant to a Registration Statement on Form S-3 initially filed on March 27, 2002, as subsequently amended (the "Registration Statement" (File No. 333-85085). The aggregate proceeds to us from the offering were \$43.9 million. We paid expenses of approximately \$2.9 million, of which approximately \$2.4 million represented expenses related to underwriters' fees. Net proceeds from the offering were \$41.0 million. As of March 14, 2003, all of the net proceeds were invested in short-term and long-term, United States Government and Agency securities. We expect that our use of proceeds from the offering will conform to the intended use of proceeds as describe in our prospectus dated April 19, 2002, except that the proceeds have been invested in short-term and long-term, interest-bearing United States Government and Agency securities until required for working capital purposes.

ITEM 6. SELECTED FINANCIAL DATA

The table below shows selected consolidated financial data for our last five fiscal years. Our fiscal year is based on a 52 or 53 week year and ends on the Sunday closest to the last day in December.

The following selected consolidated financial data should be read in conjunction with our consolidated financial statements and related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this report.

SELECTED CONSOLIDATED FINANCIAL DATA
(in thousands, except per share data)

	YEAR				
	1998	1999	2000	2001	2002
STATEMENT OF OPERATIONS DATA:					
Net revenue	\$59,787	\$69,059	\$84,302	\$94,400	\$104,073
Cost of sales and related occupancy expenses	30,303	33,641	40,655	45,357	48,146
Operating expenses	18,175	22,115	28,073	30,617	33,221
Marketing and advertising expenses	2,176	3,491	6,069	4,812	4,554
General and administrative expenses	5,303	5,551	5,893	6,243	6,732
Depreciation and amortization expenses	2,711	3,404	4,576	5,038	4,568
Income (loss) from operations	1,119	857	(964)	2,333	6,852
Interest income (expense), net	(709)	(985)	(1,907)	(429)	540
Income (loss) before income taxes	410	(128)	(2,871)	1,904	7,392
Income tax (provision) benefit	(242)	(16)	596	(749)	(2,735)
Net income (loss)	\$ 168	\$ (144)	\$(2,275)	\$ 1,155	\$ 4,657
Net income (loss) per share:					
Basic	\$ 0.04	\$ (0.03)	\$ (0.50)	\$ 0.15	\$ 0.43
Diluted	\$ 0.03	\$ (0.03)	\$ (0.50)	\$ 0.14	\$ 0.40
Shares used in calculation of net income (loss) per share:					
Basic	4,397	4,489	4,515	7,941	10,919
Diluted	5,710	4,489	4,515	8,212	11,627
BALANCE SHEET DATA:					
Cash and cash equivalents	\$ 873	\$ 1,074	\$ 1,598	\$ 2,718	\$ 19,672
Working capital (deficit)	(1,333)	(5,486)	(2,853)	3,315	22,499
Total assets	29,864	34,650	39,721	41,409	95,145
Borrowings under line of credit	4,472	5,600	4,246	1,968	-
Current portion of long-term borrowings	1,701	2,816	2,037	513	468
Long-term borrowings, less current portion	5,962	7,240	14,544	895	424
Total shareholders' equity	10,791	11,191	9,167	28,770	80,504

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

You should read the following discussion and analysis in conjunction with our consolidated financial statements and related notes included elsewhere in this report. Except for historical information, the discussion below contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934.

COMPANY OVERVIEW AND INDUSTRY OUTLOOK

Peet's is a specialty coffee roaster and marketer of branded fresh roasted whole bean coffee sold through multiple channels of distribution. Since the founding of our business in 1966, we have established a customer base and brand recognition in California. Our national expansion strategy is based on the sale of whole bean coffee in multiple channels of distribution. While we intend to continue the sale of whole bean coffee through strategically located retail stores, we expect revenue in our other distribution channels, namely grocery stores, online and mail order and office, restaurant and food service accounts, to increase at a more rapid rate. We are also continuing to explore opportunities internationally through strategic relationships.

We expect the specialty coffee industry to continue to grow. We believe that this growth will be fueled by continued consumer interest in high quality coffee and related products.

Our operations are vertically integrated. We purchase Arabica coffee beans from countries around the world, apply our artisan-roasting techniques and ship fresh coffee daily to our stores and customers within 24 hours of roasting. Control of purchasing, roasting, packaging and distribution of our coffee allows us to maintain our commitment to freshness, is cost effective and enhances our margins and profit potential.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires the appropriate application of certain accounting policies, many of which require us to make estimates and assumptions about future events and their impact on amounts reported in our financial statements and related notes. Since future events and their impact cannot be determined with certainty, the actual results will inevitably differ from our estimates. Such differences could be material to the financial statements.

We believe our application of accounting policies, and the estimates inherently required therein, are reasonable. These accounting policies and estimates are constantly reevaluated, and adjustments are made when facts and circumstances dictate a change. Historically, we have found our application of accounting policies to be appropriate, and actual results have not differed materially from those determined using necessary estimates.

Our accounting policies are more fully described in Note 2 "Summary of Significant Accounting Policies" in the "Notes to the Consolidated Financial Statements," included elsewhere in this report. We have identified the following critical accounting policies:

-Inventory. Raw materials consist primarily of green bean coffee. Finished goods include roasted coffee, tea, accessory products, spices, and packaged foods. All products are valued at the lower of cost or market using the first-in, first-out method, except green bean and roasted coffee, which is valued at the average cost. We continually evaluate the composition of our coffee related merchandise and mark down such inventory as needed. Our historical inventory write-offs have been immaterial.

-Intangibles and other assets. During 2002, we entered into a contractual agreement with Safeway Inc., a national grocery chain, to sell Peet's coffee through its grocery stores. We began shipping during the third quarter of this year. The agreement included an upfront payment to Safeway Inc. that we recorded in intangibles and other assets and is being amortized as a reduction of revenue based upon estimated sales during the contract period.

-Long-lived assets. In evaluating the fair value and future benefits of long-lived assets, we perform an analysis of the anticipated undiscounted future net cash flows of the related long-lived asset and reduce

their carrying value by the excess, if any, of the result of such calculation. We believe at this time that the long-lived assets' carrying values and useful lives continue to be appropriate.

-Accrued compensation. In March 2002, we modified our workers' compensation insurance policy to a high deductible insurance program with an overall program ceiling to minimize exposure. We began recording an estimated liability for the self-insured portion of the workers' compensation claims. The liability is determined actuarially, based on claims paid, filed and reserved for, and projected using an industry loss development factor, as well as using historical experience ratings. As of December 29, 2002, the first 10 months of the policy period, we had \$703,000 accrued for workers' compensation. Should a greater amount of claims occur compared to what is estimated or the medical costs increase beyond what was anticipated, the recorded liability may not be sufficient.

-Income taxes. We have federal and state net operating loss carryforwards and charitable contribution carryforwards. The utilization of these carryforwards is dependent on future income. We have established a valuation allowance for the portion of the carryforwards that we do not expect to utilize. Although we believe the valuation allowance is appropriate, if future taxable income were to differ significantly from the amounts estimated, the valuation allowance would need to be adjusted.

-Hedge accounting. We use coffee futures and options to hedge price increases in price-to-be-fixed coffee purchase commitments and anticipated coffee purchases. These derivative instruments qualify for hedge accounting which is permitted if the hedging relationship is expected to be highly effective. Effectiveness is determined by how closely the changes in the fair value of the derivative instrument offset the changes in the fair value of the hedged item. If the derivative is determined to qualify for hedge accounting, the effective portion of the change in the fair value of the derivative instrument is recorded in other comprehensive income and recognized in earnings when the related hedged item is sold. The ineffective portion of the change in the fair value of the derivative instrument is recorded directly to earnings. If these derivative instruments did not qualify for hedge accounting, we would have to record the changes in the fair value of the derivative instruments directly to earnings. See "Item 7A. Quantitative and Qualitative Disclosures about Market Risk" and Note 12 "Hedging Activities" in the "Notes to Consolidated Financial Statements" included elsewhere in this report.

We have also chosen certain accounting policies when options are available, including the intrinsic value method under APB Opinion No. 25, "Accounting for Stock Issued to Employees," to account for our stock option awards. These accounting policies are applied consistently for all years presented. Our operating results would be affected if other alternatives were used. Information about the impact on our operating results of using the alternative of SFAS No. 123, "Accounting for Stock-Based Compensation," is included in Note 2 "Summary of Significant Accounting Policies" and Note 10 "Stock Option and Employee Purchase Plans" in the "Notes to Consolidated Financial Statements," included elsewhere in this report.

BUSINESS SEGMENTS

Our coffee and related items are sold through multiple channels of distribution that are considered separate segments under Statement of Financial Accounting Standards No. 131, "Disclosures About Segments of an Enterprise and Related Information." These channels provide broad market exposure to potential purchasers of fresh roasted whole bean coffee. Historically, we have operated in three reportable segments: retail, online and mail order and specialty sales. Management evaluates segment performance primarily based on revenue and segment operating income. Effective at the beginning of the second quarter of 2002, due to the nature of cross-channel marketing and consumer purchase behavior from our multi-channel selling strategy, we have had an organizational change, combining the online and mail order segment and the specialty sales segment. We are indifferent as to where consumers purchase our coffees and teas, so we have aggregated these individual sales channels into one reportable segment. Company-operated retail stores operations remain a separate channel due to the beverage component of this business and the percent of overall revenues it represents. Therefore, we have two reportable segments, consisting of:

- Our retail stores; and
- Specialty sales, which consist of sales to online and mail order customers, and sales to grocery stores, restaurant and food service companies, and office accounts.

We believe growth opportunities exist in all these channels. Our expansion is focused first in developing the western U.S. existing markets where we already have a presence and have a higher customer awareness. We will continue to open new stores in strategic locations that meet our demographic profile in these markets, make our coffees more broadly and conveniently located in grocery stores, and partner with distributors and companies who share our passion for quality and freshness and are willing and able to execute accordingly in the food service and office environment. We also will penetrate new markets and channels that we believe can support the sale of specialty coffee, and continue to explore opportunities internationally.

BUSINESS CATEGORIES

In addition to our reportable segments, we measure our business by monitoring the volume and revenue growth of two distinct business categories:

- Whole bean coffee and related products; and - Beverages and pastries.

We believe these business categories are useful in understanding our results of operations for the periods presented because we operate our stores and record sales through these two categories. Our stores are primarily designed to facilitate the sale of whole bean coffee. The format of our stores replicates that of a specialty grocer. Beans are scooped from under the counter bins, weighed on counter top scales and hand packed into branded bags.

In addition, each store has a beverage bar that is dedicated to the sale of prepared beverages and pastries. Moreover, our two business categories within a store mature at different rates. When we open a store, the initial sales are primarily beverage and pastry related. The distance a consumer will travel, or trade area, for beverages and pastries is short (usually one to three miles) representing a convenience purchase. Consequently, the beverage and pastry business matures rapidly. The trade area for whole bean coffee is much larger (usually three to five miles), representing destination shopping. Whole bean sales from stores mature more slowly (typically three to five years). Therefore, sales at newer stores have a much higher beverage and pastry component and shift to a higher whole bean percentage as the store matures. In 2002, whole bean coffee and related products sales from stores opened for less than 5 years was 41.9% of net revenue versus 50.9% for stores opened for more than 5 years. The dynamics of opening many new stores over the past few years have resulted in a higher beverage and pastry percentage within our net revenue.

RESULTS OF OPERATIONS

The following discussion on results of operations should be read in conjunction with "Item 6. Selected Consolidated Financial Data," the consolidated financial statements and accompanying notes and the other financial data included elsewhere in this report. Our fiscal year is based on a 52 or 53 week year. The fiscal year ends on the Sunday closest to the last day of December.

	YEAR		
	2000	2001	2002

STATEMENT OF OPERATIONS DATA AS A PERCENT OF NET REVENUE:			
Net revenue	100.0%	100.0%	
100.0%			
Cost of sales and related occupancy expenses	48.2	48.1	46.3
Operating expenses	33.3	32.4	31.9
Marketing and advertising expenses	7.2	5.1	4.4
General and administrative expenses	7.0	6.6	6.5
Depreciation and amortization expenses	5.4	5.3	4.4

Income (loss) from operations	(1.1)	2.5	6.5
Interest income (expense), net	(2.3)	(0.5)	0.5

Income (loss) before income taxes	(3.4)	2.0	7.0
Income tax (provision) benefit	0.7	(0.8)	
(2.6)			

Net income (loss)	(2.7)%	1.2%	
4.4%			
=====			
PERCENT OF NET REVENUE BY BUSINESS SEGMENT:			
Retail stores	81.0%	79.5%	
75.2%			
Specialty sales	19.0	20.5	24.8
PERCENT OF NET REVENUE BY BUSINESS CATEGORY:			
Whole bean coffee and related products	59.7%	59.3%	
60.1%			
Beverages and pastries	40.3	40.7	39.9
OPERATING EXPENSES AS A PERCENT OF SEGMENT REVENUE:			
Retail stores	36.8%	35.5%	
35.2%			
Specialty sales	18.3	20.4	22.1
PERCENT INCREASE (DECREASE) FROM PRIOR YEAR:			
Net revenue		12.0%	
10.2%			
Retail stores		9.9	4.3
Specialty sales		51.5	33.2
Cost of sales and related occupancy expenses		11.6	6.1
Operating expenses		9.1	8.5
Marketing and advertising expenses		(20.7)	
(5.4)			
General and administrative expenses		5.9	7.8
Depreciation and amortization expenses		10.1	
(9.3)			
SELECTED OPERATING DATA:			
Number of retail stores in operation:			
Beginning of the period	53	58	60
Stores openings	5	2	5
Store closure	0	0	0
End of the period	58	60	65

2002 COMPARED WITH 2001

Net revenue

Net revenue for 2002 increased by 10.2% for the two business segments and categories as compared to 2001. During 2002, we continued our strategy of selling through multiple channels of distribution. A key element of our strategy involves increasing the percentage of revenue from sales of whole bean coffee and related products, which have a higher net margin than beverages and pastries. By accelerating growth in the specialty sales segment, especially in the grocery and foodservice channels, revenue derived from the sale of whole bean coffee and related products as a percent of net revenue increased from 59.3% in 2001 to 60.1% in 2002.

In the retail segment, revenue increased 4.3% compared to 2001 primarily as a result of increased sales in existing stores and the opening of new retail stores. The \$3.2 million revenue increase consisted of \$2.8 million from existing stores and \$0.4 million from new stores. The revenue increase of \$2.0 million in existing stores was due to increased traffic and \$0.8 million was due to higher average sales transactions. There were no price increases during the year. During 2002, we opened five new stores compared to two stores opened in 2001. One store was opened during the third quarter while the remaining four stores were opened during the fourth quarter. We opened more new stores in 2002 as we saw the cost and availability of real estate become more favorable in 2002. We expect to open approximately 8 new stores in 2003.

In the specialty sales segment, revenue increased primarily due to sales initiatives focused in the grocery and foodservice channels. The \$6.4 million revenue increase consists of \$3.5 million in grocery, \$1.6 million in foodservice, and \$1.3 million in all other channels such as online and mail order, kiosks and license partners, and office coffee sales. The accelerated growth in grocery was the result of developing relationships with larger multi-location chains such as Safeway Inc. and Whole Foods Markets. We increased the number of grocery stores selling Peet's coffee from 130 locations in 2001 to over 1,400 in 2002. In 2002, we entered into an agreement with Safeway to distribute our coffees to approximately 1,200 Safeway stores across the country. In July 2002, we rolled out distribution to approximately 860 stores in the western United States, including California, Colorado, Pacific Northwest, Arizona, and New Mexico. In September, we rolled out distribution to the remaining 340 stores in the eastern United States, including Texas, Illinois, and Pennsylvania. We expect to expand this sales effort to grocers with similar profiles in the next few years. In the foodservice area, the sales increase was due to acquisition of new customers like the Omni Hotel and the full year impact of existing customers like Wolfgang Puck Fine Dining and Anton Airfoods. In the other channels, including online and mail order, office coffee, and kiosk operations, the sales increase was entirely attributable the full year impact of our kiosk operations in Larry's Markets.

Cost of sales and related occupancy expenses

Cost of sales and related occupancy expenses consist of product costs, including hedging costs, manufacturing costs, rent and other occupancy costs. Primarily as a result of increased net revenue and the addition of five new stores, cost of sales increased by 6.1% in 2002. As a percent of net revenue, cost of sales decreased mainly because of lower coffee costs, lower world commodity coffee prices and the sales of special lot and seasonal coffees, which have a higher margin than regular menu coffees. These benefits were partially offset by the increase in revenue from the specialty sales segment, which has a lower price point than retail and higher shipping and packaging costs.

Operating expenses

Operating expenses for 2002 increased as compared to 2001 as we grew our business. However, operating expenses as a percent of net revenue decreased primarily due to the continued productivity initiative affecting our retail stores and the revenue increase in our specialty sales segment, which has lower operating expenses without the intensive labor component of the retail stores. Our focus on growing the specialty sales segment led to an increase in specialty sales operating expenses as a percent of segment revenue. The factors contributing to the increase included the continued upgrade and addition of sales staff and an increase in consulting and distribution costs in the grocery channel. We hired a sales brokerage firm to aide us in selling coffee in the grocery channel. Further, distribution expenses have increased as we have dedicated DSD route sales representatives delivering our product to grocery stores weekly, including the associated commission and vehicle expenses. We expect to have approximately 50 DSD route sales representatives in 2003, of which approximately 30 will be full-time Peet's employees, to support the expansion into grocery stores in the western United States as well as existing accounts,

such as Safeway and Whole Foods Markets. The related operating expenses, such as commissions and vehicle expenses, are expected to increase, however, we believe the increased revenue will positively offset these expenses over time.

Marketing and advertising expenses

We believe the decrease in marketing and advertising expenses in 2002 as compared to 2001 is attributable to the leverage gained from marketing across multiple channels of distribution, as well as the shift in spending to improve stores operations, recognizing stores are our most valuable marketing tool.

General and administrative expenses

General and administrative expenses increased by 7.8% in 2002 as the result of higher expenses in the areas of stock plan administration, public relations and proxy related activities, higher insurance coverage for directors and officers, and our CEO search.

Depreciation and amortization expenses

Depreciation and amortization expenses decreased in 2002 due primarily to certain assets becoming fully depreciated during the year. In addition, while we opened 3 more stores than last year, depreciation expense was minimally impacted as most of the stores were opened in the fourth quarter.

Interest (income) expense, net

Net interest income was generated in 2002 from the investment of the proceeds of our secondary offering in April 2002. The investments are short and long term interest bearing, U.S. Government and Agency securities.

Income tax provision

Taxes on net income in 2002 were \$2.7 million, reflecting an effective tax rate of 37.0%. The decrease in the effective rate over the prior year is attributable to the change in the valuation allowance of charitable contributions carryforwards.

2001 COMPARED WITH 2000

Net revenue

Net revenue for 2001 increased 12.0% as compared to 2000. Revenue derived from the sale of whole bean coffee and related products as a percent of net revenue actually decreased slightly in 2001 from 59.7% to 59.3%, primarily as a result of the opening of eighteen retail stores over the past three years.

In the retail segment, revenue increased primarily as a result of increased sales in existing stores, price increases on whole bean coffee and beverages and pastries effective in December 2000, the opening of new retail stores and the introduction of a line of high-end reserve coffees. During 2001, we opened two new stores compared to five stores opened in 2000. One was in Studio City, Southern California, and the other was in Wellesley, Massachusetts. We opened fewer new stores in 2001 because the cost and availability of real estate was less attractive during 2000 and the first half of 2001.

The following table sets forth the sources of revenue increases in 2001 by business category for the retail segment (in millions).

Increased volume and change in mix of whole bean coffee	
\$1.5	
Price increase in December 2000	
0.8	

Total existing stores	
2.3	
Total new stores	
0.4	

Total whole bean coffee and related products	
\$2.7	
====	
Increased volume of beverages and pastries	
\$2.2	
Price increase in December 2000	
\$1.3	

Total existing stores	
\$3.5	
Total new stores	
\$0.5	

Total beverages and pastries	
\$4.0	
====	

In the specialty sales segment, revenue increased 21.0% primarily due to increases from the grocery and online and mail order channels. The \$3.4 million increase consisted of \$1.2 million increase in sales to online and mail order customers, \$0.8 million in incremental sales to specialty groceries and gourmet food stores, \$0.6 million in sales to restaurants and food service companies, and \$0.8 million in additional sales to office accounts and Larry's Market kiosks. In the online and mail order channel, our marketing efforts resulted in a 13.2% increase in active customer during 2001. In the grocery channel, we increased the number of specialty grocery and gourmet food stores from 25 in 2000 to over 130 in 2001, including multi-location chains such as Von's Pavilion and Beverages &more!. In the restaurant and food service area, we entered into agreements with companies such as The Wolfgang Puck Fine Dining and Catering Group and Anton Airfoods. We also began operations of 6 kiosks within Larry's Markets, a specialty grocery chain in Seattle.

Cost of sales and related occupancy expenses

Cost of sales increased by 11.9% in 2001 primarily as a result of increased net revenue and the addition of two new stores. The lower cost of green bean coffee was partially offset by higher hedging costs. Cost of sales actually decreased as a percent of net revenue mainly because of:

- The December 2000 price increase, which resulted in a higher average sale at our retail store beverage bars and a higher price per pound of whole bean coffee purchased at our retail stores and by online and mail order customers;
- Sales of high-end reserve coffees, which have a higher margin than regular menu coffees; and
- Fewer new stores opened during 2001.

These benefits were partially offset by the increase in revenue from the specialty sales segment, which has a lower price point than retail and a higher shipping cost.

Operating expenses

Operating expenses as a percent of net revenue decreased primarily due to the increase in our net revenue, a more favorable hiring environment, and a productivity improvement initiative affecting our retail stores. This included programs to increase efficiency in our bar operations and a more standardized scheduling practice.

Our focus on growing the specialty sales segment led to an increase in specialty sales operating expenses as a percent of segment revenue. The factors contributing to the increase included the payroll expense of new sales staff for the grocery segment expansion, their travel and related expenses, the expenses related to distribution, and the pre-opening and startup costs related to the opening of kiosks in Larry's Markets stores in Seattle. These increases were partially offset by decreases in payroll, order processing and outside services expenses in the online and mail order channel.

Marketing and advertising expenses

The decrease in marketing and advertising expenses in 2001 as compared to 2000 is attributable to the leverage gained from marketing across multiple channels of distribution, a shift from customer acquisition to customer retention, which is generally more cost effective, and fewer new store openings in 2001.

General and administrative expenses

We were able to reduce our general and administrative expenses as a percent of net revenue in 2001 as compared to 2000 primarily by maintaining prior year employee base levels and lowering recruiting expenses in a less-competitive job market. Our efforts to reduce general and administrative expenses were partially offset by higher outside services expenses related to stock plan administration and public relations activities associated with being a publicly held company.

Depreciation and amortization expenses

Depreciation and amortization expenses increased in 2001 as compared to 2000 due to the openings of new stores and kiosks and investments in manufacturing and systems. However, as a percent of net revenue, these expenses decreased compared to the prior year primarily due to fewer stores being opened as well as the increase in revenue from the less capital-intensive specialty sales channel.

Interest expense, net

Net interest expense decreased in 2001 as compared to 2000 as a result of repayment of debt using the net proceeds from our initial public offering in January 2001.

Income tax provision (benefit)

Taxes on net income in 2001 were \$0.7 million, reflecting an effective tax rate of 39.3%. The increase in the effective rate over the prior year is attributable to the increase in income and the change in the valuation allowance of charitable contributions carryforwards.

LIQUIDITY AND CAPITAL RESOURCES

At December 29, 2002, we had \$19.7 million in cash and cash equivalents, invested in U.S. Government and Agency securities, and \$22.5 million working capital.

Net cash provided by operations was \$11.8 million in 2002 compared to \$5.8 million in 2001. Operating cash flows were positively impacted in 2002 by increased net income and higher accounts payable and accrued liabilities. The increase was partially offset by an increase in green coffee bean inventory as we increased our purchases in response to historically low coffee prices and potential longshoremen lockout in the West Coast.

Net cash used in investing activities was \$37.2 million in 2002. Investing activities primarily consisted of the purchase of \$27.9 million of long term U.S. Government and Agency securities, and \$9.3 million in capital expenditures for property, plant and equipment. Capital expenditures included:

- \$4.9 million used for the buildout of new stores and remodel of existing stores;
- \$1.9 million used for information technology support systems, and software to support our growing infrastructure;
- \$1.0 million used for kiosks and equipment for specialty sales;
- \$1.2 million used for manufacturing plant capacity and additional machinery; and
- \$0.3 million for various projects in progress.

Net cash provided by financing activities was \$42.4 million in 2002.

Financing activities in 2002 consisted primarily of \$44.9 million in net

proceeds received from our secondary public offering in April and exercise of stock options, partially offset by \$2.5 million of repayment of

debt.

We have a credit facility with General Electric Capital Corporation, that provides for a revolving line of credit of \$15.0 million that expires in 2005. At December 29, 2002, there was no outstanding balance and \$14.1 million available under the revolving line of credit after other senior funded debt of \$0.9 million, consisting of industrial development revenue bonds and capital leases.

Due to the significant repayment of debt from the net proceeds of our initial public offering, we amended our existing credit facility in June 2001 and March 2002 (effective December 24, 2001), December 2002 (effective October 1, 2002), and February 2003 (effective December 1, 2002) to reflect our updated cash and capital requirements. The March 2002, December 2002, and February 2003 amendments include an increase in the capital expenditure limit, an increase in the number of new stores per year, and a relaxation of certain financial covenants. In addition, interest rates on the revolving line of credit have been reduced. We were in compliance with all financial covenants as of December 29, 2002. See Note 6 "Borrowings" in the "Notes to Consolidated Financial Statements," included elsewhere in this report.

Our 2003 capital expenditure requirements consist primarily of expenditures relating to new store openings, remodeling of existing stores, upgrade of our packaging system, and continued improvement of our data processing capabilities. Our 2003 capital expenditures are expected to be between \$9.0 and \$10.0 million. Approximately \$5.0 million is expected to be used for the opening of eight new retail stores scheduled for 2003 and expenditures for new stores in progress for 2004. Approximately \$2.0 million is expected to be used for purchase of new packaging equipment. The remaining \$2.5 million is expected to be used for the remodeling of existing stores, equipment for the grocery channel, and information technology enhancements.

CONTRACTUAL OBLIGATIONS	PAYMENTS DUE BY PERIOD (IN THOUSANDS)				
	TOTAL	LESS THAN 1 YEAR	1-3 YEARS	4-5 YEARS	AFTER 5 YEARS
Industrial development revenue bonds	\$ 860	\$ 440	\$ 420		
Capital lease obligations	32	28	4		
Equipment leases	87	17	35	\$ 35	
Retail store operating leases	23,915	5,083	9,071	5,980	\$ 3,781
Fixed-price coffee purchase commitments	18,149	12,018	5,842	289	
Total contractual cash obligations	\$ 43,043	\$ 17,586	\$ 15,372	\$ 6,304	\$ 3,781

In addition, as of December 29, 2002, we have an outstanding standby letter of credit of \$0.9 million backing the long-term borrowings.

We expect cash flows from operations, cash and investments, and borrowing capacity under our current line of credit to be sufficient for our operating requirements for at least the next twelve months and to meet our contractual obligations as they come due. However, we may require or desire additional funds to support our capital requirements or for other purposes, such as acquisitions or for competitive reasons, and may seek to raise such additional funds through public or private debt or equity financings. We cannot assure you that additional financing will be available on satisfactory terms, if at all. Our future liquidity and cash requirements will depend on numerous factors, including the implementation and success of our business strategy, competitive conditions in the specialty coffee market, and general economic conditions. Please see "Risk Factors" below for a discussion of the risks that may affect our revenue and operations.

INFLATION

We do not believe that inflation has had a material impact on our results of operation in recent years. However, we cannot predict what effect inflation may have on our results of operation in the future.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk from changes in interest rates on our outstanding bank debt. Our revolving line of credit bears interest at certain applicable margin levels contingent upon our leverage ratio on a quarterly basis. The interest rate, which is either the Index rate (the higher of prime or 50 basis points over the average of rates for overnight federal funds transactions) plus a range from 0.00% to 0.25% or a rate equal to LIBOR plus a range from 2.00% to 2.50%, increases as our leverage ratio increases. Adjustments to the applicable margin level are implemented quarterly on a prospective basis. The interest cost of our bank debt is affected by changes in either prime, federal funds rates, or LIBOR. Such changes could adversely impact our cost of borrowing.

The supply and price of coffee are subject to significant volatility and can be affected by multiple factors in the 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 supplies worldwide.

Our hedging strategy is intended to limit the cost exposure of the main commodity used in our business, green coffee beans. We use the following instruments to manage coffee supply and price risk:

- Fixed-price purchase commitments; - Coffee futures; and
- Coffee futures options.

We use coffee futures and coffee futures options to reduce the price risk of our coffee purchase requirements that we cannot make or have not made on a contractual basis. These coffee futures and coffee futures options are traded on the New York Coffee, Sugar & Cocoa Exchange. We use these futures and options solely for financial hedging purposes and never take actual delivery of the coffee traded on the exchange.

Fixed-Price Purchase Commitments

We enter into fixed-price purchase commitments in order to secure an adequate supply of quality green coffee beans and fix our cost of green coffee beans. These commitments are made with established coffee brokers and are denominated in U.S. dollars. As of December 29, 2002, we had approximately \$18.1 million in open fixed-priced purchase commitments with delivery dates ranging from January 2003 through November 2006. We believe, based on relationships established with our suppliers in the past, that the risk of non-delivery on such purchase commitments is low.

Coffee Futures

A coffee future is a contract to buy 37,500 pounds of green coffee beans at a contracted price and date. The price of coffee traded on the exchange is known as the New York "C" market price. We buy higher-quality coffee that trades at premiums to the New York "C" market price. Although this premium varies depending on the supply and demand at the time of purchase, generally, the price of the coffee we purchase tends to fluctuate with the New York "C" market price. This allows us to use coffee futures and coffee futures options to manage our exposure to price fluctuations.

We use coffee futures to hedge the price of anticipated coffee purchases to achieve a target gross margin for roasted coffee. We convert this margin requirement into an equivalent New York "C" market price for green coffee beans, which we call our "threshold."

When the current New York "C" market price is below our threshold, we may purchase coffee futures to fix the cost of our anticipated needs. Once we contract to purchase coffee from the supplier at a fixed price, we sell the related future. If market prices decline, we forego potential additional gross margin and incur potential cash margin calls. However, we are comfortable with this cost structure and enjoy the security of reduced risk.

Coffee Futures Options

When the current New York "C" market price is above our threshold, we may purchase coffee futures options to limit the cost exposure for our anticipated needs.

A coffee futures option is an option to buy a coffee future at a specific price, known as a "trade price." The cost of the option is based on the relationship of the trade price to the current New York "C" market price.

When we commit to purchase a specified quantity of green coffee beans and do not fix a price, we will hedge this "not-yet-priced" purchase commitment by purchasing a coffee futures option. This coffee futures option locks in a specific price for the not-yet-priced purchase commitment but does not obligate us to take delivery on the contract. If market prices rise, we realize gains on the coffee futures option, which offset the increase in price we have to pay for the coffee beans. If the market prices decline, we will set the contract price of the not-yet-priced purchase commitment at the market price and we will let the option expire, taking advantage of the declining market.

We also use coffee futures options to hedge anticipated coffee purchases. When the current New York "C" market price is above our threshold, we may purchase coffee futures options to limit the risk that coffee prices will continue to rise. If market prices rise, the higher prices of our future fixed-price coffee commitments will be offset by gains from the option. If market prices decline, our future fixed-price coffee commitments will be set at lower prices and the option will expire resulting in no further liability or obligation.

The extent of our coffee futures and coffee futures options positions at any given time depends on the amount of coffee we have contracted to purchase and general market conditions and trends. We anticipate continuing this hedging strategy for the foreseeable future.

We held no coffee futures options as of December 29, 2002 and we did not enter into any coffee futures options during 2002 or 2001.

Our hedging positions are only placed by the Chief Financial Officer through one brokerage firm that we believe to be reputable.

The following table reflects the outstanding coffee futures hedging positions as of December 29, 2002 and December 30, 2001.

NUMBER OF CONTRACTS -----	CONTRACT MONTH	TRADE PRICE	SETTLEMENT PRICE	GAIN/ (LOSS)
-----	-----	-----	-----	-----
25	May-03	\$60.50	63.85	\$ 31,410
	Unrealized Gain as of December 29, 2002			\$ 31,410
				=====
25	May-02	\$60.10	\$ 48.15	\$ (112,031)
	Unrealized (Loss) as of December 30, 2001			\$ (112,031)
				=====

These derivative instruments qualify for hedge accounting. The effective portion of the gains and losses are accounted for as inventory costs and are recorded as expense or income when the related coffee is sold. The ineffective portion is recorded as an expense or income immediately. We do not hold or issue derivative instruments for trading purposes.

RECENT ACCOUNTING PRONOUNCEMENTS

In October 2001, the Financial Accounting Standards Board, (FASB), issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. This statement supercedes SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of, and the accounting and reporting provision of APB Opinion No. 30, Reporting the Results of Operations - Reporting the Effects of Disposal of Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, for the disposal of a segment of business. SFAS No. 144 became effective for the Company on December 31, 2001. Adoption of this standard did not have a material effect on the Company's financial position or results of operations.

In June 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit of Disposal Activities, which addresses accounting for restructuring and similar costs. SFAS No. 146 supersedes previous accounting guidance, principally Emerging Issues Task Force Issue No. 94-3. The Company will adopt the provision of SFAS No. 146 for restructuring activities initiated after December 31, 2002. SFAS No. 146 requires that liability for costs associated with an exit or disposal activity be recognized when the liability is incurred. Under Issue 94-3, a liability for an exit cost is recognized at the date of a company's commitment to an exit plan. SFAS No. 146 also establishes that the liability should initially be measured and recorded at fair value. Accordingly, SFAS No. 146 may affect the timing of recognizing future restructuring costs as well as the amounts recognized.

In November 2002, the FASB issued FASB Interpretation ("FIN") No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others. FIN 45 elaborates on the disclosures to be made by the guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also requires that a guarantor recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and measurement provisions of this interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002; while, the provisions of the disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. The adoption of the measurement provisions of FIN 45 is not expected to have a material impact on our financial position or results of operations.

RISK FACTORS

WE MAY NOT BE SUCCESSFUL IN THE IMPLEMENTATION OF OUR BUSINESS STRATEGY OR OUR BUSINESS STRATEGY MAY NOT BE SUCCESSFUL, EITHER OF WHICH WILL IMPEDE OUR GROWTH AND OPERATING RESULTS.

Our business strategy emphasizes the expansion of our non-retail distribution channels - including grocery stores, online and mail order, and office, restaurant and food service accounts. This business strategy represents a shift from our historic business strategy, which largely emphasized opening and operating retail stores. Despite the change in our strategy, our retail stores, which generated nearly 75% of our 2002 net revenue, continue to be an important element of our business. We do not know whether we will be able to successfully implement our business strategy or whether our business strategy will be successful. Our ability to implement this business strategy is dependent on our ability to:

- Market our products on a national or international scale and over the internet;
- Enter into distribution and other strategic arrangements with third party retailers and other potential distributors of our coffee;
- Increase our brand recognition on a national and international scale;
- Identify and lease strategic locations suitable for new stores; and
- Manage growth in administrative overhead and distribution costs likely to result from the planned expansion of our retail and non-retail distribution channels.

Our revenue may be adversely affected if we fail to implement our business strategy or if we divert resources to a business strategy that ultimately proves unsuccessful.

BECAUSE OUR BUSINESS IS CENTERED ON A SINGLE PRODUCT, SPECIALTY COFFEE, IF THE DEMAND FOR SPECIALTY COFFEE DECREASES, OUR BUSINESS COULD SUFFER.

Sales of specialty coffee constituted nearly 83% of our 2002 net revenue. Demand for specialty coffee is affected by many factors, including:

- Consumer tastes and preferences; - National, regional and local economic conditions; and - Demographic trends.

Because we are highly dependent on consumer demand for specialty coffee, a shift in consumer preferences away from specialty coffee would harm our business more than if we had more diversified product offerings. If customer demand for specialty coffee decreases, our sales would decrease accordingly.

IF WE FAIL TO CONTINUE TO DEVELOP AND MAINTAIN OUR BRAND, OUR BUSINESS COULD SUFFER.

We believe that maintaining and developing our brand is critical to our success and that the importance of brand recognition may increase as a result of competitors offering products similar to ours. Because the majority of our retail stores are located on the west coast, primarily in California, our brand recognition remains largely regional. Our brand building initiative involves increasing the availability of our products, increasing marketing expenditures and opening new stores in flagship locations to increase awareness of our brand and create and maintain brand loyalty. If our brand building initiative is unsuccessful, we may never recover the expenses incurred in connection with these efforts and we may be unable to increase our future revenue or implement our business strategy.

Our success in promoting and enhancing the Peet's brand will also depend on our ability to provide customers with high quality products and customer service. Although we take measures to ensure that we sell only fresh roasted whole bean coffee and our retail employees properly prepare our coffee beverages, we have no control over our whole bean coffee products once purchased by customers. Accordingly, customers may prepare coffee from our whole bean coffee inconsistent with our standards, store our whole bean coffee for long periods of time or resell our whole bean coffee without our consent, which in each case, potentially affects the quality of the coffee prepared from our products. If customers do not perceive our products and service to be of high quality, then the value of our brand may be diminished and, consequently, our ability to implement our business strategy may be adversely affected.

BECAUSE OUR BUSINESS IS BASED PRIMARILY IN CALIFORNIA, A WORSENING OF ECONOMIC CONDITIONS, A DECREASE IN CONSUMER SPENDING OR A CHANGE IN THE COMPETITIVE CONDITIONS IN THIS MARKET MAY SUBSTANTIALLY DECREASE OUR REVENUE AND MAY ADVERSELY IMPACT OUR ABILITY TO IMPLEMENT OUR BUSINESS STRATEGY.

Our California retail stores generated 67% of our 2002 net revenue and a substantial portion of the revenue from our other distribution channels is generated in California. We expect that our California operations will continue to generate a substantial portion of our revenue. In addition, our California retail stores provide us with means for increasing brand awareness, building customer loyalty and creating a premium specialty coffee brand. As a result, an economic downturn or other decrease in consumer spending in California may not only lead to a substantial decrease in revenue, but may also adversely impact our ability to market our brand, build customer loyalty, or otherwise implement our business strategy.

IF WE ARE UNABLE TO CONTINUE LEASING OUR RETAIL LOCATIONS OR OBTAIN LEASES FOR NEW STORES, OUR EXISTING OPERATIONS AND OUR ABILITY TO EXPAND MAY BE ADVERSELY AFFECTED.

All of our 68 retail locations are on leased premises. If we are unable to renew these leases, our revenue and profits could suffer. In addition, we intend to lease other premises in connection with the planned expansion of our retail operations. 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. This could adversely impact our revenue growth and brand building initiatives.

THE DIRECT STORE DELIVERY SYSTEM HAS SIGNIFICANT START UP COSTS AND ONGOING OPERATING EXPENSES AND OUR PROFIT MARGIN COULD BE ADVERSELY IMPACTED IF CORRESPONDING NET REVENUE DOES NOT MATERIALIZE.

We implemented a direct store delivery sales and distribution system during the fourth quarter of 2002 to support growth in the grocery area and to ensure store level execution is being managed to our standards. This DSD system requires our route sales representatives to make weekly deliveries to stores in our own trucks, properly shelve the product, work to resolve pricing discrepancies, rotate to ensure freshness, sell and erect free-standing displays, and forge store-level selling relationships. The deployment of the DSD system has substantial startup and continuing fixed costs which we expect to be offset by significant revenue increase over time. If we are not able to increase the expected number of grocery accounts and/or related net revenue to support the expenses we have incurred and will continue to incur, this could adversely impact our profit margin.

BECAUSE WE RELY HEAVILY ON COMMON CARRIERS TO SHIP OUR COFFEE ON A DAILY BASIS, ANY DISRUPTION IN THEIR SERVICES OR INCREASE IN SHIPPING COSTS COULD ADVERSELY AFFECT OUR BUSINESS.

We rely on a number of common carriers to deliver coffee to our customers and retail stores. We consider roasted coffee a perishable product and we rely on these common carriers to deliver fresh roasted coffee on a daily basis. We have no control over these common carriers and the services provided by them may be interrupted as a result of labor shortages, contract disputes or other factors. If we experience an interruption in these services, we may be unable to ship our coffee in a timely manner. A delay in shipping could:

- Have an adverse impact on the quality of the coffee shipped, and thereby adversely affect our brand and reputation; - Result in the disposal of an amount of coffee that could not be shipped in a timely manner; and
- Require us to contract with alternative, and possibly more expensive, common carriers.

Any significant increase in shipping costs could lower our profit margins or force us to raise prices, which could cause our revenue and profits to suffer.

WE DEPEND ON THE EXPERTISE OF KEY PERSONNEL. IF THESE INDIVIDUALS LEAVE OR CHANGE THEIR ROLE WITHIN OUR COMPANY WITHOUT EFFECTIVE REPLACEMENTS, OUR OPERATIONS MAY SUFFER.

The success of our business is dependent to a large degree on our management and our coffee roasters and purchasers. If members of our management leave without effective replacements, our ability to implement our business strategy could be impaired. If we lost the services of our coffee roasters and purchasers, our ability to source and purchase a sufficient supply of high quality coffee beans and roast coffee beans consistent with our quality standards could suffer. In either case, our business and operations could be adversely affected.

WE MAY NOT BE ABLE TO HIRE OR RETAIN ADDITIONAL MANAGEMENT AND OTHER PERSONNEL AND OUR RECRUITING AND TRAINING COSTS MAY INCREASE AS A RESULT OF TURNOVER, BOTH OF WHICH MAY INCREASE OUR COSTS AND REDUCE OUR PROFITS AND MAY ADVERSELY IMPACT OUR ABILITY TO IMPLEMENT OUR BUSINESS STRATEGY.

The success of our business depends upon our ability to attract and retain highly motivated, well-qualified management and other personnel, including technical personnel and retail employees. We face significant competition in the recruitment of qualified employees. Our ability to execute our business strategy may suffer if:

- We are unable to recruit or retain a sufficient number of qualified employees;
- The costs of employee compensation or benefits increase substantially; or - The costs of outsourcing certain tasks to third party providers increase substantially.

We expend significant resources in training our retail managers and employees. During the past few years, retail employee turnover has increased to approximately 75% per year. If turnover continues to increase, we may incur additional recruiting and training costs.

BECAUSE WE HAVE ONLY ONE ROASTING FACILITY, A SIGNIFICANT INTERRUPTION IN THE OPERATION OF THIS FACILITY COULD POTENTIALLY DISRUPT OUR OPERATIONS.

We have only one coffee roasting and distribution facility. A significant interruption in the operation of this facility, whether as a result of a natural disaster or other causes, could significantly impair our ability to operate our business on a day-to-day basis. Moreover, our roasting and distribution facility and most of our stores are located near several major earthquake faults. The impact of a major earthquake on our facilities, infrastructure and overall operations is difficult to predict and an earthquake could seriously disrupt our entire business process.

Our earthquake insurance covers net income, continuing normal operating expenses and extra expenses incurred during the period of restoration. However, in the event of a catastrophic earthquake, our coverage is limited and we would incur additional expenses.

INCREASES IN THE COST OF HIGH QUALITY ARABICA COFFEE BEANS COULD REDUCE OUR GROSS MARGIN AND PROFIT.

Coffee is a trade commodity and, in general, its price can fluctuate depending on:

- Weather patterns in coffee-producing countries; - Economic and political conditions affecting coffee-producing countries; - Foreign currency fluctuations; and - The ability of coffee-producing countries to agree to export quotas.

Coffee prices are currently near historical lows and we believe they are likely to increase in the future. If the cost of our green coffee beans increases due to any of these or other factors, we may not be able to pass along those costs to our customers because of the competitive nature of the specialty coffee industry. If we are unable to pass along increased coffee costs, our margins will decrease and our profitability will suffer accordingly. In addition, our hedging policy may not be effective in controlling our coffee costs and the brokers with whom we have fixed price coffee purchase commitments may not deliver under those commitments. In either case, our coffee costs may increase and our profitability may suffer.

DECREASED AVAILABILITY OF HIGH QUALITY ARABICA COFFEE BEANS COULD RESULT IN A DECREASE IN REVENUE AND JEOPARDIZE OUR ABILITY TO EXPAND OUR BUSINESS.

Arabica coffee beans of the quality we purchase are not readily available on the commodity markets. We depend on our relationships with coffee brokers, exporters and growers for the supply of our primary raw material, high quality Arabica coffee beans. In both 2002 and 2001, we purchased over half of our green coffee beans through one broker. If our relationships with coffee brokers, exporters and growers deteriorate, we may be unable to procure a sufficient quantity of high quality coffee beans. In such case, we may not be able to fulfill the demand of our existing customers, supply new retail stores or expand other channels of distribution. A raw material shortage could result in decreased revenue or could impair our ability to expand our business.

POLITICAL INSTABILITY IN COFFEE GROWING REGIONS COULD RESULT IN A DECREASE IN THE AVAILABILITY OF HIGH QUALITY ARABICA COFFEE BEANS NEEDED FOR THE CONTINUED OPERATION AND GROWTH OF OUR BUSINESS AND AN INCREASE IN OUR OPERATING COSTS.

We roast Arabica coffee beans from many different regions to produce 32 types and blends of coffee. The political situation in many of those regions, including Africa, Indonesia and Central and South America, can be unstable, and such instability could affect our ability to purchase coffee from those regions. If Arabica coffee beans from a region become unavailable or prohibitively expensive, we may be forced to discontinue particular coffee types and blends or substitute coffee beans from other regions in our blends. Frequent substitutions and changes in our coffee product lines may lead to cost increases, customer alienation and fluctuations in our gross margins. Furthermore, a worldwide supply shortage of the high quality Arabica coffee beans we purchase could have a material adverse effect on our business.

OUR ROASTING METHODS ARE NOT PROPRIETARY, SO COMPETITORS MAY BE ABLE TO DUPLICATE THEM, WHICH COULD HARM OUR COMPETITIVE POSITION.

We consider our roasting methods essential to the flavor and richness of our roasted whole bean coffee and, therefore, essential to our brand. Because we do not hold any patents for our roasting methods, it may be difficult for us to prevent competitors from copying our roasting methods. If our competitors copy our roasting methods, the value of our brand may be diminished, and we may lose customers to our competitors. In addition, competitors may be able to develop roasting methods that are more advanced than our roasting methods, which may also harm our competitive position.

COMPETITION IN THE SPECIALTY COFFEE MARKET IS INTENSE AND COULD AFFECT OUR PROFITABILITY.

The specialty coffee market is highly fragmented. Our primary competitors in whole bean specialty coffee sales include Gevalia (Kraft Foods), Green Mountain Coffee, Illy Caffè, Millstone (Procter & Gamble), Seattle's Best (AFC Enterprises) and Starbucks. There are numerous smaller, regional brands that also compete in this category. In addition, we compete indirectly against all other coffee brands on the market. A number of nationwide coffee marketers, such as Kraft Foods, Procter & Gamble and Nestle, are distributing premium coffee brands in supermarkets. These premium coffee brands may serve as substitutes for our whole bean coffee. In addition to competing with other distributors of whole bean coffee, we compete with retailers of prepared beverages, including coffee house chains, particularly Starbucks, numerous convenience stores, restaurants, coffee shops and street vendors. If we do not succeed in effectively differentiating ourselves from our competitors or our competitors adopt our strategies, then our competitive position will be weakened.

Despite competing in a fragmented product category, whole bean specialty coffee brands are being established across multiple distribution channels. Several competitors are aggressive in obtaining distribution in specialty grocery and gourmet food stores, through online and mail order and in office, restaurant and food service locations. We have only recently begun to penetrate these channels. Other competitors may have an advantage over us based on their earlier entry into these distribution channels.

Competition in the specialty coffee market is becoming increasingly intense as relatively low barriers to entry encourage new competitors to enter the specialty coffee market. Many of these new market entrants may have substantially greater financial, marketing and operating resources than us. In addition, many of our existing competitors have substantially greater financial, marketing and operating resources than us.

ADVERSE PUBLIC OR MEDICAL OPINION ABOUT CAFFEINE MAY HARM OUR BUSINESS.

Our specialty coffee contains significant amounts of caffeine and other active compounds, the health effects of some 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. An unfavorable report on the health effects of caffeine or other compounds present in coffee could significantly reduce the demand for coffee, which could harm our business and reduce our sales and profits.

ADVERSE PUBLICITY REGARDING CUSTOMER COMPLAINTS MAY HARM OUR BUSINESS.

We may be the subject of complaints or litigation from customers alleging beverage and food-related illnesses, injuries suffered on the premises or other quality, health or operational concerns. Adverse publicity resulting from such allegations may materially adversely affect us, regardless of whether such allegations are true or whether we are ultimately held liable.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

All information required by this item is included on pages F-1 to F-7 in Item 15 of this Report and is incorporated in this item by reference.

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

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information respecting continuing directors and nominees of the Company is set forth under the caption "Election of Directors" in the Company's Proxy Statement relating to its 2003 Annual Meeting of Stockholders and is incorporated by reference into this Form 10-K Report. The Proxy Statement will be filed with the Securities and Exchange Commission in accordance with Rule 14a-6(c) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act."). With the exception of the foregoing information and other information specifically incorporated by reference into this Form 10-K Report, the Proxy Statement is not being filed as a part hereof. Information respecting executive officers of the Company is set forth at Part I of this Report.

Information respecting compliance with Section 16(a) of the Exchange Act is set forth under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" in the Proxy Statement and is incorporated by reference into this Form 10-K Report.

ITEM 11. EXECUTIVE COMPENSATION

Information concerning executive compensation required by Item 11 is set forth under the captions "Executive Compensation," "Stock Option Grants and Exercises," "Employment Agreements" and "Compensation Committee Interlocks" in the Proxy Statement and is incorporated by reference into this Form 10-K Report.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information concerning security ownership of certain beneficial owners and management required by Item 12 is set forth under the caption "Security Ownership of Certain Beneficial Owners and Management" and "Our Equity Incentive Plans" in the Proxy Statement and is incorporated by reference into this Form 10-K Report.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information concerning certain relationships and related transactions required by Item 13 is set forth under the captions "Employment Agreements" and "Certain Transactions" in the Proxy Statement and is incorporated by reference into this Form 10-K Report.

ITEM 14. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

Based upon their evaluation of our disclosure controls and procedures conducted within 90 days of the date of filing this report on Form 10-K, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-14(c) and 15d-14(c) of the Securities Exchange Act of 1934, as amended) are effective.

(b) Changes in Internal Controls

There were no significant changes in the internal controls of Peet's or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

Limitations on the Effectiveness of Controls.

Despite the periodic review of our disclosure controls and procedures, such controls and procedures may not prevent all error and all fraud. Inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Because of the inherent limitations in any control system, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the company have been detected. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

The following documents are filed as part of this Form 10-K.

(a)(1) Index to Consolidated Financial Statements.

The following Consolidated Financial Statements of Peet's Coffee & Tea, Inc. and its subsidiaries are filed as part of this Form 10-K:

	PAGE
Independent Auditors' Report	F-2
Consolidated Balance Sheets as of December 30, 2001 and December 29, 2002	F-3
Consolidated Statements of Operations for the Years Ended December 31, 2000, December 30, 2001, and December 29, 2002	F-4
Consolidated Statements of Shareholders' Equity for the Years Ended December 31, 2000, December 30, 2001, and December 29, 2002	F-5
Consolidated Statements of Cash Flows for the Years Ended December 31, 2000, December 30, 2001, and December 29, 2002	F-6
Notes to Consolidated Financial Statements	F-7

(a)(2) Index to Financial Statement Schedule.

Schedules are omitted because they are not applicable, not required or because the required information is included in the Consolidated Financial Statements or Notes thereto.

(a)(3) Listing of Exhibits

EXHIBIT	DESCRIPTION
3.1	Amended and Restated Articles of Incorporation.*
3.2	Amended and Restated Bylaws.*
4.1	Form of common stock certificate.*
10.1	Credit Agreement, dated as of September 1, 2000, among Peet's Coffee and Tea, Inc., Peet's Companies, Inc., Peet's Trademark Company and General Electric Capital Corporation.*
10.2	Letter Agreement dated October 11, 2000 among Peet's Coffee and Tea, Inc., Peet's Companies, Inc., Peet's Trademark Company and General Electric Capital Corporation.*
10.3	First Amendment to Credit Agreement dated as of January 19, 2001 among Peet's Operating Company, Inc. (formerly Peet's Coffee and Tea, Inc.), Peet's Coffee & Tea, Inc. (formerly Peet's Companies, Inc.), Peet's Trademark Company and General Electric Capital Corporation.*
10.4	Loan Agreement, dated as of December 1, 1995, by and between California Statewide Communities Development Authority and Peet's Coffee and Tea, Inc.*

10.5 Amended and Restated 1993 Stock Option Plan. (1)*

- 10.6 1994 California Stock Option Plan. (1)*
- 10.7 1997 Equity Incentive Plan and form of Stock Option Agreement.
(1)*
- 10.8 Peet's Operating Company, Inc. Savings and Retirement Plan.
(1)*
- 10.9 2000 Equity Incentive Plan and form of Stock Option Agreement.
(1)*
- 10.10 2000 Non-Employee Director Plan and form of Stock Option Agreement.
(1)*
- 10.11 2000 Employee Stock Purchase Plan and form of Offering. (1)*
- 10.12 Peet's Operating Company, Inc. Key Employee Severance Benefit Plan.
(2)*
- 10.13 Change of Control Option Acceleration Plan. (1)*
- 10.14 Advisory Engagement Letter dated December 9, 1996, between Peet's
Operating Company, Inc. and Jesse.Hansen&Co.*
- 10.15 Peet's Operating Company, Inc. Key Employment Agreement for Chairman
dated as of January 4, 1999. (2)*
- 10.16 Peet's Operating Company, Inc. Key Employment Agreement for Chief
Executive Officer dated as of May 9, 2000. (2)*
- 10.17 Peet's Operating Company, Inc. Key Employment Agreement for Vice
President, Coffee dated as of June 6, 2000. (2)*
- 10.18 Peet's Operating Company, Inc. Key Employment Agreement for Chief
Financial Officer dated as of January 4, 1999. (2)*
- 10.19 Peet's Operating Company, Inc. Key Employment Agreement for Vice
President, Marketing dated as of January 4, 1999. (2)*
- 10.20 Form of Indemnity Agreement between the registrant and each of its
directors and officers. (2)
- 10.21 Second Amendment to Credit Agreement, dated as of June 29, 2001, among
Peet's Operating Company, Inc., Peet's Trademark Company, Peet's
Coffee & Tea, Inc. and General Electric Capital Corporation.
Incorporated by reference to Exhibit 10.23 to the Company's quarterly
report on Form 10-Q for the quarter ended July 1, 2001.
- 10.22 Third Amendment to Credit Agreement, dated as of March 1, 2002, among
Peet's Operating Company, Inc., Peet's Trademark Company, Peet's
Coffee & Tea, Inc. and General Electric Capital Corporation.
Incorporated by reference to Exhibit 10.24 to the Company's annual
filing on Form 10-K for the year ended December 30, 2001.
- 10.23 Fourth Amendment to Credit Agreement dated as of April 23, 2002 among
Peet's Operating Company, Inc., Peet's Trademark Company, Peet's
Coffee & Tea, Inc. and General Electric Capital Corporation.
Incorporated by reference to Exhibit 10.24 to the Company's quarterly
report on Form 10-Q for the quarter ended March 31, 2002.
- 10.24 Peet's Coffee & Tea, Inc. Key Employment Agreement for Chief Executive
Officer dated as of May 6, 2002. Incorporated by reference to Exhibit
10.17 to the Company's quarterly report on Form 10-Q for the quarter
ended June 30, 2002. (1)
- 10.25 Peet's Coffee & Tea, Inc. Amended and Restated 2000 Non-Employee
Director Stock Option Plan and Form of Stock Option Agreement.
Incorporated by reference to Exhibit 10.10 to the Company's quarterly

report on Form 10-Q for the quarter ended September 29, 2002. (1)

- 10.26 Fifth Amendment to Credit Agreement dated as of December 31, 2002 among Peet's Operating Company, Inc., Peet's Trademark Company, Peet's Coffee & Tea, Inc. and General Electric Capital Corporation.
- 10.27 Sixth Amendment to Credit Agreement dated as of February 21, 2003 among Peet's Operating Company, Inc., Peet's Trademark Company, Peet's Coffee & Tea, Inc. and General Electric Capital Corporation.
- 21.1 Subsidiaries of the registrant.*
- 23.1 Consent of Deloitte & Touche LLP.
- 99.1 Certification of the Company's Chief Executive Officer, Patrick O'Dea, pursuant to Section 906 of Sarbanes-Oxley Act of 2002.
- 99.2 Certification of the Company's Chief Financial Officer, Mark N.

Rudolph, pursuant to Section 906 of Sarbanes-Oxley Act of 2002. * Incorporated by reference to Exhibit 10.18 to the Registrant's Information Statement on Form S-1 (File No. 333-47957) filed on October 13, 2000, as subsequently amended.

- (1) Compensatory plan or arrangement.
- (2) Management contract.

(b) No reports on Form 8-K were filed by the Company during the quarter ended December 29, 2002.

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.

Date: March 28, 2003

PEET'S COFFEE & TEA, INC.

By: /s/ Patrick J. O'Dea

Patrick J. O'Dea

President and Chief Executive

Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Patrick J. O'Dea and Mark N. Rudolph and each of them, as his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him and in his name, place, and stead, in any and all capacities, to sign any and all amendments to this report and to file the same, with all granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

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

<i>SIGNATURE</i>	<i>TITLE</i>	
<i>DATE</i>		
-----	-----	

/s/ PATRICK J. O'DEA 2003	President, Chief Executive Officer	March 28,
----- Patrick J. O'Dea	and Director (Principal Executive Officer)	
/s/ MARK N. RUDOLPH 2003	Vice President, Chief Financial	March 28,
----- Mark N. Rudolph	Officer, Secretary and Treasurer (Principal Financial and Accounting Officer)	
/s/ CHRISTOPHER P. MOTTERN 2003	Chairman	March 28,
----- Christopher P. Mottern		
/s/ GERALD BALDWIN 2003	Director	March 28,
----- Gerald Baldwin		
/s/ HILARY BILLINGS 2003	Director	March 28,
----- Hilary Billings		
/s/ GORDON A. BOWKER 2003	Director	March 28,
----- Gordon A. Bowker		
/s/ H. WILLIAM JESSE, JR. 2003	Director	March 28,
----- H. William Jesse, Jr.		
/s/ JEAN-MICHEL VALETTE 2003	Director	March 28,
----- Jean-Michel Valette		

CERTIFICATIONS

I, Patrick J. O'Dea, certify that:

1. I have reviewed this annual report on Form 10-K of Peet's Coffee & Tea, Inc.;
2. Based on my knowledge, this annual 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 annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual 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-14 and 15d-14) for the registrant and have:
 - (a) Designed such disclosure controls and procedures 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 annual report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - (c) Presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 28, 2003

/s/ Patrick J. O'Dea

Patrick J. O'Dea
President and Chief Executive

Officer

I, Mark N. Rudolph, certify that:

1. I have reviewed this annual report on Form 10-K of Peet's Coffee & Tea, Inc.;
2. Based on my knowledge, this annual 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 annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual 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-14 and 15d-14) for the registrant and have:
 - (a) Designed such disclosure controls and procedures 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 annual report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - (c) Presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 28, 2003

/s/ Mark N. Rudolph

Mark N. Rudolph
Vice President, Chief Financial
Treasurer and Secretary

Officer,

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders Peet's Coffee & Tea, Inc.

We have audited the accompanying consolidated balance sheets of Peet's Coffee & Tea, Inc and subsidiaries as of December 30, 2001 and December 29, 2002, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended December 29, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Peet's Coffee & Tea, Inc. and subsidiaries as of December 30, 2001 and December 29, 2002 and the results of their operations and their cash flows for each of the three years in the period ended December 29, 2002, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 12 to the financial statements, effective January 1, 2001, the Company changed its method of accounting for derivative financial instruments to conform to Statement of Financial Accounting Standards No. 133.

*/s/ DELOITTE & TOUCHE
LLP*

*San Francisco, California
February 13, 2003*

PEET'S COFFEE & TEA, INC.
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE AMOUNTS)

	DECEMBER 30, 2001	DECEMBER 29, 2002
	-----	-----
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,718	\$ 19,672
Accounts receivable (net of allowance of \$58 and \$75)	1,371	2,210
Income tax receivable		1,117
Inventories	8,945	11,007
Deferred income taxes	288	461
Prepaid expenses	1,100	1,342
	-----	-----
Total current assets	14,422	35,809
Property and equipment, net	23,629	27,929
Deferred income taxes	1,305	
Intangible and other assets, net	2,053	3,305
Long-term U.S. Government & Agency securities		28,102
	-----	-----
Total assets	\$ 41,409	\$ 95,145
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		

Current liabilities:		
Borrowings under line of credit	\$ 1,968	
Accounts payable	4,166	\$ 6,463
Accrued compensation and benefits	2,355	3,741
Other accrued liabilities	2,105	2,638
Current portion of long-term borrowings	513	468
	-----	-----
Total current liabilities	11,107	13,310
Long-term borrowings, less current portion	895	424
Deferred income taxes		181
Deferred lease credits	637	726
	-----	-----
Total liabilities	12,639	14,641
	-----	-----
Commitments and contingencies		
Shareholders' equity:		
Common stock, no par value; authorized 50,000,000 shares; issued and outstanding: 8,272,000 shares and 12,103,000 shares	31,609	78,014
Accumulated other comprehensive income (loss), net of tax	(407)	265
Retained earnings (accumulated deficit)	(2,432)	2,225
	-----	-----
Total shareholders' equity	28,770	80,504
	-----	-----
Total liabilities and shareholders' equity	\$ 41,409	\$ 95,145
	=====	=====

See notes to consolidated financial statements.

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PEET'S COFFEE & TEA, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	2000	2001	2002
Net revenue	\$84,302	\$94,400	\$104,073
Operating expenses:			
Cost of sales and related occupancy expenses	40,655	45,357	48,146
Operating expenses	28,073	30,617	33,221
Marketing and advertising	6,069	4,812	4,554
Depreciation and amortization	4,576	5,038	4,568
General and administrative expenses	5,893	6,243	6,732
Total operating costs and expenses	85,266	92,067	97,221
Income (loss) from operations	(964)	2,333	6,852
Interest income	25	47	660
Interest expense	(1,933)	(476)	(120)
Income (loss) before income taxes	(2,872)	1,904	7,392
Income tax provision (benefit)	(596)	749	2,735
Net income (loss)	\$(2,276)	\$ 1,155	\$ 4,657
Net income (loss) per share:			
Basic	\$ (0.50)	\$ 0.15	\$ 0.43
Diluted	\$ (0.50)	\$ 0.14	\$ 0.40
Shares used in calculation of net income (loss) per share:			
Basic	4,515	7,941	10,919
Diluted	4,515	8,212	11,627

See notes to consolidated financial statements.

PEET'S COFFEE & TEA, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(IN THOUSANDS)

	SERIES A PREFERRED STOCK		COMMON STOCK		RETAINED EARNINGS/	ACCUMULATED OTHER	TOTAL
	SHARES OUTSTANDING	AMOUNT	SHARES OUTSTANDING	AMOUNT	ACCUMULATED DEFICIT	COMPREHENSIVE INCOME/ (LOSS)	SHAREHOLDERS' EQUITY
Balance at January 2, 2000	471	\$ 4,537	4,514	\$ 7,966	\$ (1,312)		\$ 11,191
Stock options exercised, including tax benefit			2	13			13
Amortization of stock compensation				238			238
Net loss					(2,275)		(2,275)
Balance at December 31, 2000	471	\$ 4,537	4,516	\$ 8,217	\$ (3,587)		\$ 9,167
Conversion of preferred shares Stock sold in Initial Public Offering, net of expenses	(471)	(4,537)	943	4,537			-
Stock options exercised, including tax benefit			2,682	17,793			17,793
Stock sold in Employee Stock Purchase Program			94	507			507
Amortization of stock compensation			37	250			250
Cumulative effect of accounting change (FAS 133), net of tax of \$519				305			305
Unrealized losses on cash flow hedges, net of tax of \$195						\$ (785)	
Reclassification of net losses on cash flow hedges to cost of goods sold, net of tax of \$445						(295)	
Other comprehensive loss						673	(407)
Net income					1,155		1,155
Balance at December 30, 2001	-	-	8,272	\$31,609	\$ (2,432)	\$ (407)	\$ 28,770
Stock sold in public offering, net of expenses			3,138	41,030			41,030
Stock options and warrants exercised, including tax benefit			610	4,517			4,517
Stock sold in Employee Stock Purchase Program			83	568			568
Amortization of stock compensation				290			290
Unrealized gains on cash flow hedges, net of tax of \$38						66	
Reclassification of net losses on cash flow hedges to cost of goods sold, net of tax of \$252						379	
Net unrealized gain on investments, net of tax of \$133						227	
Other comprehensive income						672	672
Net income					4,657		4,657
Balance at December 29, 2002	-	\$ -	12,103	\$78,014	\$ 2,225	\$ 265	\$ 80,504

	COMPREHENSIVE INCOME/ (LOSS)
Balance at January 2, 2000	\$ (144)
Stock options exercised, including tax benefit	
Amortization of stock compensation	
Net loss	\$ (2,275)
Balance at December 31, 2000	\$ (2,275)

Conversion of preferred shares
Stock sold in
Initial Public Offering,
net of expenses
Stock options exercised,
including tax benefit
Stock sold in Employee
Stock Purchase Program
Amortization of
stock compensation

See notes to consolidated financial statements.

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PEET'S COFFEE & TEA, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	2000	2001	2002
Cash flows from operating activities:			
Net income (loss)	\$ (2,275)	\$ 1,155	\$ 4,657
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	5,210	5,693	5,251
Tax benefit from exercise of stock options and amortization of discounted stock options	238	305	1,543
Deferred income taxes	(472)	718	1,274
Reclassification of hedging losses in OCI		673	379
Ineffective portion of hedges		169	27
Loss on disposition of assets	188	6	11
Changes in other assets and liabilities:			
Accounts receivable	(214)	(309)	(1,956)
Inventories	(1,730)	(1,309)	(2,062)
Prepaid expenses and other	115	(217)	(211)
Other assets	(207)	22	(1,530)
Accounts payable, accrued liabilities and other liabilities	1,816	(1,123)	4,419
	2,669	5,783	11,802
Cash flows from investing activities:			
Purchases of property and equipment	(5,518)	(6,511)	(9,316)
Proceeds from sales of property and equipment	4	17	
Additions to intangible assets	(276)	(350)	(35)
Purchase of long term U.S. Government & Agency securities, net			(27,875)
	(5,790)	(6,844)	(37,226)
Cash flows from financing activities:			
Proceeds from borrowings	46,258		
Repayments of debt	(41,544)	(17,451)	(2,484)
Payments of stock offering costs (completed in January 2001)	(1,082)		
Net proceeds from issuance of common stock	13	19,632	44,862
	3,645	2,181	42,378
Change in cash and cash equivalents	524	1,120	16,954
Cash and cash equivalents, beginning of period	1,074	1,598	2,718
Cash and cash equivalents, end of period	\$ 1,598	\$ 2,718	\$ 19,672
Supplemental cash flow disclosures:			
Cash paid for:			
Interest	\$ 1,668	\$ 478	\$ 48
Income taxes	108	29	2,050
NON CASH INVESTING AND FINANCING ACTIVITIES -			
Property acquired under capital lease	\$ 476		
Conversion of preferred stock to common stock upon IPO		\$ 4,537	
IPO fees accrued at December 31, 2000 applied to proceeds in 2001		1,082	
FAS 133 coffee hedging activities:			
Inventory		(1,304)	
Deferred taxes		269	\$ (39)
Other comprehensive loss		407	(65)
Other liabilities		628	104

See notes to consolidated financial statements.

PEET'S COFFEE & TEA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. HISTORY AND ORGANIZATION

Peet's Coffee & Tea, Inc., (the "Company") sells fresh roasted coffee, hand selected tea and related items in several distribution channels, including specialty grocery and gourmet food stores, online and mail order, office and restaurant accounts and company-operated retail stores. At December 30, 2001 and December 29, 2002, the Company operated 60 and 65 retail stores, respectively, in California, Illinois, Oregon, and Massachusetts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION - The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany transactions have been eliminated in consolidation.

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 amounts of assets and liabilities and disclosures 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.

RECLASSIFICATIONS - Certain reclassifications have been made to prior years' financial statements in order to conform with the current year's presentation.

YEAR END - The Company's year end is the Sunday closest to December 31. The years 2002, 2001, and 2000 included 52 weeks.

CASH AND CASH EQUIVALENTS - The Company considers all liquid investments with original maturities of three months or less to be cash equivalents.

INVENTORIES - Raw materials consist primarily of green bean coffee. Finished goods include roasted coffee, tea, accessory products, spices, and packaged foods. All products are valued at the lower of cost or market using the first-in, first-out method, except green bean and roasted coffee, which is valued at the average cost.

PROPERTY AND EQUIPMENT are stated at cost. Depreciation and amortization are recorded on the straight-line method over the estimated useful lives of the property and equipment, which range from 3 to 10 years. Leasehold improvements are amortized using the straight-line method over the lesser of the estimated useful life or the term of the related lease, which range from 3 to 10 years.

INTANGIBLES AND OTHER ASSETS include lease rights, contract acquisition costs, deposits, and restricted cash. Lease rights represent payments made to lessors and others to secure retail locations and are amortized on the straight-line method over the life of the related lease from 5 to 15 years. Intangibles, net of amortization, were \$1,251,000 and \$1,040,000 at December 30, 2001 and December 29, 2002, respectively. The related accumulated amortization was \$1,636,000 and \$1,882,000 at December 30, 2001 and December 29, 2002, respectively. Amortization expense for 2000, 2001, and 2002 was \$220,000, \$238,000 and \$246,000, respectively. Future amortization expense for 2003 through 2007 is estimated at \$153,000, \$168,000, \$148,000, \$123,000, and \$114,000, respectively. Contract acquisition costs represents a payment made to a retailer to obtain distribution for a specified period of time and is being amortized as a reduction of revenue over the contract period.

INVESTMENT POLICY - Investments are classified as available for sale and are recorded at fair market value. Any unrealized gains and losses are recorded in other comprehensive income/loss.

IMPAIRMENT OF LONG-LIVED ASSETS - The Company evaluates the recoverability of its long-lived assets whenever events or changes in circumstances have indicated that the carrying amount of its assets might not be recoverable. If the fair value is less than the carrying amount of the asset, a loss is recognized for the difference. In 2000, an impairment loss of \$129,000 was recorded as general and administrative expense. No impairment loss was recorded in 2001 or in 2002.

ACCRUED COMPENSATION AND BENEFITS - Beginning in March 2002, the Company modified its workers' compensation insurance policy to a high deductible program with an overall program ceiling to minimize exposure. We began recording an estimated liability for the self-insured portion of the workers' compensation claims. The liability is determined actuarially, based on claims paid, filed and reserved for, and projected using an industry loss development factor, as well as using historical experience ratings. As of December 29, 2002, the first 10 months of the policy period, we had \$703,000 accrued for workers' compensation.

STORE CLOSURE - The Company accrues an estimate for the costs associated with closing under-performing stores in the period in which the store is identified and approved by management under a plan of termination. The plan includes the method of disposition and the expected date of completion. Costs, which are considered to have no future economic benefit, include direct costs to terminate a lease or sublease a property and the difference between the book value and estimated recovery of fixed assets. Significant changes to the plan are unlikely. The operating costs, including depreciation, of stores or other facilities to be sold or closed are expensed during the period they remain in use.

The Company recorded expenses of \$456,000 representing the write off of leasehold improvements, fixed assets and estimated future rental payments for store closures during 2000. No expense was recorded in 2001 or 2002. As of December 30, 2001, the Company had an accrual of \$59,000, representing estimated future rental payments.

In August 2001, the Company assigned, with the consent of the landlord, the existing lease for the Naperville location to another entity. The Company remains liable for rent and other charges under the lease, which expires December 31, 2008. However, the assignee's parent company has guaranteed the payment by the assignee of rent and other charges under the lease assignment up to \$313,000 (equivalent to approximately four years of rent due under the lease). The Company expects that the assignee will make all future rent payments required under the lease and during 2001 reduced the accrual for estimated future payments under the lease by \$134,000. The remaining accrual at year end 2001 represents the Company's remaining obligation for rental payments of seven months during the assignee's construction and rent abatement period. All rental obligations had been paid and no accrual relating to store closures remained at December 29, 2002. See Note 11.

A summary of the accrual activity is as follows (excluding write-off of assets) (in thousands):

	BALANCE AT BEGINNING OF PERIOD	ADDITIONS CHARGED TO EXPENSE	DEDUCTIONS	BALANCE AT END OF PERIOD
	-----	-----	-----	-----
Accrual related to store closures:				
Year ended December 31, 2000	\$ 48	\$ 327	(\$74)	\$ 301
Year ended December 30, 2001	301	-	(242)	59
Year ended December 29, 2002	59	-	(59)	-

REVENUE RECOGNITION - Net revenue is recorded upon purchases by customers at retail locations or when merchandise is received by customers in the specialty sales channel. Sales returns are insignificant. The Company establishes an allowance for estimated doubtful accounts based on historical experience and current trends, which management believes are appropriate.

The Company records shipping revenue in net revenue. The Company recorded shipping revenue of \$1,371,000, \$1,522,000, and \$1,617,000 related to online and mail order and specialty sales in 2000, 2001, and 2002, respectively.

A summary of the allowance for doubtful accounts is as follows (in thousands):

	BALANCE AT BEGINNING OF PERIOD	ADDITIONS CHARGES TO EXPENSE	WRITEOFFS	BALANCE AT END OF PERIOD
	-----	-----	-----	-----
Allowance for doubtful accounts:				
Year ended December 31, 2000	\$ 61	\$ 23	(\$15)	\$ 69
Year ended December 30, 2001	69	30	(41)	58
Year ended December 29, 2002	58	162	(145)	75

COST OF SALES AND RELATED OCCUPANCY EXPENSES consist primarily of coffee and other product costs. It also includes plant manufacturing (including depreciation), freight and distribution costs. Occupancy expenses include rent and related expenses such as utilities.

PREOPENING COSTS or costs associated with the opening or remodeling of stores, such as payroll and rent, are expensed as incurred.

HEDGING ACTIVITIES - The Company uses coffee futures and options to hedge price increases in price-to-be- fixed coffee purchase commitments and anticipated coffee purchases. These derivative instruments qualify for hedge accounting under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. See Note 12. Prior to the adoption of SFAS No. 133 on January 1, 2001, the contracts also qualified for hedge accounting and the gains and losses were accounted for as inventory costs and were recorded as expense or income as the related coffee was sold. The Company does not hold or issue derivative instruments for trading purposes.

FAIR VALUE OF FINANCIAL INSTRUMENTS - The carrying value of cash and equivalents, receivables and accounts payable approximates fair value. Investments are recorded at fair value. The carrying value of debt approximates the estimated fair value due to floating interest rates on the debt. The fair value of futures contracts is the amount at which they could be settled, based on estimates obtained from dealers. At December 30, 2001 and December 29, 2002, the net unrealized gain/(loss) on such contracts was (\$112,000) and \$31,000, respectively. See Note 12.

ADVERTISING COSTS are expensed as incurred. Advertising expense was \$5,158,000, \$3,860,000, and \$3,856,000 in 2000, 2001, and 2002, respectively.

DEFERRED LEASE CREDITS - Certain of the Company's lease agreements provide for scheduled rent increases during the term of the lease. Rent is expensed on a straight-line basis over the term of the lease.

INCOME TAXES -Income taxes are accounted for using the asset and liability method, under which deferred tax assets and liabilities are determined based on the difference between the financial statements and tax bases of assets and liabilities using enacted tax rates currently in effect.

STOCK-BASED COMPENSATION - The Company accounts for stock-based awards to employees using the intrinsic value method in accordance with Accounting Principle Board, (APB), No. 25, Accounting for Stock Issued to Employees. Accordingly, no compensation cost has been recognized for the stock option awards granted at fair market value. Through 2001, the Company granted options at 85% of fair value and recorded compensation expense equal to the intrinsic value over the vesting period. The Company has recorded compensation expense of \$238,000 in 2000, \$305,000 in 2001, and \$290,000 in 2002. Statement of Financial Accounting Standards, (SFAS), No. 123, Accounting for Stock-Based Compensation, requires the disclosure of pro forma net income and earning per share as if the Company had adopted the fair value method. Had compensation cost for the Company's stock option plans and ESPP been determined based on the fair value at the grant date consistent with the provisions of SFAS No. 123, the Company's net income would have been reduced to the pro forma amounts indicated below (in thousands):

	2000	2001	2002

Net income (loss) - as reported	(\$2,275)	\$1,155	\$ 4,657
Stock-based employee compensation included in reported net income (loss), net of tax effects	\$ 143	\$ 183	\$ 174
Stock-based compensation expense determined under fair value based method, net of tax effects (\$2,295)	(\$833)	(\$511)	

Net income (loss) - pro forma	(\$2,965)	\$ 827	\$ 2,536
=====			
Basic net income (loss) per share - as reported	(\$0.50)	\$ 0.15	\$ 0.43
Basic net income (loss) per share - pro forma	(\$0.66)	\$ 0.10	\$ 0.23
Diluted net income (loss) per share - as reported	(\$0.50)	\$ 0.14	\$ 0.40
Diluted net income (loss) per share - pro forma	(\$0.66)	\$ 0.10	\$ 0.22

The Company uses the Black-Scholes option-pricing model for determining the fair value of options, which requires the input of certain estimates that may affect what is deemed fair value. The existing model may not necessarily provide a reliable single measure of the value of its stock options. Management will continue to evaluate alternative methodologies that may more appropriately reflect pro forma compensation expense.

Additional disclosure requirements of SFAS No. 123, Accounting for Stock-Based Compensation, are set forth in Note 10.

NET INCOME (LOSS) PER SHARE - Basic net income per share is computed as net income (loss) divided by the weighted average number of common shares outstanding for the period. Diluted net income (loss) per share reflects the potential dilution that could occur from common shares issued through stock options, warrants and the conversion of preferred stock. Diluted net loss per share for the year ended December 31, 2000 does not include the common shares issued through stock options, warrants and the conversion of preferred stock because they are anti-dilutive. Anti-dilutive shares of 110,750 and 630,621 have been excluded from diluted weighted average shares outstanding in 2001 and 2002, respectively.

The following table summarizes the differences between basic weighted average shares outstanding and diluted weighted average shares outstanding used to compute diluted net income (loss) per share (in thousands):

	2000	2001	2002

Basic weighted average shares outstanding 10,919	4,515	7,941	
Incremental shares from assumed exercise of stock options and warrants 708	0	271	

Diluted weighted average shares outstanding 11,627	4,515	8,212	
=====			

The number of incremental shares from the assumed exercise of stock options and warrants was calculated applying the treasury stock method.

RECENTLY ISSUED ACCOUNTING STANDARDS - In October 2001, the Financial Accounting Standards Board, (FASB), issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. This statement supercedes SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of, and the accounting and reporting provision of APB Opinion No. 30, Reporting the Results of Operations - Reporting the Effects of Disposal of Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, for the disposal of a segment of business. SFAS No. 144 became

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effective for the Company on December 31, 2001. Adoption of this standard did not have a material effect on the Company's financial position or results of operations.

In June 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit of Disposal Activities, which addresses accounting for restructuring and similar costs. SFAS No. 146 supersedes previous accounting guidance, principally Emerging Issues Task Force Issue No. 94-3. The Company will adopt the provision of SFAS No. 146 for restructuring activities initiated after December 31, 2002. SFAS No. 146 requires that liability for costs associated with an exit or disposal activity be recognized when the liability is incurred. Under Issue 94-3, a liability for an exit cost is recognized at the date of a company's commitment to an exit plan. SFAS No. 146 also establishes that the liability should initially be measured and recorded at fair value. Accordingly, SFAS No. 146 may affect the timing of recognizing future store closure and restructuring costs as well as the amounts recognized.

In November 2002, the FASB issued FASB Interpretation ("FIN") No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others. FIN 45 elaborates on the disclosures to be made by the guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also requires that a guarantor recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and measurement provisions of this interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002; while, the provisions of the disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. The adoption of the measurement of provisions of FIN 45 is not expected to have a material impact on our financial position or results of operations.

3. INVENTORIES

The Company's inventories consist of the following at year end 2001 and 2002 (in thousands):

	2001	2002
-----	-----	
Raw materials	\$5,722	\$
7,130		
Finished goods	3,223	
3,877	-----	

Total	\$8,945	
\$11,007	=====	
=====		

4. PROPERTY AND EQUIPMENT

Property and equipment consists of the following at year end 2001 and 2002 (in thousands):

	2001	2002

Leasehold improvements	\$ 22,007	\$ 23,518
Furniture, fixtures, and equipment	23,609	25,158
Plant equipment	4,244	7,442
Construction in progress	514	3,216

Total	50,374	59,334
Less accumulated depreciation (31,405)	(26,745)	

Total	\$ 23,629	\$ 27,929
=====		

Depreciation expense was \$4,990,000 in 2000, \$5,455,000 in 2001, and \$5,005,000 in 2002, respectively. Construction in progress includes manufacturing plant equipment, new store fixtures and other capital projects not yet placed in service.

5. INVESTMENTS

The Company invested the proceeds of the secondary public offering in April 2002 in investment grade securities. At December 29, 2002, the Company maintained long term investments classified as available for sale of \$28,100,000. The long term investments are comprised of United States Treasury Notes and Bonds, and Federal Agency notes and bonds, maturing within five years. Gross unrealized holding gains were \$360,000 for the period ended December 29, 2002, of which \$223,000 related to U.S. Treasury Notes and Bonds and \$137,000 related to Federal Agency notes and bonds.

The company sold securities for net proceeds of \$18,144,000 and realized a gain of \$27,000. For the periods ended December 29, 2002, net unrealized gains of \$227,000 (net of \$133,000 tax), were recorded in accumulated other comprehensive income (loss).

6. BORROWINGS

In September 2000, the Company entered into a credit facility with General Electric Capital Corporation. The facility expires in September 2005 and provides for a revolving line of credit up to \$15,000,000, the issuance of up to \$3,000,000 in letters of credit, and \$15,000,000 in term loans. The term loans were repaid during 2001 upon the closing of the Company's initial public offering. Total availability under the revolving line of credit is determined by subtracting our funded debt from our trailing twelve month earnings before interest, taxes, depreciation and amortization, or (EBITDA), multiplied by 3.75 for the period before September 1, 2001, 3.5 for the period after September 1, 2001 and before September 1, 2002, and 2.5 thereafter. As of December 29, 2002, there was no outstanding balance and \$14,057,000 was available under the Company's line of credit.

Borrowings under the credit facility are secured by a lien on substantially all of the Company's assets. The credit facility contains covenants restricting the Company's ability to make capital expenditures, incur additional indebtedness and lease obligations, open retail stores, make restricted payments, merge into or with other companies and sell all or substantially all of its assets and requiring the Company to meet certain financial tests.

Long term borrowings consist of the following at year end 2001 and 2002 (in thousands):

	2001	2002
-----	-----	
Industrial development revenue bond, interest at a weekly floating rate of 1.65% at December 29, 2002, until maturity in 2006.	1,300	860
Capital lease obligations	108	32
-----	-----	
Total	1,408	892
Less current portion (468)	(513)	
-----	-----	
Total	\$ 895	\$ 424
=====	=====	

Scheduled maturities of the Company's borrowings at December 29, 2002 (excluding capital lease obligations, see Note 11) are as follows (in thousands):

Year:
2003
\$440
2004
140
2005
140
2006
140

Total
\$860

====

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7. INCOME TAXES

The income tax provision (benefit) consists of the following (in thousands):

	2000	2001	2002
-----	-----	-----	
Current:			
Federal	\$ (66)	\$ 467	
State	(58)	9	
377			
-----	-----	-----	
Total	(124)	476	
1,847			
Deferred:			
Federal	(569)	133	
State	97	140	
61			
-----	-----	-----	
Total	(472)	273	
888			
-----	-----	-----	
Total	\$(596)	\$ 749	
\$2,735			
=====	=====	=====	
=====			

The difference between the effective income tax rate and the United States federal income tax rate is summarized as follows:

	2000	2001	2002
-----	-----	-----	
Statutory Federal rate	34.0%	34.0%	
34.0%			
State income taxes less federal benefit	5.8	5.8	5.8
Change in valuation allowance	(14.8)	3.7	
(3.0)			
Non-deductible items	(0.6)	0.8	1.4
California net operating loss limitation	(3.6)	(2.1)	0.0
California Manufacturer Investment Credit	0.0	(2.9)	
(1.2)			
-----	-----	-----	
Total	20.8%	39.3%	
37.0%			
=====	=====	=====	
=====			

Deferred tax assets (liabilities) consist of the following at year end 2001 and 2002 (in thousands):

	2001	2002

Net operating loss carryforwards	\$ 153	\$ 165
Charitable contribution carryforwards	439	269
Credit carryforwards	861	382
Scheduled rent	273	311
Accrued reserves	329	436
Accrued compensation	267	319
State taxes	43	68

Gross deferred tax assets	2,365	1,950

Property and equipment	(238)	
(1,207)		
Other		
(214)		

Gross deferred tax liabilities	(238)	
(1,421)		

Valuation allowance	(534)	
(249)		

Net deferred tax assets	\$1,593	\$ 280
	=====	
=====		

The Company has state net operating loss carryforwards of \$1,867,000, which expire between 2004 and 2007. A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized.

8. EMPLOYEE BENEFIT PLAN

The Company's 401(k) plan covers substantially all employees. Employees may contribute up to 60% of their annual salary up to a maximum of \$11,000. The Company matches 50% of amounts contributed by its employees. The Company contribution was \$347,000, \$413,000, and \$438,000 in 2000, 2001, and 2002 respectively. The plan does not offer investments in Company stock.

9. SHAREHOLDERS' EQUITY

In April 2002, the Company issued 3,137,500 shares of common stock at \$14.00 per share of its common stock. The Company received net proceeds of \$41,030,000.

During 2001, the Company issued 2,682,623 shares of stock at \$8.00 per share in an initial public offering of its common stock and received net proceeds of \$17,790,000. Upon the closing of the initial public offering, each of the outstanding shares of preferred stock converted into shares of common stock at a conversion rate of one to two. On January 30, 2001, the Company amended and restated its articles of incorporation, pursuant to which the Company's authorized capital stock consists of 50,000,000 shares of common stock without par value and 10,000,000 shares of preferred stock without par value. None of the preferred stock has been issued or designated as of December 29, 2002.

Prior to the Company's initial public offering in January 2001, the Company was authorized to issue 10,000,000 shares of preferred stock without par value, of which 1,000,000 and 98,000 shares were designated for issuance as Series A and Series B preferred stock (preferred stock), respectively.

In May of 1997, the Company issued warrants to a consultant to purchase 200,000 shares of common stock at \$7.50 per share. These warrants, which were exercisable at the option of the holder, were exercised on the first day of fiscal year 2002.

10. STOCK OPTION AND EMPLOYEE PURCHASE PLANS

In 1994, the Company established two stock option plans, of which one includes only California residents, both of which provide for incentive and nonqualified stock options for the purchase of 831,600 shares of common stock of the Company. During 1999, the Board of Directors approved a reduction of 208,914 shares available under these plans. Incentive stock options may be granted to employees of the Company. Nonqualified stock options may be granted only to employees, directors, officers, agents, consultants or advisors of the Company. The purchase price of the common stock issuable under the stock option plans is determined by the Board of Directors and may not be less than the fair market value of the common stock at the grant date for incentive stock options and not less than 85% of the fair market value of the common stock at the grant date for nonqualified stock options. The term of a granted stock option is 10 years from the grant date. Stock options granted through December 30, 1994 vest 20% on each anniversary of the employee's date of hire and, accordingly, are fully vested and exercisable after five years of employment. Stock options granted subsequent to December 30, 1994 generally vest over three to four years.

In 1997, the Company adopted a successor equity incentive plan to the Company's existing stock option plans, which provides a means by which selected employees, directors, and consultants of the Company may benefit from increased stock value through the granting of incentive and nonstatutory stock options. The Company has reserved 1,280,000 shares of common stock for issuance pursuant to the plan. The purchase price of the common stock issuable under this plan is determined by the Board of Directors, however may not be less than 85% of the fair market value of common stock at the grant date. The term of a granted stock option is 10 years from the grant date. Stock options generally vest over three to four years.

In 2000, the Company adopted a new stock option plan (effective January 24, 2001). The Company had reserved 700,000 shares of common stock for issuance pursuant to the plan. As of each annual meeting of the

Company's shareholders, beginning in 2002, and continuing through and including the annual meeting of the Company's shareholders in 2010, the number of shares of common stock reserved for issuance under the 2000 plan will be increased automatically by the lesser of (i) three percent (3%) of the total number of shares of common stock outstanding on such date, (ii) five hundred thousand (500,000) shares, or (iii) a number of shares determined by the Board prior to such date, which number shall be less than (i) and (ii) above. At the May 2002 annual meeting, the shareholders approved an amendment to the plan to increase the aggregate number of shares of common stock authorized for issuance by 800,000 shares and to increase the annual increase of shares reserved for issuance from 3% to 5%. The purchase price of the common stock issuable under this plan is determined by the Board of Directors, however may not be less than 85% of the fair market value of common stock at the grant date. The term of a granted stock option is 10 years from the grant date. All stock options vest at a minimum rate of 20% per year.

The Company also adopted a 2000 Non-Employee Director Plan that provides for the automatic grant of nonstatutory stock options to purchase shares of common stock to non-employee directors which is administered by the Board of Directors (effective January 24, 2001). The aggregate number of shares of common stock that may be issued pursuant to these options under the plan is 330,000. As of each annual meeting of the Company's shareholders, beginning in 2002, and continuing through and including the annual meeting of the Company's shareholders in 2020, the number of shares of common stock reserved for issuance under the 2000 plan will be increased automatically by the lesser of (i) three quarters of one percent (0.75%) of the total number of shares of common stock outstanding on such date, (ii) sixty thousand (60,000) shares, or (iii) a number of shares determined by the Board prior to such date, which number shall be less than (i) and (ii) above. The exercise price of options granted will be equal to the fair market value of the common stock on the date of grant and have a term no more than ten years from the date granted. Option grants vest over a period of three years from the date of grant. In 2001 and 2002, the Company granted non-employee director options to purchase an aggregate of 120,000 and 110,000 shares of common stock, respectively.

As of December 29, 2002, there were no shares available for grant under 1997 stock option plan, 350,593 shares available for grant under the 2000 stock option plan, and 160,000 shares available for grant under the 2000 Non-Employee Director stock option plan. Changes in stock options were as follows:

	OPTIONS OUTSTANDING	WEIGHTED-AVERAGE EXERCISE PRICE PER SHARE

Outstanding at January 2, 2000	1,347,930	\$
5.68		
Granted	280,750	
7.27		
Canceled	(37,600)	
5.75		
Exercised	(2,872)	
4.64		

Outstanding at December 31, 2000	1,588,208	
5.96		
Granted	729,326	
7.69		
Canceled	(52,601)	
6.96		
Exercised	(94,081)	
5.39		

Outstanding at December 30, 2001	2,170,852	
6.54		
Granted	1,344,719	
14.97		
Canceled	(48,637)	
9.81		
Exercised	(541,162)	
6.03		

Outstanding at December 29, 2002	2,925,772	\$
10.47		
=====		

At December 31, 2000, December 30, 2001, and December 29, 2002, 1,202,493, 1,392,087, and 1,428,323 options, respectively, were exercisable with a weighted-average exercise price of \$5.54, \$5.93, and \$7.05, respectively.

The following table summarizes stock option information at year end 2002:

OPTIONS OUTSTANDING				OPTIONS EXERCISABLE			
RANGE OF EXERCISE PRICES	NUMBER OF OPTIONS	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE	years	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER OF OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE	
\$ 3.85 to \$6.38	962,739	5.16		\$ 5.93	953,668	\$ 5.93	
\$ 7.23 to \$10.20	633,779	8.24		7.90	402,851	8.04	
\$11.11 to \$14.90	269,518	9.21		12.07	7,639	11.11	
\$15.49 to \$15.49	854,736	9.42		15.49	-	0.00	
\$16.41 to \$17.00	205,000	9.47		16.65	64,165	17.00	
\$ 3.85 to \$17.00	2,925,772	7.74		10.47	1,428,323	7.05	

During 2001, the Company adopted a 2000 Employee Stock Purchase Plan ("ESPP"), where eligible employees can choose to have up to 15% of their annual base earnings withheld to purchase the Company's common stock. The purchase price of stock is 85% of the lower of the beginning of the offering period or end of the offering period market price. The Company authorized 200,000 shares of common stock available for issuance under the plan, which will be increased as of each annual meeting of the Company's shareholders, beginning 2002 until 2020, by the lesser of 200,000 shares or 1.5% of the number of shares of common stock outstanding on that date. However, the Board of Directors has the authority to designate a smaller number of shares by which the authorized number of shares of common stock will be increased on that date. During 2002 and 2001, employees purchased 82,865 and 36,789 shares, respectively, of the Company's common stock under the plan at a weighted-average per share price of \$6.86 and \$6.80, respectively. At December 29, 2002, 259,171 shares remain available for future issuance.

The weighted average fair value of the stock options granted during 2000, 2001, and 2002 was \$2.91, \$6.56, and \$9.42, respectively. The weighted average fair value of each 2001 and 2002 ESPP award was \$3.91 and \$3.84, respectively, per share. The fair value of each option grant and ESPP award is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	2000	2001	2002
Expected dividend rate	0%	0%	
Expected volatility			
Options	0%	77.6%	
ESPP awards		77.6%	
Risk-free interest rate			
Options	6.33%	4.88%	
ESPP awards		4.24%	
Expected lives (years)			
Options	5	5	5
ESPP awards		0.5	0.5

See Note 2 for the pro forma effect of accounting for stock options using the fair value method.

11. COMMITMENTS AND CONTINGENCIES

LEASES - The Company leases its Emeryville, California coffee roasting plant, distribution center and administrative offices, warehouse, its retail stores and certain equipment under operating leases that expire from 2003 through 2012. Certain leases contain renewal options for an additional five to fifteen years, and also provide for contingent rents to be paid equal to a stipulated percentage of sales. The lease agreements also provide for periodic adjustments to the minimum lease payments based on changes in cost of living indices or other scheduled increases.

Future minimum lease payments required under non-cancelable capital and operating leases subsequent to December 29, 2002 are as follows (amounts in thousands):

	CAPITAL LEASES	OPERATING LEASES

Years:		
2003	\$ 29	\$
5,101		
2004	4	
4,695		
2005		
4,411		
2006	-	
3,485		
2007	-	
2,529		
Thereafter	-	
3,781		

Total minimum lease payments	33	\$
24,002		
=====		
Less amounts representing interest	(1)	

Present value of net minimum lease payments	32	
less current obligations	(28)	

Long-term obligations	\$ 4	
	=====	

Rent expense was \$4,329,000, \$4,738,000 and \$5,077,000 for 2000, 2001, and 2002 respectively, including contingent rents of \$129,000, \$146,000, and \$139,000.

In August 1998, the Company entered into an occupancy lease agreement in Naperville, Illinois for a term of 10 years beginning January 1, 1999. The Company assigned the lease in August 2001 and is liable for lease payments in the event the assignee or its guarantor defaults through the end of the first lease term, expiring on December 31, 2008. As of December 29, 2002, the Company may be liable for \$542,000 of remaining lease payments, offset by the assignee's security deposit of \$6,000 and its guarantor's maximum liability of \$313,000. See Note 2.

PURCHASE COMMITMENTS - As of December 29, 2002, the Company had approximately \$18,149,000 of outstanding coffee purchase commitments from 2003 to 2006 with fixed prices.

EMPLOYMENT AGREEMENTS - The Company has agreements with certain officers to provide severance benefits in the event their employment is terminated under certain defined circumstances resulting in a contingent liability at December 29, 2002.

LEGAL PROCEEDINGS - The Company is party to various legal proceedings arising from normal business activities. In February and March 2003, a former and a current store manager have each filed a lawsuit with potential class action certification, against the Company. They allege misclassification of employment job classification. The Company is investigating and intends to vigorously defend this litigation, but because the cases are in the early stages, the financial impact to the Company, if any, cannot be predicted.

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12. HEDGING ACTIVITIES

The Company is exposed to price risk related to price-to-be-fixed coffee purchase commitments and anticipated coffee purchases. The Company uses coffee futures and options to manage price increases and designates these derivative instruments as cash-flow hedges of its price-to-be-fixed coffee purchase commitments and anticipated coffee purchases. The Company does not hold or issue derivative instruments for trading purposes.

On January 1, 2001, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 133, Accounting for Derivative Instruments and Hedging Activities. SFAS No. 133, as amended, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. All derivatives, whether designated in hedging relationships or not, are required to be recorded on the balance sheet at fair value. If the derivative is designated in a fair-value hedge, the changes in the fair value of the derivative and the hedged item will be recognized in earnings. If the derivative is designated in a cash-flow hedge, the effective portions of changes in the fair value of the derivative will be recorded in other comprehensive income and will be recognized in earnings when the hedged item affects earnings. Ineffective portions of changes in the fair value of cash-flow hedges are recognized immediately in earnings.

The adoption of SFAS No. 133 on January 1, 2001 resulted in a liability of \$1,304,000 representing the fair value of the open futures at January 1, 2001, a deferred tax asset of \$519,000 and accumulated other comprehensive loss of \$785,000 net of tax.

During 2001 and 2002, the effective portion of the cash-flow hedges amounted to a loss of \$295,000 (net of \$195,000 tax) and a gain of \$66,000 (net of \$38,000 of tax), respectively, and was recorded in other comprehensive income (loss). The ineffective portion of the hedges of \$169,000 and \$27,000 was recorded as cost of sales during 2001 and 2002, respectively. Other comprehensive income (loss), net of tax, was (\$407,000) and \$38,000 as of December 30, 2001 and December 29, 2002, respectively, all of which is expected to be reclassified into cost of sales over the next twelve months as the related inventory is sold. For the years ended December 30, 2001 and December 29, 2002, \$673,000 and \$379,000 of coffee futures losses included in other comprehensive loss were reclassified into cost of goods sold. The fair value of the open futures contracts as of December 30, 2001 and December 29, 2002 was a net liability of \$112,000, and a net asset \$31,000 respectively, and is reflected in other liabilities and prepaid assets.

13. SEGMENT INFORMATION

Beginning in 2002, the Company operates in two reportable segments: retail and specialty sales. Retail store operations consist of sales of whole bean coffee, beverages, tea and related products through Company-operated retail stores. Specialty sales consist of whole bean coffee sales through online, mail order, grocery, wholesale and office coffee accounts. Management evaluates segment performance primarily based on revenue and segment operating income. The following table presents certain financial information for each segment. Segment income before taxes excludes unallocated marketing expenses and general and administrative expenses. Unallocated assets include cash, coffee inventory in the warehouse, corporate headquarter assets and intangibles and other assets. Prior to 2002, the Company reported three segments, which have been restated to reflect the current presentation.

	RETAIL	SPECIALTY	UNALLOCATED	TOTAL
-----	-----	-----	-----	
2000				
Net revenue	\$68,322	\$ 15,980		\$ 84,302
Depreciation and amortization	3,556	497	\$ 523	4,576
Segment operating income (loss)	6,782	4,565	(12,311)	(964)
Interest expense, net			1,907	1,907
Loss before income taxes				(2,871)
Total assets	18,547	1,631	19,543	39,721
Capital expenditures	3,578	974	966	5,518
2001				
Net revenue	\$75,055	\$ 19,345		\$ 94,400
Depreciation and amortization	3,659	737	\$ 642	5,038
Segment operating income (loss)	8,963	4,904	(11,534)	2,333
Interest expense, net			429	429
Income before income taxes				1,904
Total assets	17,676	3,886	19,847	41,409
Capital expenditures	1,882	1,321	3,308	6,511
2002				
Net revenue	\$78,300	\$ 25,773		\$104,073
Depreciation and amortization	3,193	878	\$ 497	4,568
Segment operating income (loss)	11,618	6,829	(11,595)	6,852
Interest income, net			540	540
Income before income taxes				7,392
Total assets	20,753	4,330	70,062	95,145
Capital expenditures	4,930	1,332	3,090	9,352

Net revenue from external customers for the two major product lines are as follows:

	2000	2001	2002
-----	-----	-----	
Whole bean coffee, tea, and related products	\$50,290	\$55,944	\$
62,583			
Beverages and pastries	34,012	38,456	
41,490			
-----	-----	-----	
	Total	\$84,302	\$94,400
\$104,073			
=====	=====	=====	

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14. RELATED PARTY TRANSACTIONS

A member of the Board of Directors is the Chairman of Jesse.Hansen&Co, a strategic and financial advisor to the Company pursuant to an engagement letter dated as of December 9, 1996 between Jesse.Hansen&Co and the Company. The Company paid Jesse.Hansen&Co \$60,000 (\$5,000 per month) in fiscal 2000 and 2001, and \$30,000 in 2002 for advisory services. This advisory relationship was terminated in June 2002.

15. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

	QUARTER ENDED			

	MARCH 31, 2002	JUNE 30, 2002	SEPTEMBER 29, 2002	DECEMBER 29, 2002
Net revenue	\$ 24,456	\$ 24,889	\$ 25,366	\$ 29,362
Income from operations	805	1,024	1,809	3,214
Net income	488	718	1,279	2,172
Basic income per share	\$ 0.06	\$ 0.06	\$ 0.11	\$ 0.18
Diluted income per share	\$ 0.05	\$ 0.06	\$ 0.10	\$ 0.17

	QUARTER ENDED			

	APRIL 1, 2001	JULY 1, 2001	SEPTEMBER 30, 2001	DECEMBER 30, 2001
Net revenue	\$ 22,568	\$ 22,727	\$ 22,715	\$ 26,390
Income (loss) from operations	(308)	158	822	1,661
Net income (loss)	(304)	64	430	965
Basic income (loss) per share	\$ (0.04)	\$ 0.01	\$ 0.05	\$ 0.12
Diluted income (loss) per share	\$ (0.04)	\$ 0.01	\$ 0.05	\$ 0.11

FIFTH AMENDMENT TO CREDIT AGREEMENT

THIS FIFTH AMENDMENT TO CREDIT AGREEMENT (this "Fifth Amendment") is entered into by and among PEET'S OPERATING COMPANY, INC. (formerly known as Peet's Coffee and Tea, Inc.) ("Borrower"), PEET'S TRADEMARK COMPANY, and PEET'S COFFEE & TEA, INC. (formerly known as Peet's Companies, Inc.), each a Washington corporation (each a "Credit Party" and collectively, the "Credit Parties"), and GENERAL ELECTRIC CAPITAL CORPORATION, a Delaware corporation ("Lender"), as of December 31, 2002, with reference to the following facts:

RECITALS

A. Pursuant to that certain Credit Agreement dated as of September 1, 2000, as amended by that certain First Amendment to Credit Agreement dated as of January 19, 2001, that certain Second Amendment to Credit Agreement dated as of June 29, 2001, that certain Third Amendment to Credit Agreement dated as of March 1, 2002, and that certain Fourth Amendment to Credit Agreement dated as of April 23, 2002, each by and among Credit Parties and Lender (as the same may have been further amended, supplemented, or otherwise modified from time to time prior to the date of this Fifth Amendment, the "Credit Agreement"), Lender agreed to provide certain financial accommodations to or for the benefit of Borrower and the other Credit Parties upon the terms and conditions contained therein. Unless otherwise defined in this Fifth Amendment, (i) capitalized terms or matters of construction defined or established in Annex A to the Credit Agreement shall be applied as defined or established therein, and (ii) references to Sections, Schedules, and Annexes shall refer, respectively, to Sections, Schedules, and Annexes of the Credit Agreement.

B. Credit Parties have requested certain modifications to the Credit Agreement, and Lender has agreed to such request on the terms and conditions set forth in this Fifth Amendment.

NOW, THEREFORE, in consideration of Credit Parties' performance of their promises and obligations hereunder, the continued performance by Credit Parties of their promises and obligations under the Credit Agreement and the other Loan Documents, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Credit Parties and Lender hereby agree as follows:

AGREEMENT

1. AMENDMENTS. The Credit Agreement is hereby amended as follows:

1.1 Clause (d) of Section 6.2 is hereby deleted and the following is substituted in lieu thereof:

(d) so long as no Default or Event of Default shall have occurred and be continuing and so long as proceeds of the Revolving Loans are not applied, directly or indirectly, to the purchase of such investments, Borrower may make investments up to \$50,000,000 in the aggregate, subject to Control Letters in favor of Lender or otherwise subject to a perfected security interest in favor of Lender, in the following: (i) if the Revolving Loan balance does not exceed \$5,000,000, investments consistent with the guidelines set forth on Exhibit 6.2(d); and (ii) if the Revolving Loan balance exceeds \$5,000,000, (A)

marketable direct obligations issued or unconditionally guaranteed by the United

States of America or any agency thereof maturing within one year from the date of acquisition thereof, (B) commercial paper maturing no more than one year from the date of creation thereof and currently having the highest rating obtainable from either Standard & Poor's Rating Group or Moody's Investors Service, Inc.,

(C) certificates of deposit maturing no more than one year from the date of creation thereof issued by commercial banks incorporated under the laws of the United States of America, each having combined capital, surplus and undivided profits of not less than \$300,000,000 and having a senior unsecured rating of "A" or better by a nationally recognized rating agency (an "A Rated Bank"), (D) time deposits maturing no more than 30 days from the date of creation thereof with A Rated Banks, and (E) mutual funds that invest solely in one or more of the investments described in clauses (A) through (D) above.

1.2 Section 6.19(b)(ii) is hereby deleted in its entirety and the following is substituted therefor:

(ii) From and after the Term Loan B Repayment Date, Borrower may engage in transactions and enter into agreements with respect to the opening of up to ten

(10) new retail locations during any Fiscal Year; provided, that Credit Parties shall not make any Capital Expenditures in connection with such new retail locations exceeding, \$800,000, individually, or \$5,000,000, in the aggregate, during any such Fiscal Year.

1.3 The definition of "Change of Control" in Annex A to the Credit Agreement is hereby amended by deleting the reference to "25%" set forth in clause (a) thereof and substituting "40%" in lieu thereof.

1.4 Annex C to the Credit Agreement is hereby amended by deleting the following from clause (d) thereof: "The Concentration Blocked

Account Agreement shall further provide that from and after the Closing Date, the Concentration Account Bank shall immediately forward all amounts received in the Concentration Account to the Collection Account through daily sweeps from the Concentration Account into the Collection Account"; and substituting the following in lieu thereof:

"The Concentration Blocked Account Agreement shall further provide that from and after the Closing Date, the Concentration Account Bank shall, from the after the date that Lender has delivered a notice, in its sole discretion, to such Concentration Account Bank, the Concentration Account Bank shall immediately forward all amounts received in the Concentration Account to the Collection Account through daily sweeps from the Concentration Account into the Collection Account."

1.5 Annex G is hereby amended by deleting paragraph (a) in its entirety and substituting the following in lieu thereof:

(a) Maximum Capital Expenditures. Credit Parties shall not make Capital Expenditures on a consolidated basis (i) during the period from August 1, 2000, through December 31, 2000, in excess of \$3,000,000, (ii) during the period from January 1, 2001, through December 31, 2001, in excess of \$6,500,000 (excluding \$2.84 million applied in satisfaction of Borrower's obligations under the Heller Loan Documents), or (iii) during any Fiscal Year of Borrower commencing during or after January 2002, in excess of \$12,000,000.

1.6 A new Exhibit 6.2(d) is hereby added to the Credit Agreement is attached hereto as Exhibit A.

1.7 An updated version of Disclosure Schedule (3.19) to the Credit Agreement is attached hereto as Exhibit B.

2. EFFECTIVENESS. This Fifth Amendment shall be effective as of October 31, 2002, upon Lender's receipt of an original of this Fifth Amendment duly executed by the Credit Parties and Lender.

3. REPRESENTATIONS AND WARRANTIES. Each Credit Party hereby represents and warrants that (a) as of the date of this Fifth Amendment, it has no Commercial Tort Claims, (b) at all times from the Closing Date through and until the date of this Fifth Amendment WBG has remained inactive and (c) the representations and warranties contained in the Credit Agreement were true and correct in all material respects when made and, after giving effect to this Fifth Amendment, shall remain true and correct in all material respects as of the date hereof and thereof, except to the extent that a particular representation or warranty by its terms expressly applies only to an earlier date, or is the subject of an updated disclosure schedule attached hereto. The Credit Agreement and the other Loan Documents, as modified and amended by this Fifth Amendment, constitute legal, valid and binding obligations of each Credit Party that is a party thereto, enforceable against such Credit Party in accordance with their respective terms.

4. RATIFICATION. Except as specifically modified by this Fifth Amendment, the parties acknowledge that the Credit Agreement shall remain binding upon Credit Parties and Lender and all provisions of the Credit Agreement shall remain in full force and effect. Credit Parties expressly ratify and affirm their respective obligations to Lender under the Credit Agreement and the other Loan Documents.

5. MISCELLANEOUS .

5.1 Entire Agreement; Amendment. This Fifth Amendment, together with the Credit Agreement and the other Loan Documents, is the entire agreement between the parties hereto with respect to the subject matter hereof. This Fifth Amendment supersedes all prior and contemporaneous oral and written agreements and discussions with respect to the subject matter hereof or thereof. No amendment, modification, or waiver of any of the provisions of this Fifth Amendment shall be valid or enforceable unless set forth in a writing signed by Credit Parties and Lender.

5.2 Recitals. The recitals set forth at the beginning of this Fifth Amendment are true and correct, and such recitals are incorporated into and are a part of this Fifth Amendment.

5.3 Headings. Section headings used herein are for convenience of reference only, are not part of this Fifth Amendment, and are not to be taken into consideration in interpreting this Fifth Amendment.

5.4 Counterparts. This Fifth Amendment may be executed in identical counterpart copies, each of which shall be an original, but all of which shall constitute one and the same agreement. Delivery of an executed counterpart of a signature page to this Fifth Amendment by facsimile transmission shall be effective as delivery of a manually executed counterpart of this Fifth Amendment. Any party delivering this Fifth Amendment by facsimile shall send the original manually executed counterpart of this Fifth Amendment to the other party promptly after such facsimile transmission.

5.5 GOVERNING LAW. THIS FIFTH AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF CALIFORNIA APPLICABLE TO CONTRACTS MADE AND PERFORMED IN SUCH STATE, WITHOUT REGARD TO THE PRINCIPLES THEREOF REGARDING CONFLICT OF LAWS.

5.6 No Waiver. Except as specifically set forth in this Fifth Amendment, the execution, delivery and effectiveness of this Fifth Amendment

shall not (a) limit, impair, constitute a waiver of or otherwise affect any right, power or remedy by Lender under the Credit Agreement or any other Loan Document, (b) constitute a waiver of any provision in the Credit Agreement or any other Loan Document, or (c) alter, modify, amend or in any way affect any of the terms, conditions, obligations, covenants or agreements contained in the Credit Agreement or any other Loan Document, all of which are ratified and affirmed in all respects and shall continue in full force and effect.

5.7 Conflict of Terms. In the event of any inconsistency between the provisions of this Fifth Amendment and any provision of the Credit Agreement, the terms and provisions of this Fifth Amendment shall govern and control.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, this Fifth Amendment to Credit Agreement has been duly executed as of the date first written above.

"CREDIT PARTIES"

PEET'S COFFEE & TEA, INC.

By: /s/ Mark N.
Rudolph
Name: Mark N. Rudolph
Title: CFO

PEET'S OPERATING COMPANY, INC.

By: /s/ Mark N.
Rudolph
Name: Mark N. Rudolph
Title: CFO

PEET'S TRADEMARK COMPANY

By: /s/ Mark N.
Rudolph
Name: Mark N. Rudolph
Title: CFO

"LENDER"

**GENERAL ELECTRIC CAPITAL
CORPORATION**

By: /s/ Todd Gronski
Name: Todd Gronski
Duly Authorized
Signatory

Exhibit A

EXHIBIT 6.2(D) TO THE CREDIT AGREEMENT

Peet's Coffee & Tea, Inc.
Investment Guidelines

I. STATEMENT OF PURPOSE

The purpose of this policy is to institute proper guidelines for the ongoing management of the Company's short-term investments.

II. INVESTMENT OBJECTIVES

The assets represent the liquid and working funds for the present and future operations of the Company. These assets are to be invested in a manner that preserves capital, provides liquidity, maintains appropriate diversification and generates returns relative to these guidelines and prevailing market conditions.

III. RESPONSIBILITIES

- A. It is the responsibility of the Investment Committee/Board of Directors of the Company to adopt the Investment Policy.
- B. It is the responsibility of the President or the Chief Financial Officer to implement the Investment Policy of the Company including the direction of purchases and sales of securities.
- C. The approval of either the President or the Chief Financial Officer shall be required to transfer Company funds to Company banks or investment accounts. All other transfers will require the approval of both the President and the Chief Financial Officer.
- D. The President and Chief Financial Officer may employ the services of a Registered Investment Advisor to direct a portion or all of the investment activities of the Company consistent with the guidelines set forth in the Investment Policy.
- E. The Chief Financial Officer will monitor ongoing investment activities to insure that proper liquidity is being maintained and that the investment strategy is consistent with Company objectives.
- F. The Chief Financial Officer will report to the Board of Directors quarterly concerning the investment performance during the most recent quarter.
- G. The assigned Investment Manager will communicate with the President or Chief Financial Officer before investing the portfolio within the guidelines of this Corporate Investment Policy.

Investment Guidelines

A. Appropriate Investments and Concentration Limits

ISSUER TYPE PORTFOLIO	MAXIMUM MATURITY	MAXIMUM % OF PORTFOLIO	SINGLE % OF
----- ----- U.S. Treasury Securities	----- ----- 5 year	----- ----- 100%	N/A

U.S. Federal Agency Securities 3 year 75% N/A

U.S. Government only Money Market
Funds N/A 25% 100%

Guaranteed Student Loan Obligations,
Fully Collateralized to Principal and Interest 1 year 35% 10%

B. Maturity Limits and Benchmarks The Chief Financial Officer will establish, from time to time, the maximum allowable maturity and the average maturity of the portfolio. The initial maximum allowable maturity for any investment is five (5) years. The weighted average maturity of the portfolio should not exceed two (2) year, or such shorter period, as determined by the Chief Financial Officer based on current business environment and expected future cash flows.

Appropriate benchmarks will be established for the respective portfolio classes.

C. Credit Quality

In all categories described above, the emphasis will be on securities of high credit quality.

All short-term investments (or applicable underlying collateral) shall bear, from at least two of the following securities, a rating of at least: A-1 from Standard & Poor's, P-1 from Moody's, and/or F-1 from Fitch. Long-term investments shall bear from at least two of the following services, a rating of at least: A from Standard & Poor's, A2 from Moody's, and/or A from Fitch.

Municipal Obligations - Investments shall bear from at least one of the following services a rating of: short term SP-1/MIG1, A-1/VMIG1, A-1/P-1, long term AA/AA2 or better, Money Market Mutual funds - AAA

D. Marketability

Investments should be of sufficient size (minimum \$1 million block preferred) and be held in issues that are traded actively to facilitate transactions at a minimum cost and accurate market valuation.

E. Classification of Portfolio

Investments will generally be made with the intention of holding to maturity/ keeping them available for sale. Investments may be sold prior to maturity in the event of unanticipated cash needs, deterioration of the financial situation of the issuer, or for other general portfolio considerations (i.e. decision to shorten or lengthen average portfolio maturity, etc.)

V. COMMUNICATION

The Fund Managers will contact the CFO immediately upon the occurrence of any of the following:

1. Any significant adverse unfavorable event or shifts in the market place.
2. An issuer is placed on negative credit watch whereby any action taken would result in the investment's credit rating being below the minimum acceptable credit rating stated in this policy.
3. A decline in the issuer's credit rating below the minimum credit quality standards stated in this Investment policy.

Exhibit B

DISCLOSURE SCHEDULE (3.19) TO THE CREDIT AGREEMENT

SIXTH AMENDMENT TO CREDIT AGREEMENT

THIS SIXTH AMENDMENT TO CREDIT AGREEMENT (this "Sixth Amendment") is entered into by and among PEET'S OPERATING COMPANY, INC. (formerly known as Peet's Coffee and Tea, Inc.) ("Borrower"), PEET'S TRADEMARK COMPANY, and PEET'S COFFEE & TEA, INC. (formerly known as Peet's Companies, Inc.), each a Washington corporation (each a "Credit Party" and collectively, the "Credit Parties"), and GENERAL ELECTRIC CAPITAL CORPORATION, a Delaware corporation ("Lender"), as of February 21, 2003, with reference to the following facts:

RECITALS

A. Pursuant to that certain Credit Agreement dated as of September 1, 2000, as amended by that certain First Amendment to Credit Agreement dated as of January 19, 2001, that certain Second Amendment to Credit Agreement dated as of June 29, 2001, that certain Third Amendment to Credit Agreement dated as of March 1, 2002, that certain Fourth Amendment to Credit Agreement dated as of April 23, 2002, and that certain Fifth Amendment to Credit Agreement dated as of December 31, 2002, each by and among Credit Parties and Lender (as the same may have been further amended, supplemented, or otherwise modified from time to time prior to the date of this Sixth Amendment, the "Credit Agreement"), Lender agreed to provide certain financial accommodations to or for the benefit of Borrower and the other Credit Parties upon the terms and conditions contained therein. Unless otherwise defined in this Sixth Amendment, (i) capitalized terms or matters of construction defined or established in Annex A to the Credit Agreement shall be applied as defined or established therein, and (ii) references to Sections, Schedules, and Annexes shall refer, respectively, to Sections, Schedules, and Annexes of the Credit Agreement.

B. Credit Parties have requested certain modifications to the Credit Agreement, and Lender has agreed to such request on the terms and conditions set forth in this Sixth Amendment.

NOW, THEREFORE, in consideration of Credit Parties' performance of their promises and obligations hereunder, the continued performance by Credit Parties of their promises and obligations under the Credit Agreement and the other Loan Documents, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Credit Parties and Lender hereby agree as follows:

AGREEMENT

1. AMENDMENTS. Annex G to the Credit Agreement is hereby amended by deleting in its entirety paragraph (b) thereof that sets forth the Minimum Fixed Charge Ratio and substituting the following in lieu thereof: "[Intentionally Omitted]"
2. EFFECTIVENESS. This Sixth Amendment shall be effective as of December 1, 2002, upon Lender's receipt of an original of this Sixth Amendment duly executed by the Credit Parties and Lender.

3. REPRESENTATIONS AND WARRANTIES. Each Credit Party hereby represents and warrants that (a) as of the date of this Sixth Amendment, it has no Commercial Tort Claims, (b) at all times from the Closing Date through and until the date of this Sixth Amendment WBG has remained inactive and (c) the representations and warranties contained in the Credit Agreement were true and correct in all material respects when made and, after giving effect to this Sixth Amendment, shall remain true and correct in all material respects as of the date hereof and thereof, except to the extent that a particular representation or warranty by its terms expressly applies only to an earlier date, or is the subject of an updated disclosure schedule attached hereto. The Credit Agreement and the other Loan Documents, as modified and amended by this Sixth Amendment, constitute legal, valid and binding obligations of each Credit Party that is a party thereto, enforceable against such Credit Party in accordance with their respective terms.

4. RATIFICATION. Except as specifically modified by this Sixth Amendment, the parties acknowledge that the Credit Agreement shall remain binding upon Credit Parties and Lender and all provisions of the Credit Agreement shall remain in full force and effect. Credit Parties expressly ratify and affirm their respective obligations to Lender under the Credit Agreement and the other Loan Documents.

5. MISCELLANEOUS.

5.1 Entire Agreement; Amendment. This Sixth Amendment, together with the Credit Agreement and the other Loan Documents, is the entire agreement between the parties hereto with respect to the subject matter hereof. This Sixth Amendment supersedes all prior and contemporaneous oral and written agreements and discussions with respect to the subject matter hereof or thereof. No amendment, modification, or waiver of any of the provisions of this Sixth Amendment shall be valid or enforceable unless set forth in a writing signed by Credit Parties and Lender.

5.2 Recitals. The recitals set forth at the beginning of this Sixth Amendment are true and correct, and such recitals are incorporated into and are a part of this Sixth Amendment.

5.3 Headings. Section headings used herein are for convenience of reference only, are not part of this Sixth Amendment, and are not to be taken into consideration in interpreting this Sixth Amendment.

5.4 Counterparts. This Sixth Amendment may be executed in identical counterpart copies, each of which shall be an original, but all of which shall constitute one and the same agreement. Delivery of an executed counterpart of a signature page to this Sixth Amendment by facsimile transmission shall be effective as delivery of a manually executed counterpart of this Sixth Amendment. Any party delivering this Sixth Amendment by facsimile shall send the original manually executed counterpart of this Sixth Amendment to the other party promptly after such facsimile transmission.

5.5 GOVERNING LAW. THIS SIXTH AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE

**LAWS OF THE STATE OF CALIFORNIA APPLICABLE TO CONTRACTS MADE AND PERFORMED IN SUCH STATE,
WITHOUT REGARD TO THE PRINCIPLES THEREOF REGARDING CONFLICT OF LAWS.**

5.6 No Waiver. Except as specifically set forth in this Sixth Amendment, the execution, delivery and effectiveness of this Sixth Amendment shall not (a) limit, impair, constitute a waiver of or otherwise affect any right, power or remedy by Lender under the Credit Agreement or any other Loan Document, (b) constitute a waiver of any provision in the Credit Agreement or any other Loan Document, or (c) alter, modify, amend or in any way affect any of the terms, conditions, obligations, covenants or agreements contained in the Credit Agreement or any other Loan Document, all of which are ratified and affirmed in all respects and shall continue in full force and effect.

5.7 Conflict of Terms. In the event of any inconsistency between the provisions of this Sixth Amendment and any provision of the Credit Agreement, the terms and provisions of this Sixth Amendment shall govern and control.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, this Sixth Amendment to Credit Agreement has been duly executed as of the date first written above.

"CREDIT PARTIES"

PEET'S COFFEE & TEA, INC.

By: /s/ Mark N.
Rudolph
Name: Mark N. Rudolph
Title: CFO

PEET'S OPERATING COMPANY, INC.

By: /s/ Mark N.
Rudolph
Name: Mark N. Rudolph
Title: CFO

PEET'S TRADEMARK COMPANY

By: /s/ Mark N.
Rudolph
Name: Mark N. Rudolph
Title: CFO

"LENDER"

**GENERAL ELECTRIC CAPITAL
CORPORATION**

By: /s/ Todd Gronski
Name: Todd Gronski
Duly Authorized
Signatory

EXHIBIT 23.1

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement No. 333-55290 on Form S-8 of our report dated February 13, 2003 (which report expresses an unqualified opinion and includes an explanatory paragraph relating to a change in accounting method), included in the Annual Report on Form 10-K of Peet's Coffee & Tea, Inc. for the year ended December 29, 2002.

*/s/ Deloitte & Touche
LLP*

*San Francisco, California
March 28, 2003*

EXHIBIT 99.1
CEO CERTIFICATION*

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Sec. 1350, as adopted), Patrick O'Dea, the Chief Executive Officer of Peet's Coffee & Tea, Inc. (the "COMPANY") hereby certifies that, to the best of his knowledge:

1. The Company's Annual Report on Form 10-K for the period ended December 29, 2002, to which this Certification is attached as Exhibit 99.1 (the "PERIODIC REPORT") fully complies with the requirements of section 13(a) or section 15(d) of the Securities Exchange Act of 1934, and
2. The information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company. IN WITNESS WHEREOF, the undersigned has set his hand hereto as of the 28th day of March, 2003.

/s/ Patrick O'Dea

Patrick O'Dea
Chief Executive
Officer

A signed original of this written statement required by Section 906 has been provided to Peet's Coffee & Tea, Inc. and will be retained by Peet's Coffee & Tea, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

*This certification "accompanies" the annual report on Form 10-K to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of Peet's Coffee & Tea, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the annual report on Form 10-K), irrespective of any general incorporation language contained in such filing.

EXHIBIT 99.2
CFO CERTIFICATION*

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Sec. 1350, as adopted), Mark N. Rudolph, Chief Financial Officer of Peet's Coffee & Tea, Inc. (the "COMPANY"), hereby certifies that, to the best of his knowledge:

1. The Company's Annual Report on Form 10-K for the period ended December 29, 2002, to which this Certification is attached as Exhibit 99.2 (the "PERIODIC REPORT") fully complies with the requirements of section 13(a) or section 15(d) of the Securities Exchange Act of 1934, and
2. The information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company. IN WITNESS WHEREOF, the undersigned has set his hand hereto as of the 28th day of March, 2003.

/s/ Mark N. Rudolph

Mark N. Rudolph
Chief Financial
Officer

A signed original of this written statement required by Section 906 has been provided to Peet's Coffee & Tea, Inc. and will be retained by Peet's Coffee & Tea, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

*This certification "accompanies" the annual report on Form 10-K to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of Peet's Coffee & Tea, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the annual report on Form 10-K), irrespective of any general incorporation language contained in such filing.

End of Filing