

GREEN MOUNTAIN COFFEE ROASTERS INC

FORM 10-K (Annual Report)

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SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

(Mark One)

Annual Report Pursuant To Section 13 or 15(d) of the Securities Exchange Act of 1934 For the fiscal year ended September 27, 1997

OR

Transition Report Pursuant To Section 13 or 15(d) of the Securities Exchange Act of 1934 For the transition period from _____ to _____

Commission file number 1-12340

GREEN MOUNTAIN COFFEE, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction
of incorporation or organization)

03-0339228

(IRS employer identification no.)

33 Coffee Lane, Waterbury, Vermont

(Address of principal executive offices)

05676

(Zip code)

(802) 244-5621

Registrant's telephone number

Securities registered pursuant to Section 12(b) of the Exchange Act: None
Securities registered pursuant to Section 12(g) of the Exchange Act:

Common Stock, \$.10 par value per share
(Title of class)

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 past 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.

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.

The aggregate market value of the voting stock of the registrant held by non-affiliates of the registrant on December 10, 1997 was approximately \$8,645,000 based upon the closing price of such stock on that date.

As of December 10, 1997, 3,530,818 shares of common stock of the registrant were outstanding. See "Market for Common Equity and Related Stockholder Matters."

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement for the registrant's Annual Meeting of Shareholders to be held on March 20, 1998 have been incorporated by reference into Part III of this report. The registrant will file the definitive Proxy Statement by January 26, 1998.

GREEN MOUNTAIN COFFEE
Annual Report on Form 10-K

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Certain statements contained herein are not based on historical fact and are "forward-looking statements" within the meaning of the applicable securities laws and regulations. Owing to the uncertainties inherent in forward-looking statements, actual results could differ materially from those set forth in forward-looking statements. Factors that could cause actual results to differ materially from those in the forward-looking statements include, but are not limited to, business conditions in the coffee industry and food industry in general, fluctuations in availability and cost of green coffee, economic conditions, prevailing interest rates, competition, the management challenges of rapid growth, variances from budgeted sales mix and growth rate, consumer acceptance of the Company's new package design and sizes, weather and special or unusual events, as well as other risk factors described in Item 1 of the Company's Annual Report on Form 10-K for the year ended September 27, 1997 and other factors described from time to time in the Company's filings with the Securities and Exchange Commission. Forward-looking statements reflect management's analysis as of the date of this document. The Company does not undertake to revise these statements to reflect subsequent developments.

PART I

Item 1. Business

The Company

Green Mountain Coffee, Inc. ("the Company" or "Green Mountain") roasts over 25 high-quality arabica coffees to produce over 50 varieties of coffee which it sells through a coordinated multi-channel distribution network consisting of wholesale, company-owned stores, and direct mail operations. This distribution network is designed to maximize brand name recognition and product availability. The Company is one of the leading specialty coffee companies in its established markets.

The majority of Green Mountain's revenue is derived from its over 5,000 wholesale customer accounts located primarily in the northeastern United States. The wholesale operation serves fine dining, supermarket, specialty food store, convenience store, food service, hotel, university, travel and office coffee service customers. Wholesale customers resell the coffee in whole bean or ground form for home consumption and/or brew and sell coffee beverages at their place of business.

The Company is a Delaware holding company formed in July 1993, whose only asset is the stock of Green Mountain Coffee Roasters, Inc., a Vermont corporation ("Roasters") formed in 1981. As used herein, unless the context otherwise requires, references to "the Company" or "Green Mountain" include the Company, Roasters and Roasters' inactive subsidiary, Green Mountain Coffee Roasters Franchising Corporation, a Delaware corporation formed in 1990.

The Company's fiscal year ends on the last Saturday in September. The Company's fiscal year normally consists of 13 four-week periods with the first, second and third "quarters" ending 16 weeks, 28 weeks and 40 weeks, respectively, into the fiscal year. As used herein, unless the context otherwise requires, references to "fiscal 1997" or "fiscal 1996" represent the 52-week periods ended September 27, 1997 and September 28, 1996, respectively.

The Company's corporate offices are located at 33 Coffee Lane, Waterbury, Vermont 05676. The Company's telephone number is (802) 244-5621, its fax number is (802) 244-5436, and its email address for investor information is investor.services@gmcr.com. The address of the Company's Internet web site is www.gmcr.com.

The Product

Green Mountain is committed to providing the highest quality arabica coffees available from around the world. To achieve this goal, Green Mountain carefully selects the finest coffees and then custom roasts the coffees to maximize their taste and flavor differences.

The Company roasts its coffee in small batches to ensure consistency. Green Mountain varies both the degree of roast and the roasting profile (i.e., roast time and temperature) to maximize a particular coffee's taste characteristics. The Company utilizes state-of-the-art roasting software which enables it to more exactly duplicate specific roasts, ensuring Green Mountain's ability to offer consistent taste profiles.

Green Mountain's roasting process is designed to maximize the flavors inherent in the coffee itself, without letting the flavor of roasting overshadow a particular coffee's taste subtleties. Green Mountain believes that its distinctive roasting methods enable it to provide the same coffees at different roasting degrees to maximize their flavors and thereby satisfy varying consumer preferences.

The Company uses convection air roasters, which it believes offer a higher degree of flexibility than other commercially available roasters. In addition, the Company has developed specific roasting programs for each bean type to establish a Green Mountain "signature" for that bean type, which the Company calls its "appropriate roast"(TM). The Company believes that this roasting process distinguishes it from other specialty coffee companies and has resulted in strong customer brand loyalty.

Green Mountain, unlike many of its competitors, also offers flavored coffees. The Company believes that flavoring its coffee during the production process, rather than providing flavor additives after brewing, provides its customers with taste consistency, convenience and economy.

The Company nitrogen flushes its packaged coffee and employs one-way valve bag packaging technology which provides a minimum shelf life of six months for the Company's coffees. This technology enables the Company to expand its distribution while maintaining its high standards for quality and freshness.

Growth strategy

In recent years, the primary growth in the coffee industry has come from the specialty coffee segment, driven by the wider availability of high quality coffee, the emergence of upscale coffee shops throughout the country, and the general level of consumer education. Green Mountain has been benefiting from the overall market trend plus some distinctive advantages over its competitors.

The presence of the Green Mountain Coffee Roasters(R) brand crosses over many different distribution channels and customer categories in its primary geographic market, the northeastern United States, thereby providing widespread exposure to the brand in a variety of settings, ease of access to the products, and many tasting opportunities for consumer trial. Green Mountain's coffee is widely available throughout the day, at home in the morning, in hotels, on airplanes, at convenience stores on the way to work, at the office, in restaurants, in supermarkets and at home again at the end of the day.

The Company believes that its coffee's convenient availability for consumer trial through convenience stores, restaurants and office coffee services is a significant advantage and a key component of its growth strategy. The Company believes that potential customers who sample its products by the cup are likely to develop a taste for Green Mountain coffee and seek it out through other available distribution channels. It has been the Company's experience that consumer trial of Green Mountain coffee at one level of distribution often leads to a subsequent purchase at another level of distribution. As brand awareness increases through trial by consumers of the Company's coffee by the cup, demand for whole bean sales of the Company's coffee for home consumption also increases. The National Coffee Association of USA, Inc. in its Coffee Consumption Trends and Outlook, 1997 Winter Coffee Study, states that "76% of all coffee is consumed at home." It further stated that 71% of all coffee consumed at home is purchased at supermarkets. As brand equity is built, wholesale expansion typically continues through customers such as supermarkets and specialty food stores, who in turn, sell the Company's whole bean coffee to consumers. This expansion process capitalizes upon this cup/whole bean inter-relationship and is designed to further increase Green Mountain's market share in geographic areas in which it already operates in order to increase sales density and drive operational and brand-equity efficiencies.

The Company also seeks to introduce Green Mountain coffee in selected new markets across the United States and internationally, principally utilizing the Company's wholesale distribution channel. In recent years, Green Mountain has generally entered new territories and begun to develop brand awareness through the regional or national networks of its major customers, such as the Mobil convenience store network.

The Company will continue to focus on increasing wholesale sales of its products to retailers of whole bean coffee to facilitate its expansion. Similarly, the Company will strive to identify other potential wholesale customers in each of its markets, such as office coffee services, hotel chains, food distributors and both chain and independent convenience stores and restaurants which the Company believes not only provide an additional source of revenues, but also facilitate consumer trial of Green Mountain Coffee. In addition, the Company will evaluate other potential marketing channels for both its established and new territories.

The Company has not added any new company-owned retail stores in recent years as it has found that it has achieved acceptable levels of consumer sampling of Green Mountain Coffee and higher return on investment through its wholesale accounts. In the direct mail area, the Company focuses solicitations on catalog customers who buy regularly from the Company, in the the corporate gift-giving, bed-and-breakfast and small office market segments, and from members of the Company's "Coffee Club", a continuity program with customized standing orders for automatic re-shipment.

Recent Developments

Much was accomplished in 1997 to re-focus and unify the Green Mountain brand. The Company introduced its new packaging in mid-1997, giving the product a more appropriate upscale look and building strongly on Vermont imagery. The new design, with the logo "Sit back, sip and relax, you're on Green Mountain Time"™ is now featured on coffee packages, point of purchase promotional material, delivery trucks, coffee mugs and disposable cups. The packaging re-design was also an opportunity to decrease the array of available package sizes, to improve operational efficiency and to change the standard package size from one pound to the more traditional 12 ounce bag, thus enabling the Company to price its coffee more in line with competitors' brands.

In the Fall of 1997, the Company introduced its first limited edition coffee, Autumn Harvest Blend(TM). A unique label, also based on a classic Vermont theme, was applied on the coffee package as well as a variety of promotional items, including thermal travel mugs and T-shirts. This campaign proved very effective to provide existing customers with unique opportunities to promote the brand and increase sales.

Since March 1996, the Company has more than doubled the size of its wholesale sales staff, adding sixteen area sales managers, as well as national supermarket and national office coffee service sales managers. Fiscal 1997 was largely devoted to the training of this new staff and the re-design of the sales process. Nevertheless, the Company has already started to reap the benefits of its major investment in wholesale sales and marketing.

Green Mountain enjoyed good penetration into the office coffee service ("OCS") market, which is important to provide tasting opportunities to new consumers. Starting the year with only five OCS distributors, the Company ended the year with over 25 distributors taking Green Mountain coffee throughout the eastern and mid-western United States. One major alliance is a five-year agreement entered into in September 1997 with the Perrier Group, which now distributes Green Mountain Coffee to workplaces along with its Poland Spring Natural Spring Water. In November 1997, the Company also began providing Green Mountain coffees in the New York metropolitan area to Bunn Coffee Service, Inc., the largest independent OCS sales organization in the United States. Another result of the OCS focus was commencing sales to Staples Office Products Superstores, which now offers Green Mountain's coffee in nearly 600 outlets in North America as well as through their catalog.

The Company was also successful in its effort to acquire and expand major accounts in the transportation sector. Consumers can now enjoy

Green Mountain coffee while traveling with Delta Express, the Delta Shuttle, Midway Airlines, AirTran Airways, Business Express and Amtrak.

In January 1997, Green Mountain became the exclusive supplier of coffee to The Coffee Station, Inc., an operator of coffee shops with impressive locations such as Rockefeller Center and the World Trade Center in New York City, and the CNN Center in Atlanta.

The Company's relationship with Mobil is also expanding, with Green Mountain coffee now served in over 900 Mobil convenience stores. In June 1997, the Company signed a five-year agreement to supply all Mobil "On The Run"(SM) convenience stores of which approximately 200 (included in the 900 referenced above) are currently in operation. The sales focus in supermarkets has also continued with the addition in fiscal 1997 of 14 Big V supermarkets in New York, 18 Grand Union supermarkets in Vermont, and the testing in 20 Stop 'n Shop supermarkets in Connecticut and Massachusetts.

Finally, in fiscal 1997, the Company has made great strides in its preparation for future growth. The Company started a complete overhaul of its information systems, with the implementation in record time of seven PeopleSoft enterprise system software components. The implementation of the balance of the key modules is expected to be completed in fiscal 1998. Once completely deployed, this new software is expected to help Green Mountain better serve its customers, and grow more efficiently and effectively. The Company's landlord also began construction in 1997 to double the size of Green Mountain's central production and distribution facility in Waterbury, Vermont. Management believes that both improvement projects are necessary to enable the Company to increase its growth rate. However, there can be no assurance that the Company will be able to generate enough revenue growth to support increases in operational expenses from these major infrastructure improvements.

Corporate Philosophy

Green Mountain's objective is to be the leading specialty coffee company by providing the highest quality coffee and having the largest market share in its targeted markets while maximizing company value. The Company intends to achieve this objective through a corporate philosophy designed to differentiate and reinforce the Green Mountain brand and to engender a high degree of customer loyalty. The essential elements of this philosophy include:

Highest Quality Coffee. Green Mountain buys only the highest quality arabica beans available from the world's coffee-producing regions and uses a roasting process that maximizes each coffee's individual taste and aroma. Green Mountain believes that its coffees are among the highest quality coffees sold in the world.

Customer Service. To ensure a high level of customer contact, the Company has established regional distribution centers to supply coffee to its wholesale customers and from which customer service calls are dispatched. The Company has an on-line inventory system for its central distribution center's inventory and uses hand-held computers on its Vermont-originated delivery routes. Both of these enhancements help to better serve the Company's customers and to improve the Company's direct-store-delivery process and capability. In addition, the Company's wholesale area sales managers are equipped with laptop computers to speed new customer setup, enhance the Company's telemarketing efforts and field communications, and help provide customers with sales history, forecasting and merchandising data.

Green Mountain views the quality of customer interaction by its employees as a major long-term success factor. Employees throughout Green Mountain are trained and encouraged to exceed customer expectations. The Company also believes that coffee is a convenience purchase and utilizes its multi-channel distribution network to make its coffee widely and easily available to consumers for home or away-from-home consumption.

Customer Coffee Education. The Company educates its wholesale customers and employees about the origin and preparation of coffee through a course comprised of a series of on-site training, tours, manuals, and hands-on learning experiences known as "Coffee College." The two-day intensive training covers growing and harvesting; coffee tasting and cupping; grinding, filtering, and brewing; roasting and packaging; and preparing coffee beverages. During fiscal 1997, Green Mountain Coffee Roasters was also selected to host a Specialty Coffee Association of America ("SCAA") Espresso Lab training session. The Company's direct mail catalog provides an overview of the differences between the various coffees from around the world, the various degrees of roast, as well as proper grinding and brewing guidelines. Green Mountain's company-owned retail stores offer in-store roasting demonstrations, and coffee tastings, as well as coffee preparation demonstrations. The Company believes that activities such as these help to create advocates for its coffee and thereby engender a loyal customer base.

Employee Development. Through a variety of educational workshops, seminars and other programs, the Company provides employees with educational opportunities that enhance their ability to offer Green Mountain customers a level of service and quality that fosters long-term relationships. The Company believes that its dedication to employee training attracts and retains highly qualified and motivated employees.

Community Involvement. Green Mountain contributes coffee and coffee equipment to support non-profit organizations in local communities. These organizations include the United Way, the Salvation Army, the Ronald McDonald House, The Hole in the Wall Gang, as well as libraries, religious organizations, schools, counseling centers and soup kitchens in markets where the Company operates. Since 1993, the Company has allowed employees to volunteer on company time for up to 2.5% of their total hours worked at Green Mountain, to encourage and support volunteer work for non-profit and community-based organizations. Through its support of Coffee Kids(R), the Company seeks to improve the quality of life of children and families in coffee-growing communities around the world. In addition, through customer and employee contributions, the Company has funded two village banks located in Guatemala and Mexico which have made low interest rate loans available for women to start small businesses to broaden their family's sources of income. In addition, the Company has funded the construction of a coffee processing facility and hydroelectric plant in Villa Rica, Peru, which was proposed and completed by 16 farmers to

help process the Company's Organic Peruvian Select(TM) coffee. The Company believes that the support of local and global organizations furthers the causes the Company believes in and generates goodwill.

Environmental Leadership. Green Mountain is dedicated to both the preservation of the environment and minimization of its environmental impact, and seeks to achieve these objectives in various ways. The Company encourages sustainability through its Stewardship(R) Program, through which a portion of its coffee is purchased from farms and cooperatives where herbicide and pesticide use is limited and soil erosion controls are in place. In fiscal 1996, Green Mountain introduced its first organic coffee, a farm-direct coffee from Peru, and the Company's roasting and packaging facility was certified as organic by Quality Assurance International of San Diego, California. Since 1990, Green Mountain has sold, under the licensed name Earth-Friendly Coffee Filters(TM), a line of dioxin- and chlorine-free paper coffee filters. Further, the Company provides financial support to environmental organizations such as Conservation International and the Rainforest Alliance, which work to preserve the world's rain forests.

Green Mountain also seeks to minimize its environmental impact through responsible operational practices, from purchasing to waste management. Since 1989, the Company has had a volunteer Employee Environmental Committee, which investigates a broad range of issues. In 1994, Green Mountain joined the national BuyRecycled! Alliance, pledging to document and increase its purchases of recycled goods annually. The Company's corporate letterhead consists of 25% post- and 25% pre-consumer recycled content by sheet weight. Green Mountain uses chemical-free cornstarch-based foam peanuts, which decompose in water, to protect products during shipping. It also stores and ships products in either reusable or recyclable totes and containers. The Company makes every attempt to divert its manufacturing waste out of the landfill. For example, the burlap bags which contain green coffee beans are given away after they are emptied, for use in gardens, as animal beds, or for craft supplies. Chaff, a highly compostable coating on the coffee bean which separates during the roasting process, is made available to local farmers and gardeners. The Company also has an active on-site recycling program, established in 1989, which the Company believes has enabled it to reduce its landfill refuse volumes by approximately 38%. In 1997, the Company won a 3M Scotchban(TM). Innovation Award for the development of a biodegradable coffee bag used by Company-owned retail stores and wholesale customers who bag Green Mountain Coffee on their premises.

Wholesale Operations

Approximately 84% of Green Mountain's revenue and approximately 93% of its coffee pounds sold are derived from its wholesale operation which services accounts located primarily in the northeastern United States. Wholesale customers resell the coffee in whole bean or ground form for home consumption and/or brew and sell coffee beverages at their place of business. Unlike most of its competitors, Green Mountain's wholesale operation services a large variety of establishments. This strategy enables a deeper penetration in a given geographic market, exposing consumers to the brand throughout the day in a variety of contexts. This strategy also has the advantage of limiting the dependency of the Company on a single distribution channel. The distribution of wholesale pounds sold during fiscal 1997 by wholesale customer category was approximately: 28% to supermarkets, 25% to convenience stores, 20% to restaurants, 15% to other food service establishments such as hotels, universities, and airlines, 8% to office coffee service distributors, and 4% to other retail establishments such as specialty food stores.

Notable accounts include:

Supermarkets

Roche Brothers - 13 upscale supermarkets
Kings Supermarkets - 22 stores
Hannaford Brothers - 95 supermarkets

Convenience stores

Mobil convenience stores - over 900 stores

Office Coffee Services

Bunn Coffee Service
Perrier's Poland Springs

Restaurants

Aureole Restaurant, NYC
The Harvard Club, NYC
New England Culinary Institute
Culinary Institute of America
The Coffee Station

Other Retail

L.L. Bean

Other Food Services

Amtrak - northeast corridor
Delta Express
Delta Shuttle

Midway Airlines
Massachusetts Institute of Technology Stowe Mountain Resort
University of Vermont

Geographically, the Company's wholesale coffee pound sales in fiscal 1997 were approximately as follows: 44% in northern New England states, 22% in southern New England states, 19% in mid-Atlantic states, 6% in southern Atlantic states, and 8% elsewhere in the United States.

Through the wholesale operation, Green Mountain has also initiated an international sales effort, principally through distributors, initially targeting nations where there exists either a tradition of coffee consumption or a recent trend indicating the appreciation of specialty coffee. In fiscal 1997, approximately 1% of wholesale pounds were sold internationally.

Wholesale operations are coordinated from the Company's headquarters in Waterbury, Vermont and regional distribution centers in Biddeford, Maine; Latham, New York, a suburb of Albany; Woburn, Massachusetts; and Southington, Connecticut. Distribution facilities are located within a two-hour radius of most customers to expedite delivery. The wholesale operation primarily uses in-house sales people. However, in certain markets, such as the office coffee service and food service sectors, the Company utilizes the services of independent distributors who purchase coffee from the Company for resale to wholesale customers. The Company believes that the use of such distributors provides access to certain wholesale customers whose size or geographic location makes it economically inefficient for the Company to service directly.

The Company generally provides wholesale customers with brewing, grinding and related equipment and product displays ("loaner equipment") at no charge, which are usually installed on the customer's premises by the Company's internal or contracted service personnel. A customer is also assigned a service technician who services, repairs and provides preventive maintenance and emergency service on such equipment. Additionally, for supermarket customers, Green Mountain employs a team of over 29 part-time stockers who ensure that supermarket displays are clean, appropriately stocked, and have promotional items to maximize sales in supermarkets. Most large food conglomerates who own coffee companies do not provide such on-site specialized sales support to their supermarket customers.

As of December 1997, the wholesale operation had 31 area sales managers assigned to geographic territories, up from 15 area sales managers as of February 1996. The wholesale area sales territories are concentrated in the northeastern corner of the United States, with an additional presence in Illinois, Florida, Michigan and Arizona. In addition to geographic sales people, the Company has a national supermarket sales manager, a national office coffee service sales manager, an international sales manager, and a special national sales accounts manager to help provide more focused category management in these market segments.

The Company's sales process includes: the use of mapping software to identify desirable customer prospects and potential new expansion territories; tradeshows; outbound telemarketing to target and qualify prospects for the Company's area sales managers; and the use of laptop computers by area sales managers to speed new customer setup, enhance the Company's telemarketing efforts and field communications, and to help provide customers with sales history, forecasting and merchandising data. In addition to the above, the Company actively pursues referrals from existing customer to shorten the sales process in the acquisition of new business. The Company also has an active "VIP" free coffee sampling program targeted to prospects.

Company-Owned Stores

Green Mountain operates twelve retail stores located in Vermont, Connecticut, Illinois, Maine, Massachusetts, New Hampshire and New York. The Company's retail stores provide an opportunity for direct contact with consumers and help build the credibility of the Green Mountain Coffee Roasters(R)brand for its specialty wholesale business. The stores offer a variety of high-quality whole bean arabica coffees, specialty coffee beverages including cappuccinos and lattes, and a variety of cold coffee drinks. In addition, the stores offer freshly baked pastries, a selection of brewing equipment and accessories, coffee-related gifts and packaged foods.

Company-owned store operations made up approximately 10% of total revenues in fiscal 1997 and are presently not a principal growth channel of the Company. Rather, they are used primarily to help support growth in the wholesale sector by adding visibility to the brand and providing consumers with a high-quality coffee experience. Eight of the present twelve stores have in-store roasters. In October 1997, the Company relocated its South Portland, Maine retail store to a new location and modified its retail design concept to include a "slice of Vermont", a relaxing and inviting family orientation, and an emphasis on specialty coffee beverages and their creation.

Direct Mail Operations

The Company publishes catalogs that market over 50 coffees, coffee-related equipment and accessories, as well as gift assortments and gourmet food items covering a wide range of price points. Revenues from direct mail accounted for approximately 6% of total revenues in fiscal 1997. Green Mountain's telemarketing service representatives fulfill the individual coffee needs of direct mail customers by educating and consulting with customers about the various attributes of different coffee varieties. Representatives also suggest custom blends, handle special delivery requests, offer special products in an "upsell" program and contact customers via outbound telephone to offer products and special items targeted to their previous buying patterns.

In fiscal 1997, approximately 55% of the Company's direct mail revenue was derived from over 4,000 members of its "Coffee Club", a continuity program with customized standing orders for re-shipment.

In addition to its direct mail program targeted at the individual consumer, Green Mountain also uses its direct mail system to target corporate gift-giving programs and bed-and-breakfast and small office establishments that it believes are well served via the convenient direct mail channel.

The Company's direct mail operations also provide special promotional direct mail offers and product shipments to wholesale "VIP" customers and prospects. Moreover, the Company's catalog and direct marketing efforts provide market testing opportunities, build brand awareness, and support the entry of the wholesale operation into new geographic markets through targeted mailings.

Green Coffee Cost and Supply

The Company utilizes a combination of outside brokers and direct relationships with estates for its supply of green coffees, with outside brokers providing the larger amount. Coffee is the world's second largest traded commodity and its supply and price are subject to high volatility. Although most coffee trades in the commodity market, coffee of the quality sought by the Company tends to trade on a negotiated basis at a substantial premium or "differential" above commodity coffee pricing, depending upon the supply and demand at the time of purchase. Supply and price can be affected by multiple factors, such as weather, politics and economics in the producing countries.

Cyclical swings in commodity markets, based upon supply and demand, are not at all uncommon. The "C" price (the price per pound quoted by the Coffee, Sugar and Cocoa Exchange) of green coffee was at relatively high levels throughout fiscal 1995, from \$2.26 at the beginning of the fiscal year to a low of \$1.15 near the end of the fiscal year, as a result of frosts and droughts in 1994 in the coffee producing region of Brazil, the world's largest producer of coffee. Although Green Mountain does not buy any of its coffee from Brazil, virtually all coffee prices were adversely affected by the weather in Brazil. In fiscal 1996, the average "C" price was less than in fiscal 1995, and ranged from a high of \$1.32 to a low of \$0.91.

In December 1996, the "C" price of coffee started to rise again due to a variety of factors including reports of domestic coffee supplies at twenty-year lows, forecasts of smaller crops in Central America and the fear of frost in Brazil. In May 1997, the "C" price reached a record high of over \$3.00. It has decreased since then (to \$1.83 at December 10, 1997), but remains highly unstable.

Prior to the two 1994 frosts in Brazil, the differential payable by the Company for its coffees could add up to \$0.70 per pound over the published commodity price for high-quality arabica coffees. Since then, some of these differentials have risen dramatically, adding further to the overall cost of coffee.

It is largely expected that coffee prices will remain volatile in the coming years. Differentials and premiums continue to remain at high levels. In addition, a number of factors, such as pest damage and weather-related crop failure could cause coffee prices to climb. Furthermore, the Company believes that the low coffee price ranges experienced during the early 1990s are not high enough to support proper farming and processing practices, impacting the overall supply of the top grade coffees. With the growth of the specialty coffee segment, it is important that prices remain high enough to support the world consumption of the top grades of coffees.

The Company generally fixes the price of its coffee contracts two to six months prior to delivery so that it can adjust its sales prices to the market. Green Mountain believes that this is the best way to provide its customers with a fair price for its coffee. The Company believes that there is significant risk in fixing prices further in the future, since the true available supply of green coffee from around the world is not readily known. At September 27, 1997, the Company had approximately \$4 million in fixed price purchase commitments.

In addition, the Company does from time to time purchase coffee future contracts to provide additional protection when it is not able to enter into coffee purchase commitments. The gains from such contracts realized in fiscal 1997 were not material.

In fiscal 1997, the Company passed on to its customers most of the green coffee price increase through two consecutive price increases in March 1997 and June 1997 (the total increase averaged \$0.80 per pound). There can be no assurance that the Company will be successful in passing on further green coffee price fluctuations to the customers without losses in sales volume or gross margin. Similarly, rapid sharp decreases in the cost of green coffee could also force the Company to lower sales prices before realizing cost reductions in its green coffee inventory. Because Green Mountain roasts over 25 different types of green coffee beans to produce its more than 50 different varieties of coffee, if one type of green coffee bean were to become unavailable or prohibitively expensive, management believes Green Mountain could substitute another type of coffee of equal or better quality meeting a similar taste profile, in a blend or temporarily remove that particular coffee from its product line. However, a worldwide supply shortage of the high-quality arabica coffees the Company purchases could have an adverse impact on the Company.

Green Mountain intends to increase the percentage of the coffee it buys from specifically identified farms in fiscal 1998 and beyond, as it believes this strategy will result in improved product quality, product differentiation, long-term supply and pricing stability. In addition, the Company believes that its efforts will have a positive impact on the living and working environment of farm workers and their families.

Significant Customers

Hannaford Brothers Company, a supermarket chain, accounted for approximately 10.4%, 12.1% and 10.4% of revenues in the years ended September 27, 1997, September 28, 1996 and September 30, 1995, respectively. In December 1997, the Company renewed its contract with Hannaford for three years. This new contract also provides access to an additional 21 stores in New York State.

The extensive network of Mobil convenience stores, owned by Mobil Corporation or by independent franchisees, accounted for approximately 15.5% of sales in fiscal 1997, and is a key component of the Company's growth strategy as it provides sampling opportunities for a large number of potential new consumers throughout the country. Mobil convenience stores owned and operated by Mobil Corporation alone, however, do not make up 10% of the Company's revenues. In fiscal 1997, the Company announced a five-year agreement to exclusively supply Mobil On The Run(SM) convenience stores. Presently, the Company serves approximately 200 of such stores and Mobil presently expects to open 1,200 Mobil On-The-Run(SM) convenience stores by 2002.

Although the Company believes that it has strong mutually-beneficial business relationships with Hannaford Brothers Company and Mobil Corporation, there can be no assurance that it will continue to have such relationships, and the loss of such accounts would likely have a material adverse effect on the Company's results.

Competition

The specialty coffee market is highly competitive, and Green Mountain competes against all sellers of specialty coffee. Additionally, the Company also competes with "commercial" coffee vendors, to the extent that it is also trying to "upsell" consumers to the specialty coffee segment. A number of large international food conglomerates have divisions or subsidiaries selling specialty coffees, a significant portion of them having been developed through the acquisition of independent brands. Procter & Gamble and Nestle distribute the premium coffee products Millstone and Sarks, respectively, in supermarkets nationwide, which may serve as alternatives to Green Mountain's coffees. In the office coffee and food service arena, General Foods and Procter & Gamble are large competitors. In the direct mail area, the Company competes with established suppliers such as Gevalia, a division of General Foods Corporation, as well as with other direct mail companies. Another well-established player is Starbucks, a leading independent specialty coffee retailer with a limited wholesale operation.

The Company expects intense competition, both within its primary geographic territory, the northeast United States, and in other regions of the United States, as it expands from its current territories. The specialty coffee market is expected to become even more competitive as regional companies expand and attempt to build brand awareness in new markets.

The Company competes primarily by providing fresh, high quality coffee, easy access to its products and superior customer service. The Company believes that its ability to provide a convenient network of outlets from which to purchase coffee is an important factor in its ability to compete. Through its multi-channel distribution network of wholesale, retail and direct mail operations and its focus on the sale of coffee in all forms, rather than coffee beverages alone, the Company believes it differentiates itself from many of its larger competitors, who specialize in only one of the wholesale, retail and direct mail channels of distribution. The Company also believes that one of the distinctive features of its business is that it is one of the few coffee companies that roasts its coffees individually, varying both the degree and timing of the roast to maximize a coffee's particular taste characteristics. Finally, the Company believes that being an independent roaster allows it to be better focused and in tune with its customers' needs than its larger diversified competitors. While the Company believes it currently competes favorably with respect to these factors, there can be no assurance that it will be able to compete successfully in the future.

Seasonality

Historically, the Company has experienced significant variations in sales from quarter to quarter due to the peak November-December holiday season and a variety of other factors, including, but not limited to, general economic trends, the cost of green coffee, competition, marketing programs, weather and special or unusual events.

Intellectual Property

The Company holds federal registrations in the United States for the trademarks Green Mountain Coffee(R), Green Mountain Coffee Roasters (R), Green Mountain Filters(R), Stewardship Coffee(R), Stewardship(R), Nantucket Blend(R), Rain Forest Nut(R), Vermont Country Blend (R), and Cafe Vermont(R), and for the service marks Green Mountain Coffee Roasters(R) and Stewardship(R), and related design marks. Federal trademark and service mark registrations must be renewed every 10 years. Some of the Company's registered marks, including Green Mountain Coffee(R) and Green Mountain Coffee Roasters(R), will require renewal in 2001. The Company believes it will obtain renewal of these marks. The Company also has several federal applications pending for registration of additional trademarks and service marks. The Company does not hold any patents.

The Company has irrevocable, perpetual, royalty-free licenses to use the names Earth-Friendly Coffee Filters(TM) in connection with coffee filters, and Columbian LaCapilla(TM), Kona Mountain Coffee(TM) and Kona Mountain Estate(TM) in connection with coffee worldwide (excluding Hawaii), all subject to the terms of the agreements under which these licenses were granted.

The Company believes that these trademarks, service marks and licenses will continue to be important to its success.

Employees

As of September 27, 1997, the Company had approximately 310 full-time employees and 100 part-time employees. The Company supplements its workforce with temporary workers from time to time, especially in the first quarter of each fiscal year to service increased customer demand during the peak November-December holiday season. The Company believes that it maintains good relations with its employees.

Item 2. Properties

The Company leases one principal manufacturing, warehousing and distribution facility located at Pilgrim Park in Waterbury, Vermont. The facility has in total approximately 90,000 square feet of usable space, including a 30,000 square foot mezzanine area, and its lease expires in 2007. This includes 40,000 square feet that were added in November 1997 for plant expansion to be completed by the end of the second fiscal quarter of 1998. The Company's other facilities, all of which are leased, are as follows:

Type	Location	Approximate Square Feet	Expiration of Lease
Company-Owned	Latham, NY	2,300	2007
Retail Stores	Naperville, IL	2,330	2004
	Newton Highlands, MA	1,820	2004

	Plattsburgh, NY	1,440	1998
	Portland, ME(2)	2,300	2002
	Portsmouth, NH(1)	2,700	1999
	So. Portland, ME	1,270	2007
	Waitsfield, VT	2,360	2000
	Waterbury, VT (Factory Outlet)	1,100	month-to-month
	Waterbury Center, VT	500	1998
	West Hartford, CT	1,820	1999
	Winooski, VT	1,500	1998

Administrative Offices	Coffee Lane, Waterbury, VT	4,000	month-to-month
	Main Street, Waterbury, VT	8,680	1999
	Pilgrim Park II, Waterbury, VT	3,000	month-to-month
	Pilgrim Park II, Waterbury, VT	8,000	2010

Warehouse/ Distribution/ Service Space	Woburn, MA	10,580	2001
	Southington, CT	11,200	2001
	Waterbury, VT	3,000	month-to-month
	Biddeford, ME	10,000	2001
	Latham, NY	7,500	2002

(1) Lease also covers 2,000 square feet of space which the Company has subleased as of December 10, 1997

(2) Lease also covers 2,024 square feet of space which the Company has subleased as of December 10, 1997

The Company believes that its facilities are generally adequate for its current needs and that suitable additional production and administrative space will be available as needed on favorable terms. As indicated in the table above, a number of company-owned retail stores leases are coming to their term in the next couple of years. There can be no assurance that the expiring leases will be renewed or whether the Company will be able to secure adequate sites at acceptable rent levels if and when it decides to relocate these stores.

Item 3. Legal Proceedings

The Company is not currently party to any material pending legal proceeding.

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

No matters were submitted to a vote of security holders during the fiscal quarter ended September 27, 1997.

Executive Officers of the Registrant

Certain biographical information regarding each director and executive officer of the Company is set forth below:

Name	Age	Position	Executive Officer Since

Robert P. Stiller	54	Chairman of the Board, President and Chief Executive Officer	1993
Robert D. Britt	42	Director, Chief Financial Officer, Vice President, Treasurer and Secretary	1993
Stephen J. Sabol	36	Director and Vice President	1993
Jonathan C. Wettstein	49	Director and Vice President	1993
Paul Comey	47	Vice President	1993
Dean E. Haller	45	Vice President	1997
James K. Prevo	44	Vice President	1997
William L. Prost	43	Vice President	1997

Robert P. Stiller, founder of Roasters, has served as its President and a director since its inception in July 1981. In September 1971, Mr. Stiller co-founded Robert Burton Associates, a company engaged in the development and sale of E-Z Wider cigarette papers and served as its President and director until June 1980.

Robert D. Britt has served as Chief Financial Officer of Roasters since May 1993. From July 1992 to April 1993, Mr. Britt served as Chief Financial Officer for Engineered Coatings, Inc., a manufacturer engaged in the design and application of high temperature metallic and ceramic

coatings to metal parts. Mr. Britt is a Certified Public Accountant and holds a Master of Business Administration from the Wharton School at the University of Pennsylvania.

Stephen J. Sabol has served as Vice President of Sales of Roasters since September 1996. Mr. Sabol served as Vice President of Branded Sales of Roasters from August 1992 to September 1996. From September 1986 to August 1992, Mr. Sabol was the General Manager of Roasters responsible for overall performance of the wholesale division in Maine and New Hampshire.

Jonathan C. Wettstein has served as Vice President of Operations of Roasters since April 1993. From June 1974 to April 1993, Mr. Wettstein was employed by Digital Equipment Corporation in a variety of positions including Plant Manager, Order Administration Manager, Marketing Manager, Business and Materials Manager and Product Line Controller. Mr. Wettstein holds a Master of Business Administration from the Harvard Business School.

Paul Comey has served as Executive Director of Facilities and Process Engineering of Roasters since June 1993. From March 1986 to May 1993, Mr. Comey was the owner and principal consultant of Baseline Solutions, a company engaged in providing consulting services to the coffee industry, including the Company.

Dean E. Haller has served as Vice President of Administration of Roasters since November 1996. From October 1990 to November 1996, Mr. Haller was employed by IDX Systems Corporation as Director of Human Resources.

James K. Prevo has served as Chief Information Officer of Roasters since March 1993. Mr. Prevo worked for Digital Equipment Corporation from November 1979 through March 1993. There he held positions as a Software Engineer, Project Manager (New Product Introduction), Program Manager (Computer Products Manufacturing and VAXcluster Systems Engineering) and Business Manager (Systems Integration Services).

William L. Prost has served as Vice President of Marketing for Roasters since January 1997. Prior to this time, Mr. Prost was co-owner and co-founder of Promark Professional Marketing Services, a marketing consulting firm established in San Antonio, Texas in 1982. In addition, Mr. Prost owned and operated Lucky Star Coffee, a San Antonio coffee distributor. Mr. Prost holds a Master of Business Administration from the University of Texas.

Officers are elected annually and serve at the discretion of the Board of Directors. None of the Company's directors or officers has any family relationship with any other director or officer, except for Robert P. Stiller and one of the Company's directors, Jules A. del Vecchio, whose wives are sisters.

PART II

Item 5. Market for Common Equity and Related Stockholder Matters

(a) Price Range of Securities The Company's common stock has been trading on the NASDAQ National Market under the symbol GMCR since March 19, 1997. Prior to March 19, the Company's Common stock was traded on the Nasdaq SmallCap Market under the symbol GMCR and on the Boston Stock Exchange under the symbol GMR. The following table sets forth the high and low sales prices as reported by NASDAQ for the periods indicated.

		High ----	Low -----
Fiscal 1996	16 weeks ended January 20, 1996.....	\$ 8	\$ 5 3/4
	12 weeks ended April 13, 1996.....	\$ 7 7/8	\$ 5
	12 weeks ended July 6, 1996.....	\$ 7 3/4	\$ 5 5/8
	12 weeks ended September 28, 1996.....	\$ 7 5/8	\$ 5 1/2
Fiscal 1997	16 weeks ended January 21, 1997.....	\$ 7 1/4	\$ 5 7/8
	12 weeks ended April 12, 1997.....	\$ 9	\$ 6
	12 weeks ended July 5, 1997.....	\$ 8 3/4	\$ 5 1/2
	12 weeks ended September 27, 1997.....	\$ 12 1/4	\$ 7 5/8
Fiscal 1998	September 28, 1997 to December 10, 1997...	\$ 10 1/2	\$ 6 7/8

(b) Approximate Number of Equity Security Holders The Company believes that the number of record holders of common stock as of December 10, 1997 was approximately 653.

(c) Dividends The Company has never paid a cash dividend on its common stock and anticipates that for the foreseeable future any earnings will be retained for use in its business and, accordingly, does not anticipate the payment of cash dividends.

Under a current loan agreement the Company has with the Vermont Economic Development Authority, the Company may not pay any dividends with respect to its capital stock, whether in cash or in stock, without the prior approval of the Vermont Economic Development Authority.

Item 6. Selected Financial Data

	Sept. 27, 1997 -----	Fiscal Year Ended		Sept. 24, 1994 -----	Sept. 25, 1993 -----
		Sept. 28, 1996 -----	Sept. 30, 1995(1) -----		
In thousands, except per share data					
Coffee pounds sold(2).....	6,399	5,272	4,408	3,534	2,577
Net sales.....	\$ 47,834	\$ 38,347	\$ 34,024	\$ 22,082	\$ 15,651
Net income (loss).....	\$ 1,325	\$ 1,262	\$ (218)	\$ (2,358)	\$ (2,292)
Net income (loss) per share.....	\$ 0.38	\$ 0.37	\$ (0.06)	\$ (0.70)	\$ (0.99)
Total assets.....	\$ 23,544	\$ 17,243	\$ 15,565	\$ 13,918	\$ 18,874
Long-term obligations(3).....	\$ 5,965(4)	\$ 3,563(4)	\$ 4,280(4)	\$ 3,022	\$ 2,387

1 The fiscal year ended September 30, 1995 is a 53-week year.

All other fiscal years represented are 52-week years.

2 Excludes pounds sold as beverages through the Company's retail stores.

3 Excludes the current portion of long-term obligations.

4 Includes long-term line of credit.

There were no cash dividends paid during the past five fiscal years.

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

Overview

Green Mountain Coffee, Inc., a leader in the specialty coffee industry, roasts over 25 high quality arabica coffees to produce over 50 varieties of coffee that it sells under the Green Mountain Coffee Roasters(R) and Green Mountain Coffee(R) brands. For the year ended September 27, 1997, Green Mountain derived approximately 83.7% of its net sales from its wholesale operation, which sells coffee to retailers and food service concerns including supermarkets, restaurants, convenience stores, specialty food stores, office coffee distributors, and other food service providers such as hotels, universities and airlines. The Company also operates twelve company-owned retail stores and a direct mail operation serving customers nationwide from its Waterbury, Vermont headquarters, which accounted for approximately 10.3% and 6.0% of net sales, respectively, in fiscal 1997.

Cost of sales consists of the cost of raw materials including coffee beans, flavorings and packaging materials, a portion of the Company's rental expense, the salaries and related expenses of production and distribution personnel, depreciation on production equipment and freight and delivery expenses. Selling and operating expenses consist of expenses that directly support the sales of the Company's wholesale, company-owned retail stores or direct mail channels, including media and advertising expenses, a portion of the Company's rental expense, and the salaries and related expenses of employees directly supporting sales. General and administrative expenses consist of expenses incurred for corporate support and administration, including a portion of the Company's rental expense and the salaries and related expenses of personnel not elsewhere categorized.

The Company's fiscal year ends on the last Saturday in September. The Company's fiscal year normally consists of 13 four-week periods with the first, second and third "quarters" ending 16 weeks, 28 weeks and 40 weeks, respectively, into the fiscal year. Fiscal 1997 and fiscal 1996 represent the years ended September 27, 1997 and September 28, 1996, respectively, and consisted of 52 weeks. Fiscal 1995 represents the year ended September 30, 1995 and consisted of 53 weeks with the fiscal fourth quarter having 13 weeks instead of the normal 12 weeks.

Coffee Prices, Availability and General Risk Factors

Twenty-year lows in reported domestic coffee supplies combined with forecasts of smaller crops in Central America, labor actions and reports of adverse growing conditions in certain coffee growing countries, among other factors, have caused a dramatic increase since December 1996 in the "C" price of coffee (the price per pound quoted by the Coffee, Sugar and Cocoa Exchange). Since July 1997, when, among other factors, it appeared that there would be no frost endangering the Brazil crop, the "C" price of coffee has somewhat declined, but remains highly volatile. In addition to the "C" price, coffee of the quality sought by Green Mountain also tends to trade on a negotiated basis at a substantial premium or "differential" above the "C" price. Since December 1996, differentials have also been volatile and generally rising. The Company believes that the cost of green coffee will continue to be volatile in fiscal 1998. There can be no assurance that the Company will be successful in passing these fluctuations on to the customers without losses in sales volume or gross margin. Similarly, rapid sharp decreases in the cost of green coffee could also force the Company to lower sales prices before realizing cost reductions in its green coffee inventory. Because Green Mountain roasts over 25 different types of green coffee beans to produce its more than 50 varieties of coffee, if one type of green coffee bean were to become unavailable or prohibitively expensive, management believes Green Mountain could substitute another type of coffee of equal or better quality meeting a similar taste profile, in a blend or temporarily remove that particular coffee from its product line. However, frequent substitutions could lead to cost increases and fluctuations in gross margins. Furthermore, a worldwide supply shortage of the high-quality arabica coffees the Company purchases could have an adverse impact on the Company.

The Company enters into coffee purchase commitments in an attempt to secure an adequate supply of quality coffees. In addition, the Company's objective is to fix its raw material costs two to six months in advance to allow for time to adjust its sales prices. This is achieved through the fixing of costs on green coffee purchase commitments, as well as through the use of hedging instruments such as coffee futures contracts and coffee options. In fiscal 1997, the cost and fair value of such futures contracts and options were not material.

The Company expects to face increasing competition in all its markets, as competitors improve the quality of their coffees to make them more comparable to Green Mountain's. In addition, specialty coffee is now more widely available and a number of competitors benefit from substantially larger promotional budgets following, among other factors, the acquisition of specialty coffee companies by large food conglomerates. The Company expects that the continued high quality and wide availability of its coffee across a large array of distribution channels, and the added-value of its customer service processes, will enable Green Mountain to successfully compete in this environment, although there can be no assurance that it will be able to do so.

Certain statements contained herein are not based on historical fact and are "forward-looking statements" within the meaning of the applicable securities laws and regulations. Owing to the uncertainties inherent in forward-looking statements, actual results could differ materially from those set forth in forward-looking statements. Factors that could cause actual results to differ materially from those in the forward-looking statements include, but are not limited to, business conditions in the coffee industry and food industry in general, fluctuations in availability and cost of green coffee, economic conditions, prevailing interest rates, competition, the management challenges of rapid growth, variances from budgeted sales mix and growth rate, consumer acceptance of the Company's new package design and sizes, weather and special or unusual events, as well as other risk factors described in Item 1 of the Company's Annual Report on Form 10-K for the year ended September 27, 1997 and other factors described from time to time in the Company's filings with the Securities and Exchange Commission. Forward-looking statements reflect management's analysis as of the date of this document. The Company does not undertake to revise these statements to reflect subsequent developments.

Results from Operations

The following table sets forth certain financial data of the Company expressed as a percentage of net sales for the periods denoted below:

	Year Ended		
	September 27, 1997	September 28, 1996	September 30, 1995
Statement of Operations Data:			
Net sales:			
Wholesale.....	83.7 %	79.1 %	74.9 %
Company-owned retail stores....	10.3 %	13.0 %	15.0 %
Direct mail.....	6.0 %	7.9 %	10.1 %
Net sales.....	100.0 %	100.0 %	100.0 %
Cost of sales.....	61.5 %	59.5 %	63.9 %
Gross profit.....	38.5 %	40.5 %	36.1 %
Selling and operating expenses....	28.0 %	27.3 %	28.0 %
General and administrative expenses	7.1 %	8.2 %	7.6 %
Loss on abandonment of equipment...	0.4 %	-	-
Income from operations.....	3.0 %	5.0 %	0.5 %
Interest expense.....	(1.1) %	(1.1) %	(1.2) %
Income (loss) before income taxes..	1.9 %	3.9 %	(0.7) %
Income tax benefit (expense).....	0.8 %	(0.6) %	0.1 %
Net income (loss).....	2.7 %	3.3 %	(0.6) %

Fiscal 1997 versus Fiscal 1996

Net sales increased by \$9,487,000 or 24.7% from \$38,347,000 in fiscal 1996 to \$47,834,000 in fiscal 1997. Coffee pounds sold, excluding those sold as beverages through the Company's retail stores, increased by approximately 1,127,000 pounds or 21.4% from 5,272,000 pounds in fiscal 1996 to 6,399,000 pounds in fiscal 1997. The difference between the percentage increase in net sales and the percentage increase in coffee pounds sold primarily relates to increases in Green Mountain's selling prices for coffee during fiscal 1997 as a result of higher green coffee costs.

The year-to-year increase in net sales occurred primarily in the wholesale area in which net sales increased by \$9,697,000 or 32.0% from \$30,340,000 in fiscal 1996 to \$40,037,000 in fiscal 1997. This increase resulted primarily from the year-over-year growth in the number of wholesale accounts.

Retail sales decreased \$44,000 or 0.9% from \$4,970,000 in fiscal 1996 to \$4,926,000 in fiscal 1997. The Company has not added new stores since 1994 and is in the process of re-assessing the role of its retail operation in the context of its overall growth strategy. Direct mail sales declined \$166,000 or 5.5% from \$3,037,000 in fiscal 1996 to \$2,871,000 in fiscal 1997. Direct mail sales are expected to be stable in fiscal 1998.

Green Mountain's gross profit increased by \$2,884,000 or 18.6% from \$15,530,000 in fiscal 1996 to \$18,414,000 in fiscal 1997. As a percentage of net sales, this represents a decline of 2.0 percentage points from 40.5% in fiscal 1996 to 38.5% in fiscal 1997. The decrease of gross profit as a percentage of sales was primarily attributable to the mathematical impact of higher green coffee costs and higher sales prices. Total gross profit per pound sold declined by \$0.07 per pound, from \$2.95 in fiscal 1996 to \$2.88 in fiscal 1997. The principal reason for this decrease is higher delivery costs related to the expansion and start-up of regional warehouses in Massachusetts and Connecticut, the higher percentage of deliveries outside of New England, and the impact of various measures taken to improve speed of delivery and customer service.

Selling and operating expenses increased by \$2,900,000 or 27.7% from \$10,471,000 in fiscal 1996 to \$13,371,000 in fiscal 1997, and increased 0.7 percentage points as a percentage of net sales from 27.3% in fiscal 1996 to 28.0% in fiscal 1997. Approximately \$1,200,000 of the increase is related to the addition of a national supermarket sales manager, a national office coffee service and food service sales manager, and 16 people to the Company's direct sales force in the Greater Boston, Rhode Island, Connecticut, New York, Michigan, Florida, Arizona and the Greater Philadelphia markets. In addition to this direct sales force increase, the Company also increased sales support and marketing expenditures by a similar amount during fiscal 1997. The Company currently intends to continue ramping up sales support and marketing efforts in fiscal 1998, although, as a percentage of sales, selling and operating expenses are expected to decrease.

General and administrative expenses increased by \$259,000 or 8.3% from \$3,132,000 in fiscal 1996 to \$3,391,000 in fiscal 1997. As a percentage of net sales, this change represents a 1.1 percentage point decrease from 8.2% in fiscal 1996 to 7.1% in fiscal 1997.

During the second quarter of fiscal 1997, Green Mountain commenced the expansion of its central production and distribution facility located in Waterbury in preparation for expected future growth and after the approval of a Federal Community Development Block Grant to the Town of Waterbury, Vermont which is expected to indirectly benefit the Company through reduced occupancy costs. The 45,000 square-foot addition to its central facility is expected to be completed by the end of the first quarter of fiscal 1998 and will first be used for expanded warehousing

and distribution space with roasting and packaging machinery being added as needed. There were no material increases in occupancy costs in fiscal 1997 due to this expansion. However, as a result of the demolition of an old, adjacent office building occupied by the Company, and the immediate redesign of the production flow to be used in the expanded facility, the Company recorded a loss on abandonment of equipment of \$218,000 during the second quarter of fiscal 1997. The additional occupancy costs of approximately \$400,000 annually for the expanded facility will impact income from operations starting in fiscal 1998. There can be no assurance that the Company's revenue growth will be sufficient to absorb these added facility costs, and earnings in future periods may be negatively impacted.

As a result of the foregoing, income from operations decreased by \$493,000 or 25.6% from \$1,927,000 in fiscal 1996 to \$1,434,000 in fiscal 1997, and decreased 2.0 percentage points as a percentage of sales from 5.0% in fiscal 1996 to 3.0% in fiscal 1997.

Green Mountain is presently implementing an enterprise information system which it expects to use to facilitate growth and improve operations and customer service. This new enterprise information system also is expected to address most "Year 2000" issues in a complete and timely manner. The additional project related personnel, depreciation and software maintenance expenses (of approximately \$1,000,000 for fiscal 1998) is expected to impact cost of goods sold as well as operating expenses. However, there can be no assurance that future sales increases will be adequate to cover these additional costs, and earnings in future periods may be negatively impacted.

Interest expense increased \$99,000 or 23.5%, from \$422,000 in fiscal 1996 to \$521,000 in fiscal 1997 and is expected to continue to increase, as the Company plans to continue financing its growth through additional borrowings.

The income tax expense recognized under SFAS 109 was \$222,000 in fiscal 1996 compared to an income tax benefit of \$395,000 in fiscal 1997. The Company has been profitable for nine consecutive fiscal quarters and, based on the weight of available evidence, as prescribed in SFAS 109, of the amount of deferred tax assets which more likely than not will be realized, significantly reduced its deferred tax assets valuation allowance during the second quarter of fiscal 1997, thereby resulting in a substantial tax benefit. It is expected that the Company's effective tax rate in future periods will approximate 40%.

Fiscal 1996 versus Fiscal 1995

Net sales increased by \$4,323,000 or 12.7% from \$34,024,000 in fiscal 1995 (a 53-week period) to \$38,347,000 in fiscal 1996 (a 52-week period). On a 52-week to 52-week comparative basis, sales are estimated to have increased by 15.0% in fiscal 1996. Coffee pounds sold, excluding those sold as beverages through the Company's retail stores, increased by approximately 864,000 pounds or 19.6% from 4,408,000 pounds in fiscal 1995 to 5,272,000 pounds in fiscal 1996. On a 52-week to 52-week comparative basis, coffee pounds sold are estimated to have increased 22.0% in fiscal 1996. The difference between the percentage increase in net sales and the percentage increase in coffee pounds sold primarily relates to reductions in Green Mountain's selling prices for coffee during fiscal 1996 as a result of lower green coffee costs.

The year-to-year increase in net sales occurred primarily in the wholesale area in which net sales increased by \$4,856,000 or 19.1% from \$25,484,000 in fiscal 1995 to \$30,340,000 in fiscal 1996. This increase resulted primarily from the year-over-year growth in the number of wholesale accounts.

Net retail sales decreased by \$136,000 or 2.7% from \$5,106,000 in fiscal 1995 to \$4,970,000 in fiscal 1996, principally due to the closing of three espresso carts located at supermarkets during the second quarter of fiscal 1995, and the closing of an espresso cart located in Albany, New York in the first quarter of fiscal 1996. The three supermarket espresso cart locations were converted to wholesale supermarket accounts with pre-bagged, bulk and/or self-service coffee beverage displays. On a 52-week to 52-week comparative basis, retail same-store sales are estimated to have increased 3.3% in fiscal 1996.

Net direct mail sales decreased by \$397,000 or 11.6% from \$3,434,000 in fiscal 1995 to \$3,037,000 in fiscal 1996. This decrease resulted primarily from a shift in strategy whereby the Company focused its mail order solicitations on catalog customers who more regularly buy from the Company, and decreased the number of low-margin product promotions.

Green Mountain's gross profit increased by \$3,244,000 or 26.4% from \$12,286,000 in fiscal 1995 to \$15,530,000 in fiscal 1996. Gross profit increased by 4.4 percentage points as a percentage of net sales from 36.1% in fiscal 1995 to 40.5% in fiscal 1996. These increases were primarily attributable to the impact of lower green coffee costs.

Selling and operating expenses increased by \$942,000 or 9.9% from \$9,529,000 in fiscal 1995 to \$10,471,000 in fiscal 1996, but decreased .7 percentage points as a percentage of net sales from 28.0% in fiscal 1995 to 27.3% in fiscal 1996. The increase in selling and operating expense includes approximately \$420,000 in expenses related to the addition in fiscal 1996 of a national supermarket sales manager, a national food service and office coffee services sales manager, and eight people to the Company's direct sales force in the Boston, Connecticut and Florida markets, as well as the addition of an advertising manager and designer to the Company's corporate marketing department.

General and administrative expenses increased by \$554,000 or 21.5% from \$2,578,000 in fiscal 1995 to \$3,132,000 in fiscal 1996 and increased .6 percentage points as a percentage of net sales from 7.6% in fiscal 1995 to 8.2% in fiscal 1996. Significant general and administrative expense increases during fiscal 1996 include: increased MIS personnel and other computer-related expenses of approximately \$130,000; increased training and human resource department costs of approximately \$75,000; and increased investor relations related expenses of approximately \$67,000.

As a result of the foregoing, income from operations increased by \$1,748,000 or 975.6% from \$179,000 in fiscal 1995 to \$1,927,000 in fiscal

1996, and increased 4.5 percentage points as a percentage of sales from 0.5% in fiscal 1995 to 5.0% in fiscal 1996. The income tax benefit recognized under SFAS 109 was \$26,000 in fiscal 1995 compared to income tax expense of \$222,000 in fiscal 1996. The Company's effective tax rate increased from 11% in fiscal 1995 to 15% in fiscal 1996, primarily as a result of non-deductible items being a greater percentage of the net loss in fiscal 1995 compared to the percentage of net income in fiscal 1996. Net income increased by \$1,480,000 from a net loss of \$218,000 in fiscal 1995 to net income of \$1,262,000 in fiscal 1996.

Liquidity and Capital Resources

Net working capital amounted to \$4,491,000 and \$2,941,000 at September 27, 1997 and September 28, 1996, respectively. The increase is primarily the result of higher inventories, stemming primarily from the higher cost of green coffee, and higher accounts receivable attributable to increased sales.

During fiscal 1997, Green Mountain Coffee had capital expenditures of \$5,367,000, which included \$760,000 for equipment on loan to wholesale customers, \$1,341,000 for production equipment, and \$2,607,000 for computer hardware and software. Cash used for capital expenditures aggregated \$2,519,000 during fiscal 1996, and included \$884,000 for equipment loaned to wholesale customers, \$633,000 for production equipment, and \$499,000 for computer hardware and software.

Green Mountain is presently implementing an enterprise information system which it expects to use to facilitate growth and improve operations and customer service. Management believes that the substantial investment in fiscal 1997 in computer hardware and software and the expansion of its central production and distribution center for fiscal 1998 occupancy is necessary for the Company to efficiently and effectively grow.

The new enterprise information system also is expected to address most "Year 2000" issues in a complete and timely manner. Additional efforts are underway to ensure that the Company's embedded manufacturing and distribution software, telecommunication systems, networks and personal computers are capable of handling dates properly after 1999.

Cash used to fund the capital expenditures in fiscal 1997 was obtained from the \$3,477,000 increase in the line of credit and \$2,693,000 of net cash provided by operating activities. Net cash provided by operating activities reflects a \$441,000 decrease as compared to fiscal 1996, which resulted primarily from the Company's higher levels of inventories and accounts receivable, and was partially offset by accounts payable increases.

During fiscal 1997, the Company amended its credit facility with Fleet Bank - NH. Under the revised facility, the Company increased the limit of the revolving line of credit from \$3,000,000 to \$6,000,000 and extended its term to February 28, 1999. The amount available under the revolving line of credit at September 27, 1997 was \$2,015,000. This line of credit is subject to certain covenants, including quarterly tests on funded debt to EBIDA, debt service coverage, senior debt to capital base ratios and rolling annual net income. The interest paid on this line of credit, as well as other Fleet Bank borrowings, varies with the prime and LIBOR interest rates, the fluctuations of which may impact future earnings.

The Company currently plans to make capital expenditures in fiscal 1998 of approximately \$4,500,000. However, management continuously reviews capital expenditure needs and actual amounts expended may differ from these estimates.

Management believes that cash flow from operations, existing cash, available borrowings under its credit facility and additional borrowings will provide sufficient liquidity to pay all liabilities in the normal course of business, fund capital expenditures and service debt requirements for the next twelve months. It is currently not known whether the additional borrowings will come from an expansion of the existing credit facility or from new sources.

Deferred Income Taxes

The Company had net deferred tax assets of \$1,351,000 at September 27, 1997. These assets are reported net of a deferred tax asset valuation allowance at that date of \$2,391,000 (related primarily to a Vermont investment tax credit). The Company had income before taxes of \$930,000 and \$1,484,000 in fiscal 1997 and in fiscal 1996, respectively, and has been profitable in its last nine consecutive fiscal quarters. Presently, the Company believes that the deferred tax assets, net of deferred tax liabilities and the valuation allowance, are realizable and represent management's best estimate, based on the weight of available evidence as prescribed in SFAS 109, of the amount of deferred tax assets which most likely will be realized.

Factors affecting quarterly performance

Historically, the Company has experienced significant variations in sales from quarter to quarter due to the holiday season and a variety of other factors, including, but not limited to, general economic trends, the cost of green coffee, competition, marketing programs, weather and special or unusual events. Because of the seasonality of the Company's business, results for any quarter are not necessarily indicative of the results that may be achieved for the full fiscal year. Year over year quarterly earnings comparisons will also show significant variations due to the release in the second quarter of fiscal 1997 of a large portion of the Company's deferred tax asset valuation allowance.

Item 8. Financial Statements

See Index to Financial Statements on Page F-1.

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

Except for information regarding the Company's executive officers, the information called for by this Item is incorporated in this report by reference to the Company's definitive Proxy Statement for the Company's Annual Meeting of Stockholders to be held on March 20, 1998, which will be filed with the Securities and Exchange Commission not later than 120 days after the close of the Company's fiscal year ended September 27, 1997 (the "Definitive Proxy Statement").

For information concerning the executive officers of the Company, see "Executive Officers of the Registrant" under Part I of this report.

Item 11. Executive Compensation

The information required by this item is incorporated herein by reference to the information contained in the Definitive Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information required by this item is incorporated herein by reference to the information contained in the Definitive Proxy Statement.

Item 13. Certain Relationships and Related Transactions

The information required by this item is incorporated herein by reference to the information contained in the Definitive Proxy Statement.

PART IV

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

(a) 1. Financial Statements

The following financial statements are filed as a part of this report:

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Consolidated balance sheet at September 27, 1997 and September 28, 1996.....	F-3
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(a) 2. Financial Statement Schedules

The following financial statement schedule is filed as a part of this report

Schedule II: Valuation and Qualifying Accounts.....	34
-----------------------------------------------------	----

All other schedules are omitted because they are not required or the required information is shown in the financial statements or notes thereto.

(a) 3. Exhibits

The exhibits listed below are filed as part of, or incorporated by reference into, this report. The Company shall furnish copies of exhibits for a reasonable fee (covering the expense of furnishing copies) upon request in writing to Green Mountain Coffee, Investor Relations, 33 Coffee Lane, Waterbury, VT 05676.

Exhibit Exhibit Title

No.	
3.1	Certificate of Incorporation of the Company(1)
3.2	Bylaws of the Company(1)
10.1	Form of Underwriter's Warrant Agreement between Green Mountain Coffee, Inc. and Gilford Securities Incorporated(with form of warrant attached)(1)

10.2 (b) Term Loan Promissory Note, dated August 11, 1993, from Green Mountain Coffee Roasters, Inc. to Fleet Bank - NH(1)

(f) Collateral Assignment of Leasehold Interest, dated August 11, 1993, between Green Mountain Coffee Roasters, Inc. and Fleet Bank - NH1

(h) Landlord's Consent and Waiver, dated August 4, 1993, executed by Pilgrim Partnership1

(i) Consent of Lessor executed by Pilgrim Partnership and Fleet Bank - NH(1)

(m) Term Promissory Notes, dated August 31, 1993, from Green Mountain Coffee Roasters, Inc. to Fleet Bank - NH(1)

(q) Subordination and Standby Agreement, dated April 7, 1994, from Robert Stiller to Fleet Bank - NH, consented to by each of the subsidiaries of the Company(2)

(w) Replacement Term Promissory Note, dated March 31, 1995, from Green Mountain Coffee Roasters, Inc. to Fleet Bank - NH(7)

(x) Term Promissory Note Tied to Equipment Line of Credit, dated April 3, 1995, from Green Mountain Coffee Roasters, Inc., to Fleet Bank - NH(7)

(y) Seventh Amendment and First Restatement of Commercial Loan Agreement, dated April 12, 1996, among Green Mountain Coffee Roasters, Inc., as borrower, and Fleet Bank - NH as lender(10)

(z) Term Promissory Note, dated April 12, 1996, From Green Mountain Coffee Roasters, Inc., to Fleet Bank - NH(10)

(aa) Note Modification Agreement, dated April 12, 1996, to modify Term Promissory Note dated August 11, 1993, from Green Mountain Coffee Roasters, Inc. to Fleet Bank - NH(10)

(bb) Eighth Amendment to Commercial Loan Agreement, dated February 19, 1997, among Green Mountain Coffee Roasters, Inc., as borrower, and Fleet Bank - NH as lender(12)

(cc) Replacement Revolving Line of Credit Promissory Note, dated February 19, 1997, from Green Mountain Coffee Roasters, Inc., to Fleet Bank - NH(12)

(ee) Ninth Amendment to Commercial Loan Agreement, Fleet Bank, dated June 9, 1997 among Green Mountain Coffee Roasters, Inc. as borrower, and Fleet Bank - NH, as lender(14)

(ff) Replacement Revolving Line of Credit Promissory Note, dated June 9, 1997, from Green Mountain Coffee Roasters, Inc., to Fleet Bank - NH(14)

10.10(g) First Restatement of Security Agreement, dated April 12, 1996,

between Green Mountain Coffee Roasters, Inc. and Fleet Bank - NH(10)

- 10.14 Collateral Assignment of Leasehold Interests by Green Mountain Coffee, Inc. to Fleet Bank - NH(1)
- 10.15 Assignment of Trademarks from Green Mountain Coffee, Inc. in connection with the Fleet Bank - NH financing(1)
- 10.19 Financing Agreement executed 6/18/93 (Lease Agreement No. 413165254 Master Agreement No. 4131-65254) between Green Mountain Coffee, Inc., dba Green Mountain Coffee Roasters, and Hewlett Packard Company(1)
- 10.20 Financing Agreement executed 6/18/93 (Lease Agreement No.413165256 Master Agreement No. 4131-65254) between Green Mountain Coffee, Inc., dba Green Mountain Coffee Roasters, and Hewlett Packard Company(1)
- 10.21 Resolution adopted by The Vermont Economic Development Authority ("VEDA") on June 25, 1993 with respect to proposed \$300,000 loan to Green Mountain Coffee, Inc. together with Letter dated 6/29/93 from VEDA to Green Mountain Coffee, Inc. and Letter dated 7/2/93 from Green Mountain Coffee, Inc. to VEDA relating thereto(1)
 - (a) Loan Agreement, dated August 11, 1993, between VEDA and Green Mountain Coffee Roasters, Inc.(1) (b) Note, dated August 11, 1993, from Green Mountain Coffee Roasters, Inc. to VEDA(1)
 - (c) Security Agreement, dated August 11, 1993, between VEDA and Green Mountain Coffee Roasters, Inc.(1)
 - (d) Guaranty Agreements, dated August 11, 1993, between VEDA and (i) Robert Stiller and Christine Stiller, (ii) Green Mountain Coffee of Maine, Inc., (iii) Green Mountain of Champlain, Inc., (iv) Green Mountain Coffee Roasters Franchising Corporation, Inc., (v) Green Mountain Filters, Inc. and (vi) Green Mountain Coffee Roasters of Connecticut, Inc.(1)
 - (e) Subordination Agreement, dated August 11, 1993, between VEDA and Robert Stiller(1)
 - (f) Form of Escrow Agreement among VEDA, Fleet Bank - NH and Green Mountain Coffee Roasters, Inc.(1)
 - (g) Collateral Assignment of Lease, dated August 11, 1993, between VEDA and Green Mountain Coffee Roasters, Inc.(1)
 - (h) Agreement to Assignment, Consent and Disclaimer, dated August 4, 1993, executed by Pilgrim Partnership(1)
 - (i) Mortgage Deed, dated August 11, 1993, executed by Green Mountain

- Coffee Roasters, Inc.(1)
- (j) Mortgagee's Consent, Non-Disturbance and Waiver, dated August 11, 1993, between Howard Bank, N.A. and VEDA(1)
 - (k) Form of Intercreditor Agreement between VEDA and Fleet Bank - NH(1)
- 10.22 U.S. Small Business Administration ("SBA") Authorization and Debenture Guaranty relating to proposed \$766,000 loan to Green Mountain Coffee, Inc. together with Letters dated 7/14/93 and 7/19/93 from SBA to Central Vermont Economic Development Corporation relating thereto(1)
- (a) Small Business Administration Guaranty dated September 30, 1993 from Robert P. Stiller to Central Vermont Economic Development Corporation (4)
 - (b) Assignment, dated September 30, 1993, by Central Vermont Economic Development Corporation to Small Business Administration of Small Business Administration Guaranty dated September 30, 1993 from Robert P. Stiller to Central Vermont Economic Development Corporation(4)
 - (c) Mortgage, dated September 30, 1993, between Green Mountain Coffee Roasters, Inc. and Central Vermont Economic Development Corporation(4)
 - (d) Assignment, dated September 30, 1993, by Central Vermont Economic Development Corporation to Small Business Administration of Mortgage, dated September 30, 1993, between Green Mountain Coffee Roasters, Inc. and Central Vermont Economic Development Corporation(4)
 - (e) "504" Note, dated September 30, 1993, in the amount of \$766,000, from Green Mountain Coffee Roasters, Inc. to Central Vermont Economic Development Corporation, as amended, including Servicing Agent Agreement among Green Mountain Coffee Roasters, Inc. and Colson Services Corp.(5)
 - (f) Assignment, dated September 30, 1993, by Central Vermont Economic Development Corporation to Small Business Administration of "504" Note, dated September 30, 1993, in the amount of \$766,000, from Green Mountain Coffee Roasters, Inc. to Central Vermont Economic Development Corporation(4)
 - (g) Security Agreement from Green Mountain Coffee Roasters, Inc. to Central Vermont Economic Development Corporation(4)
 - (h) Assignment, dated September 30, 1993, by Central Vermont Economic Development Corporation to Small Business Administration of Security Agreement from Green Mountain Coffee Roasters, Inc. to Central Vermont Economic Development Corporation(4)
 - (i) Letter Agreement, dated October 1, 1993, among Central Vermont Economic Development Corporation, Green Mountain Coffee Roasters, Inc. and Small Business Administration, amending the Authorization and Debenture Guaranty among Small Business Administration, Central Vermont Economic Development Corporation, and Green Mountain Coffee Roasters, Inc.(4)
 - (j) Development Company 504 Debenture, issued October 14, 1993, for principal amount of as Trustee(4)
- 10.33 Lease Agreement, dated 4/28/93, between Pilgrim Partnership and Green Mountain Coffee, Inc.(1)
- (a) Addendum to Lease Agreement, dated 4/28/93(1)
 - (b) Lease Amendment dated August 16, 1993(4)
 - (c) Letter Agreement dated July 30, 1997
- 10.36 1993 Stock Option Plan of the Company, as revised, with Form of Incentive Stock Option(1)*
- 10.37 Employee Stock Purchase Plan with Form of Participation Agreement(1)*
- 10.38 Stock Award Plan, as revised, with form of Stock Award Agreement(1)*
- 10.39 Employment Agreement of Robert P. Stiller dated July 1, 1993(1)*
- (a) Letter, dated August 1, 1993, amending Employment Agreement(1)*
- 10.40 Employment Agreement of Robert D. Britt dated March 26, 1993(1)*
- 10.41 Employment Agreement of Stephen J. Sabol dated as of July 1, 1993(1)*

10.42	Employment Agreement of Paul Comey dated as of July 1, 1993(1)*
10.44	Employment Agreement of Jonathan C. Wettstein dated as of July 1, 1993(1)*
10.45	Stock Option Agreement, dated July 21, 1993, between the Company and Robert D. Britt(1)*
10.46	Stock Option Agreement, dated July 21, 1993, between the Company and Agnes M. Cook(1)*
10.48	Stock Option Agreement, dated July 21, 1993, between the Company and Paul Comey(1)*
10.50	Stock Option Agreement, dated July 21, 1993, between the Company and James K. Prevo(1)*
10.51	Stock Option Agreement, dated July 21, 1993, between the Company and Stephen J. Sabol(1)*
10.52	Stock Option Agreement, dated July 21, 1993, between the Company and Jonathan C. Wettstein(1)*
10.59	Stock Option Agreement, dated July 22, 1994, between the Company and William D. Davis(8)*
10.60	Stock Option Agreement, dated July 22, 1994, between the Company and Jules A. del Vecchio(8)*
10.61	Stock Option Agreement, dated July 22, 1994, between the Company and Ian W. Murray(8)*
10.62	Stock Option Agreement, dated December 30, 1994, between the Company and Robert D. Britt(9)*
10.63	Stock Option Agreement, dated December 30, 1994, between the Company and Stephen J. Sabol(9)*
10.64	Stock Option Agreement, dated December 30, 1994, between the Company and Jonathan C. Wettstein(9)*
10.65	Stock Option Agreement, dated December 30, 1994, between the Company and Paul Comey(9)*
10.66	Stock Option Agreement, dated November 27, 1995, between the Company and David E. Moran(11)*
10.67	First Amendment to the Green Mountain Coffee, Inc. 1993 Stock Option Plan(11)*
10.68	First Amendment to Stock Option Agreement, dated July 21, 1993 between the Company and Robert D. Britt(11)*
10.69	First Amendment to Stock Option Agreement, dated July 21, 1993 between the Company and Paul Comey(11)*
10.70	First Amendment to Stock Option Agreement, dated July 21, 1993 between the Company and Jonathan C. Wettstein(11)*
10.71	Employment Agreement, as of November 19, 1996, between the Company and Dean E. Haller(13)*
10.72	Employment Agreement, as of January 1, 1997, between the Company and William L. Prost(13)*
10.73	Stock Option Agreement, dated November 19, 1996, between the Company and Dean E. Haller(13)*
10.74	Stock Option Agreement, dated May 19, 1997 between the Company and William L. Prost(13)*
10.75	Stock Option Agreement, dated July 31, 1997 between the Company and James K. Prevo*
11	Computation of Earnings Per Share
21	List of Subsidiaries of the Company
24	Powers of Attorney
27	Financial Data Schedule

(b) Reports on Form 8-K No reports on Form 8-K were filed during the quarter ended September 28, 1997.

Notes to exhibits listed above

* Management contract or compensatory plan

1. Incorporated by reference to the corresponding exhibit number in the Registration Statement on Form SB-2 (Registration No. 33-66646) filed on July 28, 1993 and declared effective on September 21, 1993
2. Incorporated by reference to the corresponding exhibit number in the Quarterly Report on Form 10-QSB for the 12 weeks ended April 9, 1994, filed on May 24, 1994
3. Incorporated by reference to the corresponding exhibit number in the Annual Report on Form 10-KSB for the fiscal year ended September 24, 1994, filed on December 8, 1994
4. Incorporated by reference to the corresponding exhibit number in the Annual Report on Form 10-KSB for the fiscal year ended September 25, 1993, filed on December 23, 1993
5. Incorporated by reference to the corresponding exhibit number in the Quarterly Report on Form 10-QSB for the 16 weeks ended January 15, 1994, filed on February 25, 1994
6. Incorporated by reference to the corresponding exhibit number in the Quarterly Report on Form 10-QSB for the 16 weeks ended January 14, 1995, filed on February 25, 1995
7. Incorporated by reference to the corresponding exhibit number in the Quarterly Report on Form 10-QSB for the 12 weeks ended April 8, 1995, filed on May 23, 1995
8. Incorporated by reference to the corresponding exhibit number in Amendment No. 1 to the Annual Report on Form 10-KSB/A for the fiscal year ended September 24, 1994, filed on December 16, 1994
9. Incorporated by reference to the corresponding exhibit number in the Annual Report on Form 10-KSB for the fiscal year ended September 30, 1995
10. Incorporated by reference to the corresponding exhibit number in the Quarterly Report on Form 10-QSB for the 12 weeks ended April 13, 1996
11. Incorporated by reference to the corresponding exhibit number in the Annual Report on Form 10-KSB for the fiscal year ended September 28, 1996
12. Incorporated by reference to the corresponding exhibit number in the Quarterly Report on Form 10-Q for the 16 weeks ended January 18, 1997
13. Incorporated by reference to the corresponding exhibit number in the Quarterly Report on Form 10-Q for the 12 weeks ended April 12, 1997
14. Incorporated by reference to the corresponding exhibit number in the Quarterly Report on Form 10-Q for the 12 weeks ended July 5, 1997

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.

GREEN MOUNTAIN COFFEE, INC.

By: */s/ Robert P. Stiller*

ROBERT P. STILLER
Chairman of the Board of Directors,
President and Chief Executive Officer

Pursuant to the requirements of Section 13 or 15(d) 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.

Signature	Title	Date
-----	-----	-----
<i>/s/ Robert P. Stiller</i> ----- ROBERT P. STILLER	Chairman of the Board of Directors, President and Chief Executive Officer (Principal Executive Officer)	December 24, 1997
<i>/s/ Robert D. Britt</i> ----- ROBERT D. BRITT	Chief Financial Officer, Treasurer, Secretary and Director (Principal Financial and Accounting Officer)	December 24, 1997
STEPHEN J. SABOL*	Director	December 24, 1997
JONATHAN C. WETTSTEIN*	Director	December 24, 1997
WILLIAM D. DAVIS*	Director	December 24, 1997
JULES A. DEL VECCHIO*	Director	December 24, 1997
DAVID E. MORAN*	Director	December 24, 1997
IAN W. MURRAY*	Director	December 24, 1997

*By: */s/ Robert P. Stiller*

Robert P. Stiller, Attorney-in-fact

Schedule II - Valuation and Qualifying Accounts for the fiscal years ended September 27, 1997, September 28, 1996, and September 30, 1995

Column A	Column B	Column C	Column D	Column E	
Description	Balance at Beginning of Period	Charged to Costs and Expenses	Additions		Balance at End of Period
			Charged to Other Accounts	Deductions	
Allowance for doubtful accounts:					
Fiscal 1997.....	\$ 80,000	\$ 207,000	-	\$ 171,000	\$ 116,000
Fiscal 1996.....	\$ 63,000	\$ 173,000	-	\$ 156,000	\$ 80,000
Fiscal 1995.....	\$ 57,000	\$ 163,000	-	\$ 157,000	\$ 63,000
Deferred tax asset valuation allowance:					
Fiscal 1997.....	\$3,503,000	-	-	\$1,112,000	\$2,391,000
Fiscal 1996.....	\$1,225,000	\$2,605,000	-	\$ 327,000	\$3,503,000
Fiscal 1995.....	\$1,195,000	\$ 30,000	-	-	\$1,225,000

GREEN MOUNTAIN COFFEE, INC.

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Report of Independent Accountants

To the Board of Directors and Stockholders of Green Mountain Coffee, Inc.

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations, of changes in stockholders equity and of cash flows present fairly, in all material respects, the financial position of Green Mountain Coffee, Inc. and its subsidiary at September 27, 1997 and September 28, 1996, and the results of their operations and their cash flows for each of the three years in the period ended September 27, 1997, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

*/s/ Price Waterhouse LLP
Boston, Massachusetts
November 11, 1997*

GREEN MOUNTAIN COFFEE, INC.
CONSOLIDATED BALANCE SHEET
(Dollars in thousands)

	September 27, 1997	September 28, 1996
	-----	-----
Assets		
Current assets:		
Cash and cash equivalents.....	\$ 831	\$ 551
Receivables, less allowances of \$116 at September 27, 1997 and \$80 at September 28, 1996.....	4,119	2,778
Inventories.....	5,224	3,276
Other current assets.....	376	627
Deferred income taxes, net.....	865	516
	-----	-----
Total current assets.....	11,415	7,748
Fixed assets, net.....	11,258	8,715
Other long-term assets, net.....	385	394
	-----	-----
	\$ 23,544	\$ 17,243
	=====	=====
Liabilities and Stockholders Equity		
Current liabilities:		
Current portion of long-term debt.....	\$ 943	\$ 947
Current portion of obligation under capital lease.....	132	114
Accounts payable.....	4,954	3,002
Accrued payroll.....	616	480
Accrued expenses.....	279	264
	-----	-----
Total current liabilities.....	6,924	4,807
	-----	-----
Long-term debt.....	1,968	2,911
	-----	-----
Obligation under capital lease.....	12	144
	-----	-----
Long-term line of credit.....	3,985	508
	-----	-----
Commitments		
Stockholders equity:		
Common stock, \$0.10 par value:		
Authorized - 10,000,000 shares;		
issued and outstanding-3,530,818 shares		
at September 27, 1997 and 3,417,306		
shares at September 28, 1996.....		
	353	342
Additional paid-in capital.....	12,954	12,508
Accumulated deficit.....	(2,652)	(3,977)
	-----	-----
Total stockholders' equity.....	10,655	8,873
	-----	-----
	\$ 23,544	\$ 17,243
	=====	=====

The accompanying Notes to Consolidated Financial Statements are an integral part of these financial statements

GREEN MOUNTAIN COFFEE, INC.
CONSOLIDATED STATEMENT OF OPERATIONS
(Dollars in thousands except per share data)

	Year Ended		
	September 27, 1997	September 28, 1996	September 30, 1995
Net sales.....	\$ 47,834	\$ 38,347	\$ 34,024
Cost of sales.....	29,420	22,817	21,738
	-----	-----	-----
Gross profit.....	18,414	15,530	12,286
Selling and operating expenses.....	13,371	10,471	9,529
General and administrative expenses	3,391	3,132	2,578
Loss on abandonment of equipment...	218	-	-
	-----	-----	-----
Income from operations.....	1,434	1,927	179
Other income (expense).....	17	(21)	(24)
Interest expense.....	(521)	(422)	(399)
	-----	-----	-----
Income (loss) before income taxes..	930	1,484	(244)
Income tax benefit (expense).....	395	(222)	26
	-----	-----	-----
Net income (loss).....	\$ 1,325	\$ 1,262	\$ (218)
	=====	=====	=====
Net income (loss) per share.....	\$ 0.38	\$ 0.37	\$ (0.06)
	=====	=====	=====
Weighted average shares outstanding	3,467,932	3,427,610	3,383,529
	=====	=====	=====

The accompanying Notes to Consolidated Financial Statements are an integral part of these financial statements

GREEN MOUNTAIN COFFEE, INC.
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
For the years ended

September 27, 1997, September 28, 1996 and September 30, 1995

(Dollars in thousands)

	Shares	Common stock	Additional paid-in capital	Accumulated deficit	Total stockholders equity
Balance at September 24, 1994....	3,383,485	\$ 338	\$ 12,350	\$ (5,021)	\$ 7,667
Issuance of common stock under employee stock purchase plan....	16,310	2	71	-	73
Net loss.....	-	-	-	(218)	(218)
Balance at September 30, 1995....	3,399,795	340	12,421	(5,239)	7,522
Issuance of common stock under employee stock purchase plan....	17,511	2	87	-	89
Net income.....	-	-	-	1,262	1,262
Balance at September 28, 1996....	3,417,306	342	12,508	(3,977)	8,873
Issuance of common stock under employee stock purchase plan....	17,790	2	106	-	108
Options exercised.....	95,722	9	340	-	350
Net income.....	-	-	-	1,325	1,325
Balance at September 27, 1997....	3,530,818	\$ 353	\$ 12,954	\$ (2,652)	\$ 10,655

The accompanying Notes to Consolidated Financial Statements are an integral part of these financial statements

GREEN MOUNTAIN COFFEE, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
(Dollars in thousands)

	Year ended		
	September 27, 1997	September 28, 1996	September 30, 1995
Cash flows from operating activities:			
Net income (loss).....	\$ 1,325	\$ 1,262	\$ (218)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization...	2,504	2,026	1,624
Loss on disposal of fixed assets	240	47	15
Provision for doubtful accounts	171	156	157
Deferred income taxes.....	(450)	188	(26)
Changes in assets and liabilities:			
Receivables.....	(1,512)	(274)	(1,324)
Inventories.....	(1,948)	(510)	(359)
Other current assets.....	251	(250)	(57)
Other long-term assets, net....	9	(180)	(97)
Accounts payable.....	1,952	251	758
Accrued payroll.....	136	310	(131)
Accrued expenses.....	15	108	(47)
	-----	-----	-----
Net cash provided by operating activities.....	2,693	3,134	295
	-----	-----	-----
Cash flows from investing activities:			
Expenditures for fixed assets...	(5,367)	(2,519)	(1,602)
Proceeds from disposals of fixed assets.....	80	59	-
	-----	-----	-----
Net cash used for investing activities.....	(5,287)	(2,460)	(1,602)
Cash flows from financing activities:			
Proceeds from issuance of common stock.....	458	89	73
Proceeds from issuance of long-term debt.....	-	1,509	286
Repayment of long-term debt.....	(947)	(729)	(594)
Principal payments under capital lease obligation.....	(114)	(90)	(5)
Net change in revolving line of credit.....	3,477	(1,212)	1,720
Repayment of note payable to stockholder.....	-	-	(416)
	-----	-----	-----
Net cash provided by (used for) financing activities	2,874	(433)	1,064
	-----	-----	-----
Net increase (decrease) in cash and cash equivalents.....	280	241	(243)
Cash and cash equivalents at beginning of year.....	551	310	553
	-----	-----	-----
Cash and cash equivalents at end of year.....	\$ 831	\$ 551	\$ 310
	=====	=====	=====
Supplemental disclosures of cash flow information:			
Cash paid for interest.....	\$ 507	\$ 401	\$ 382
Cash paid for income taxes.....	\$ 46	\$ 5	\$ 8

The accompanying Notes to Consolidated Financial Statements are an integral part of these financial statements

GREEN MOUNTAIN COFFEE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of Business and Organization

The accompanying consolidated financial statements include the accounts of Green Mountain Coffee, Inc. (the "Company") and its wholly-owned subsidiary, Green Mountain Coffee Roasters, Inc. All significant inter-company transactions and balances have been eliminated.

The Company purchases high-quality arabica coffee beans for roasting, then packages and distributes the roasted coffee primarily in the northeastern United States. The majority of the Company's revenue is derived from its wholesale operation which serves fine dining, supermarket, specialty food store, convenience store, food service, hotel, university, travel and office coffee service customers. The Company also has a direct mail operation serving customers nationwide, and currently operates twelve company-owned retail stores in Vermont, Connecticut, Illinois, Maine, Massachusetts, New Hampshire and New York. The Company's fiscal year ends on the last Saturday in September. Fiscal 1997 and fiscal 1996 represent the years ended September 27, 1997 and September 28, 1996, respectively, and consist of 52 weeks. Fiscal 1995 represents the year ended September 30, 1995 and consists of 53 weeks.

2. Significant accounting policies

Cash and cash equivalents

The Company considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. Cash and cash equivalents include money market funds which are carried at cost, plus accrued interest, which approximates market. The Company does not believe that it is subject to any unusual credit and market risk.

Inventories

Inventories are stated at the lower of cost or market, with cost being determined by the first-in, first-out method.

Hedging

The Company uses futures and options contracts to hedge the effects of fluctuations in the price of green coffee beans. These transactions meet the requirements for hedge accounting, including designation and correlation. To obtain a proper matching of revenue and expense, gains or losses arising from open and closed hedging transactions are included in inventory as a cost of the commodity and reflected in the statement of operations when the product is sold. The cost and fair values of these contracts were not material.

Advertising

The Company expenses the costs of advertising the first time the advertising takes place. Advertising expense totaled \$1,991,000, \$1,427,000, and \$1,385,000 for the years ended September 27, 1997, September 28, 1996 and September 30, 1995, respectively.

GREEN MOUNTAIN COFFEE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Fixed assets

Fixed assets are recorded at cost. Expenditures for maintenance, repairs and renewals of minor items are charged to expense as incurred. Depreciation of fixed assets is provided using the straight-line method.

Equipment under capital leases is amortized on the straight-line method over the shorter of the lease term or the estimated useful life of the equipment.

In order to facilitate sales, the Company follows an industry-wide practice of purchasing and loaning coffee brewing and related equipment to wholesale customers.

Revenue Recognition

Revenue from wholesale and mail order sales is recognized upon product shipment. Revenue from retail sales is recognized upon sale to customers.

Income Taxes

The Company utilizes the asset and liability method of accounting for income taxes, as set forth in Statement of Financial Accounting Standards (SFAS) No. 109, Accounting for Income Taxes. SFAS 109 requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled.

Income (Loss) Per Share

Income (Loss) per share is computed based upon the weighted average number of common and dilutive common equivalent shares outstanding during the year. Common equivalent shares represent the net additional shares resulting from the assumed exercise of outstanding stock options calculated using the treasury stock method.

In February, 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128 (SFAS 128), Earnings per Share. SFAS 128 establishes new standards for computing and presenting earnings per share and will be effective for the Company's interim and annual periods ending after December 15, 1997. Early adoption of the Statement is not permitted. SFAS 128 requires restatement of all previously reported earnings per share data that are presented. SFAS 128 replaces primary and fully diluted earnings per share with basic and diluted earnings per share, and results in no material difference in earnings per share information currently presented.

Statement of Cash Flows--Non-Cash Investing and Financing Activities

During fiscal 1996, the Company financed approximately \$109,000 for the purchase of five service vehicles. Additionally, capital lease obligations of approximately \$71,000 were incurred when the Company entered into leases for offices and loaner equipment.

Financial Instruments

The Company enters into various types of financial instruments in the normal course of business. Fair values are estimated based on assumptions concerning the amount and timing of estimated future cash flows and assumed discount rates reflecting varying degrees of perceived risk. The fair values of cash, cash equivalents, accounts receivable, accounts payable, accrued expenses and debt approximate their carrying value at September 27, 1997.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingencies at September 27, 1997 and September 28, 1996, and the reported amounts of revenues and expenses during the three years ended September 27, 1997. Actual results could differ from these estimates.

GREEN MOUNTAIN COFFEE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Significant Customer and Supply Risk

The Company has one customer which accounted for 10.4%, 12.1% and 10.4% of net sales in the years ended September 27, 1997, September 28, 1996 and September 30, 1995, respectively. Concentration of credit risk with respect to accounts receivable is limited due to the large number of customers in various industries comprising the Company's customer base. Ongoing credit evaluations of customers' payment history are performed, and collateral is not required. The Company maintains reserves for potential credit losses and such losses, in the aggregate, have not exceeded management's expectations.

Reclassifications

Certain reclassifications of prior year balances have been made to conform to the current presentation.

3. Inventories

Inventories consist of the following:

	September 27, 1997	September 28, 1996
Raw materials and supplies.....	\$ 2,148,000	\$ 1,291,000
Finished goods.....	3,076,000	1,985,000
	\$ 5,224,000	\$ 3,276,000

As of September 27, 1997, the Company had fixed price inventory purchase commitments for green coffee totaling approximately \$4.0 million. The Company believes, based on relationships established with its suppliers in the past, that the risk of non-delivery on such purchase commitments is remote.

4. Fixed assets

	Useful Life in Years	September 27, 1997	September 28, 1996
Leasehold improvements.....	5 - 10	\$ 2,409,000	\$ 2,389,000
Production equipment.....	2 - 10	5,310,000	4,456,000
Office equipment.....	3 - 10	5,492,000	3,774,000
Equipment on loan to wholesale customers.....	3 - 5	5,042,000	4,503,000
Vehicles.....	2 - 4	319,000	230,000
Construction-in-progress.....		1,590,000	499,000
		20,162,000	15,851,000
Total fixed assets.....			
Accumulated depreciation.....		(8,904,000)	(7,136,000)
		\$ 11,258,000	\$ 8,715,000
		=====	=====

During fiscal 1997, the Company embarked on an expansion of its central production and distribution facility in order to increase capacity and streamline operations. In connection with this program, certain equipment with a net book value of \$218,000 was abandoned for no proceeds in the twelve week period ended April 12, 1997.

GREEN MOUNTAIN COFFEE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. Income taxes

The provision (benefit) for income taxes consists of:

	September 27, 1997	September 28, 1996	September 30, 1995
	-----	-----	-----
Current tax expense:			
Federal.....	\$ 354,000	\$ 447,000	\$ -
State.....	108,000	120,000	10,000
Benefit of net operating loss carryforwards.....	(408,000)	(533,000)	(10,000)
	-----	-----	-----
Total current.....	54,000	34,000	-
	-----	-----	-----
Deferred tax expense (benefit)			
Federal.....	395,000	515,000	(52,000)
State.....	268,000	(2,605,000)	(4,000)
	-----	-----	-----
Total deferred	663,000	(2,090,000)	(56,000)
Tax asset valuation allowance..	(1,112,000)	2,278,000	30,000
	-----	-----	-----
Total tax (benefit) expense....	\$ (395,000)	\$ 222,000	\$ (26,000)
	=====	=====	=====

SFAS 109 is an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns. In estimating future tax consequences, SFAS 109 generally considers expected future events other than enactments of changes in the tax law or rates.

Certain adjustments were made to state deferred tax assets during fiscal 1997 and are reflected in the state deferred tax expense.

Deferred tax assets (liabilities) consist of the following:

	September 27, 1997	September 28, 1996
	-----	-----
Deferred tax assets:		
Net operating loss carryforwards.....	\$ 1,044,000	\$ 1,744,000
Federal investment tax credits.....	27,000	54,000
Vermont state manufacturers..... investment tax credit.....	2,627,000	2,627,000
Section 263A adjustment.....	47,000	91,000
Other reserves and temporary differences...	147,000	107,000
	-----	-----
Gross deferred tax assets.....	3,892,000	4,623,000
Deferred tax asset valuation allowance.....	(2,391,000)	(3,503,000)
Deferred tax liability:		
Depreciation.....	(150,000)	(218,000)
	-----	-----
Net deferred tax assets.....	\$ 1,351,000	\$ 902,000
	=====	=====

GREEN MOUNTAIN COFFEE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At September 27, 1997, the Company has net operating loss carry-forwards and investment tax credits for federal income tax reporting purposes of \$2,458,000 and \$27,000, respectively, which will expire between 1998 and 2009. In addition, in November 1996, the Company received notification from the State of Vermont that it had approved a \$4,041,000 manufacturers investment tax credit pertaining to certain fixed assets purchased between July 1, 1993 and June 30, 1996, which will expire in 2005. The resulting deferred tax asset, which is partially offset by a valuation allowance, is reflected in the above table net of the federal tax effect.

Realization of the net deferred tax assets is dependent on generating sufficient taxable income prior to the expiration of the loss carry-forwards. During fiscal 1997, the deferred tax asset valuation allowance was reduced by \$1,112,000, based primarily upon estimates of future taxable income. Although realization is not assured, management believes that the net deferred tax asset represents managements best estimate, based upon the weight of available evidence as prescribed in SFAS 109, of the amount which is more likely than not to be realized. If such evidence were to change, based upon near-term operating results and longer-term projections, the amount of the valuation allowance recorded against the gross deferred tax asset may be decreased or increased. Also, if certain substantial changes in the Company's ownership should occur, there would be an annual limitation on the amount of loss carry-forwards which could be utilized, and restrictions on the utilization of investment tax credit carry-forwards.

A reconciliation between the amount of reported income tax expense (benefit) and the amount computed using the U.S. Federal Statutory rate of 34% for fiscal 1997 and 35% for fiscal 1996 and 1995 is as follows:

	September 27, 1997	September 28, 1996	September 30, 1995
	-----	-----	-----
Tax at U.S. Federal Statutory rate	\$ 316,000	\$ 519,000	\$ (85,000)
Increase (decrease) in rates resulting from:			
Other nondeductible items.....	20,000	22,000	33,000
State taxes, net of federal benefits.....	52,000	(2,597,000)	(4,000)
Deferred tax asset valuation allowance and other.....	(783,000)	2,278,000	30,000
	-----	-----	-----
Tax at effective rates.....	\$ (395,000)	\$ 222,000	\$ (26,000)
	=====	=====	=====

6. Long-Term Line of Credit

The Company maintains a revolving line of credit agreement under a comprehensive credit facility ("credit facility") with Fleet Bank - NH ("Fleet"). Borrowings are secured by substantially all of the Company's assets. During fiscal 1997, the Company amended its credit facility with Fleet Bank - NH. Under the revised facility, the Company increased the limit of the revolving line of credit from \$3,000,000 to \$6,000,000 and extended its term to February 28, 1999. The interest paid on this line of credit, as well as other Fleet Bank borrowings, varies with the prime and LIBOR interest rates. At September 27, 1997, the interest rate on \$3,500,000 of the principal amount outstanding on the revolving line of credit was at the one-month LIBOR plus 225 basis points or 7.9%, while the interest on the remainder portion was at Fleets base rate or 8.5% at September 27, 1997. The terms of the credit facility also provide for the maintenance of specified financial ratios and restrict certain transactions, including the payment of any dividends without prior bank approval. The Company was in compliance with these covenants at September 27, 1997.

GREEN MOUNTAIN COFFEE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The principal amounts outstanding on the revolving line of credit at September 27, 1997 and September 28, 1996 were \$3,985,000 and \$508,000, respectively.

7. Long-term debt

	September 27, 1997	September 28, 1996
	-----	-----
Facility and Equipment Term Loan.....	\$ 2,100,000	\$ 2,827,000
Central Vermont Economic Development Corporation Debenture.....	532,000	600,000
Vermont Economic Development Authority Promissory Note.....	138,000	182,000
Computer Equipment Installment Loans.....	73,000	153,000
Service Vehicle Installment Loans.....	68,000	96,000
	-----	-----
	2,911,000	3,858,000
Less current portion.....	943,000	947,000
	-----	-----
	\$ 1,968,000	\$ 2,911,000
	=====	=====

Facility and Equipment Term Loans

As part of the credit facility, the Company has financed fixed asset purchases under five term loans which are secured by a senior lien on substantially all of the Company's assets and by a security interest in the fixed assets for which the borrowings are made. The interest rate on all term loans under the credit facility is equal to the lesser of 25 basis points above Fleets variable base rate or 275 basis points above the LIBOR rate for maturities of up to one year (8.4% at September 27, 1997). The original terms of the loans range from 56 to 84 months and are being repaid in equal monthly payments totaling approximately \$60,600 plus interest.

Central Vermont Economic Development Corporation Debenture

The debenture from the Central Vermont Economic Development Corporation (CVEDC) is guaranteed by the U.S. Small Business Administration. The debenture term is ten years and requires equal monthly principal and interest payments of approximately \$8,500 and carries a fixed interest rate of 5.812%. The debenture is secured by a secondary security interest in the related fixed assets and is guaranteed by the majority stockholder of the Company. Additional guarantees will be required of any stockholder obtaining more than 20% ownership of the Company.

Vermont Economic Development Authority Promissory Note

The Vermont Economic Development Authority promissory note is payable in monthly principal and interest installments of approximately \$4,300 over seven years, with an interest rate of 5.5%. The note is secured by a secondary security interest in the related fixed assets and contains covenants related to restrictions on prepayments of certain portions of the Company's remaining outstanding debt as defined in the underlying agreement. The Company was in compliance with these covenants at September 27, 1997.

GREEN MOUNTAIN COFFEE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Computer Equipment Installment Loans

The computer equipment installment loans notes bear interest at 8.69%, and require monthly installments of principal and interest totaling approximately \$7,600 through September 1998.

Service Vehicle Installment Loans

The service vehicle installment loans represent several loans to financing institutions for the purchase of service vehicles. The notes bear interest at rates between 4.8% and 7.4% and require monthly installments of principal and interest totaling approximately \$3,500 through February 2000.

Maturities

Maturities of long-term debt for years subsequent to September 27, 1997 are as follows:

Fiscal Year	

1998.....	\$ 943,000
1999.....	835,000
2000.....	581,000
2001.....	314,000
2002.....	115,000
Thereafter.....	123,000

	\$ 2,911,000
	=====

8. Employee Compensation Plans

Stock Option Plans

Prior to the establishment on September 21, 1993 of the employee stock option plan (the 1993 Plan), the Company granted to certain key management employees, individual non-qualified stock option agreements to purchase shares of the Company's common stock. All such options presently outstanding are fully vested and had an original expiration date after the fifth anniversary following the date of grant or earlier if employment terminates. Effective July 26, 1996, the term of 141,440 of such options was extended for an additional five years. The exercise price of these options exceeded the fair market value of the common stock at the date of the extension. At September 27, 1997, 141,440 options were outstanding under these individual agreements.

The 1993 Plan provides for the granting of both incentive and non-qualified stock options, with an aggregate number of 75,000 shares of common stock to be made available under the 1993 Plan. Effective July 26, 1996, the total number of shares of authorized common stock to be made available under the 1993 Plan was increased to 275,000. The option price for each incentive stock option shall not be less than the fair market value per share of common stock on the date of grant, with certain provisions which increase the option price to 110% of the fair market value of the common stock if the grantee owns in excess of 10% of the Company's common stock at the date of grant. The option price for each non-qualified stock option shall not be less than 85% of the fair market value of the common stock at the date of grant. Options under the Plan become exercisable over periods determined by the Board of Directors. At September 27, 1997 and September 28, 1996, options for 158,204 and 196,005 shares of common stock were available for grant under the plan, respectively.

GREEN MOUNTAIN COFFEE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

No compensation expense was recognized under the Plan for employees during fiscal 1997 or fiscal 1996. Had compensation cost been determined based on the fair value of options granted to employees at the grant date consistent with the provisions of SFAS No. 123, the Company's net income and net income per share for the years ended September 27, 1997 and September 28, 1996 would have decreased to the pro forma amounts indicated below:

		Fiscal 1997	Fiscal 1996
		-----	-----
Net Income	As reported.....	\$ 1,325	\$ 1,262
	Pro Forma.....	1,198	1,262
Net income per share	As reported.....	0.38	0.37
	Pro forma.....	0.35	0.37

The fair value of each stock option is estimated on the date of the grant using the Black-Scholes option-pricing model with the following assumptions: an expected life of 6 years, an average volatility of 67%, no dividend yield and a risk-free interest rate of 6.11% and 6.24% for fiscal 1997 and fiscal 1996 grants respectively.

Option activity is summarized as follows:

	Number of Shares	Option Price
	-----	-----
Outstanding at September 24, 1994.....	288,953	\$ 2.55 - 8.02
Granted.....	59,684	8.50
Exercised.....	-	
Canceled.....	(34,248)	8.50

Outstanding at September 30, 1995.....	314,389	2.55-8.50
Granted.....	18,400	6.25-8.50
Exercised.....	-	
Canceled.....	(16,627)	8.02-8.50

Outstanding at September 28, 1996.....	316,162	2.55-8.50
Granted.....	46,000	6.125-9.625
Exercised.....	(95,722)	2.55-6.875
Canceled.....	(8,200)	8.50

Outstanding at September 27, 1997.....	258,240	\$ 6.00-9.625
	=====	=====

As of September 27, 1997, 59,248 of these options were not exercisable.

GREEN MOUNTAIN COFFEE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Employee Stock Purchase Plan

On September 21, 1993, the Company approved the adoption of an Employee Stock Purchase Plan (the "Purchase Plan"). Under the Purchase Plan, the Company reserved 75,000 shares of common stock for purchase by eligible employees. The Purchase Plan provides for five annual offerings of 15,000 shares of common stock per offering, plus any unissued shares from prior fiscal years. Each participating employee has the option to purchase a maximum number of shares equal to 10% of the participant's base pay, divided by 85% of the market value of the common stock at such time, subject to a pro rata reduction of shares if the annual aggregate maximum number of shares offered by the Company would otherwise be exceeded.

For the fiscal 1998 offering there are outstanding options to purchase 18,632 shares under the Purchase Plan at a maximum exercise price of \$8.82. The ultimate purchase price of the underlying shares of common stock is 85% of the fair market value of the common stock at the beginning or end of the fiscal year, whichever is less.

The fair value of the employees purchase rights was estimated using the Black-Scholes model with the following assumptions for fiscal 1997 and fiscal 1996: an expected life of one year, expected volatility of 67%, and a risk-free interest rate of 5.51% and 5.66%, respectively. The weighted average fair value of those purchase rights granted in fiscal 1997 and fiscal 1996 was \$2.79 and \$2.35 respectively.

9. Defined Contribution Plan

The Company has a defined contribution plan which meets the requirements of section 401(k) of the Internal Revenue Code. All employees of the Company with one year or more of service who are at least twenty-one years of age are eligible to participate in the plan. The plan allows employees to defer a portion of their salary on a pre-tax basis and the Company contributes 50% of amounts contributed by employees up to 5% of their salary. Company contributions to the plan amounted to \$96,000, \$73,000, and \$52,000 for the years ended September 27, 1997, September 28, 1996 and September 30, 1995, respectively.

10. Warrants

The Company issued warrants for 100,000 shares of the Company's common stock on September 21, 1993 to its underwriter in conjunction with the Company's initial public offering. The warrants carry an exercise price of \$12 per share and expire on September 21, 1998. The Company has reserved 100,000 shares of common stock in connection with these warrants.

11. Commitments

Leases

The Company leases office and retail space, production, distribution and service facilities and certain equipment under various noncancelable operating leases, ranging from one to ten years. Property leases normally require payment of a minimum annual rental plus a pro-rata share of certain landlord operating expenses. In addition, a number of the Company's retail space leases require payment of contingent rentals based upon a percentage of sales in excess of a specified amount.

GREEN MOUNTAIN COFFEE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company has entered into a capital lease, primarily for loaner and office equipment. Minimum future lease payments (net of committed sublease rental receipts of \$51,000 for the fiscal years 1998 and 1999, \$33,000 for the fiscal years 2000 and 2001, and \$10,936 thereafter) under non-cancelable operating leases and capital leases, for years subsequent to September 28, 1996 are as follows:

Fiscal Year -----	Operating Leases -----	Capital Lease -----
1998.....	\$ 1,375,000	\$ 145,000
1999.....	1,297,000	12,000
2000.....	1,098,000	-
2001.....	1,015,000	-
2002.....	688,000	-
Thereafter.....	2,375,000	-
	-----	-----
Total minimum lease payments.....	\$ 7,848,000	\$ 157,000
	=====	
Less amount representing interest.....		13,000

Present value of obligations under capital lease (including current portion of \$132,000).....		\$ 144,000
		=====

PILGRIM PARK
PO Box 447
Waterbury, Vermont 05676

July 30, 1997

Mr. Paul Comey
Green Mountain Coffee Roasters, Inc.
1 Coffee Lane
Waterbury, VT 05676

Dear Paul:

Reference is made to the lease agreement between Green Mountain Coffee Roasters, Inc. ("GMCR") and Pilgrim Partnership ("Pilgrim") dated April 28, 1993, as amended August 16, 1993 (the "Base Lease"), and the two letters from Pilgrim to GMCR dated April 11, 1997, all related to the office building and manufacturing facility and proposed addition thereto located, and to be located, on 3.15 acres of land in the Pilgrim Park in the Village of Waterbury.

The purpose of this letter agreement is to confirm our respective understandings with respect to the Base Lease and amendments thereto represented by the aforesaid April 11, 1997 letters. Accordingly, we confirm our agreement as follows:

1. The Base Lease remains in full force and effect.
2. The term "Property" in the Base Lease shall also include the .02 acre parcel conveyed to Pilgrim by warranty deed of John S. Reynolds dated May 5, 1997 and recorded in Book 151 Page 529 of the Waterbury Land Records, and the 1 acre parcel conveyed to Pilgrim by the warranty deed of Stephen Van Esen dated May 7, 1997 and recorded in Book 151 Page 542 of said Land Records.
3. The lease term of the Base Lease is extended to August 31, 2007.
4. As to the base rent under the Base Lease with respect to the existing 34,000 square feet of space, the current annual base rent per square foot of \$6.30 remains in effect until August 31, 1999. On September 1, 1999 the base rent shall increase to \$6.60 per square foot and remain at said increased rent until August 31, 2007.
5. Pilgrim agrees to construct a 25,000 square foot addition to the existing production facility, including parking, in accordance with the following sets of plans and specifications: (a) set prepared by A&S Building Systems and date stamped by Lawes Consulting Engineers on July 3, 1997, Job Number 297-592, consisting of 12 pages; and (b) set prepared by Lawes Consulting Engineers, Project N. 9711, consisting of 11 pages. Said 25,000 square feet includes 25,000 square feet of space at ground level and 15,000 square feet of second floor space thereby totaling 40,000 square feet of space for rent calculation purposes. Said addition shall be completed on or about September 1, 1997 at an estimated cost to Pilgrim of \$1,300,000.00. In the event that the cost exceeds said amount as the result of changes requested by GMCR, the rent set forth in paragraph 6 hereof shall be increased by a rate equal to \$.36 per square foot for each \$100,000.00 of increased cost up to a maximum increased cost of \$250,000.00.
6. The base rent for the addition shall be calculated on the basis of 40,000 square feet of space and the lease term therefor [sic] shall commence on September 1, 1997. Subject to any adjustment required by paragraph 5, the annual rent per square foot for the addition is as follows:

Year	Per Square Foot(\$)
----	-----
1	4.50
2	4.75
3	5.00
4	5.25
5	5.50
6	5.75
7	6.00
8	6.25
9	6.50
10	6.60

7. All of the other terms and conditions of the Base Lease shall apply to the addition.

Please indicate your acceptance of the aforesaid by signing and returning to the undersigned the duplicate copy of this letter.

Very truly yours,

Pilgrim Partnership

By /s/ Stephen Van Esen

General Partner

Accepted and agreed to this 30 day of July, 1997

Green Mountain Coffee Roasters, Inc.

By /s/ Paul Comey

**GREEN MOUNTAIN COFFEE, INC.
STOCK OPTION AGREEMENT
UNDER 1993 STOCK OPTION PLAN
INCENTIVE STOCK OPTION**

As of July 31, 1997

AGREEMENT entered into by and between Green Mountain Coffee, Inc., a Delaware corporation with its principal place of business in Waterbury, Vermont (together with its subsidiaries, the "Company"), and the undersigned employee of the Company (the "Optionee").

WHEREAS, the Company desires to grant the Optionee an incentive stock option under the Company's 1993 Stock Option Plan, as amended (the "Plan") to acquire shares of the Company's Common Stock, par value \$.10 per share (the "Shares").

WHEREAS, the Plan provides that each option is to be evidenced by an option agreement, setting forth the terms and conditions of the option.

ACCORDINGLY, in consideration of the premises and of the mutual covenants and agreements contained herein, the Company and the Optionee hereby agree as follows:

1. Grant of Option. The Company hereby grants to the Optionee an incentive stock option (the "Option") to purchase all or any part of the number of Shares shown at the end of this Agreement on the terms and conditions hereinafter set forth. This option is intended to be treated as an incentive stock option under Section 422 of the Internal Revenue Code of 1986, as amended (the "Code").

2. Purchase Price. The purchase price ("Purchase Price") for the Shares covered by the Option shall be the dollar amount per Share shown at the end of this Agreement.

3. Time of Exercise of Option. Subject to Section 4 below, the Option shall be first exercisable as to 50% of the Shares covered by the Option on July 31, 1998 and as to the remaining 50% on July 31, 1999. To the extent the Option is not exercised by the Optionee when it becomes exercisable, it shall not expire, but shall be carried forward and shall be exercisable, on a cumulative basis, until the Expiration Date, as hereinafter defined, subject to the other terms of this Agreement.

4. Term of Options; Exercisability.

(a) Term.

(i) If not earlier terminated as provided below, each Option shall expire on the date shown at the end of this Agreement (the "Expiration Date"), as determined by the Board of Directors of the Company (the "Board").

(ii) Except as otherwise provided in this Section 4, if the Optionee's employment by the Company is terminated, the Option granted to the Optionee hereunder shall terminate on the earlier of ninety days after the date the Optionee's employment by the Company is terminated, or (ii) the date on which the Option expires by its terms.

(iii) If the Optionee's employment is terminated by the Company for cause or because the Optionee is in breach of any employment agreement, the Option will terminate on the date the Optionee's employment is terminated by the Company.

(iv) If the Optionee's employment is terminated by the Company because the Optionee has become permanently disabled (within the meaning of Section 22(e)(3) of the Code), such Option shall terminate on the earlier of (i) one year after the date such Optionee's employment by the Company is terminated, or (ii) the date on which the Option expires by its terms.

(v) In the event of the death of the Optionee, the Option granted to such Optionee shall terminate on the earlier of (i) one year after the date such Optionee's employment by the Company is terminated; or (ii) the date on which the Option expires by its terms.

(b) Exercisability.

(i) Except as provided below, if the Optionee's employment by the Company is terminated, the Option granted to the Optionee hereunder shall be exercisable only to the extent that the right to purchase shares under such Option has accrued and is in effect on the date the Optionee's employment by the Company is terminated.

(ii) If the Optionee's employment is terminated by the Company because he or she has become permanently disabled, as defined above, the option granted to the Optionee hereunder shall be immediately exercisable as to the full number of Shares covered by such Option, whether or not under the provisions of Section 3 hereof such Option was otherwise exercisable as of the date of disability.

(iii) In the event of the death of the Optionee, the Option granted to such Optionee may be exercised to the full number of Shares covered

thereby, whether or not under the provisions of Section 3 hereof the Optionee was entitled to do so at the date of his or her death, by the executor, administrator or personal representative of such Optionee, or by any person or persons who acquired the right to exercise such Option by bequest or inheritance or by reason of the death of such Optionee.

5. Manner of Exercise of Option.

(a) To the extent that the right to exercise the Option has accrued and is in effect, the option may be exercised in full or in part by giving written notice to the Company stating the number of Shares exercised and accompanied by payment in full for such Shares. No partial exercise may be made for less than one hundred

(100) full shares of Common Stock. Payment may be either wholly in cash or in whole or in part in Shares already owned by the person exercising the option, valued at fair market value as of the date of exercise; provided, however, that payment of the exercise price by delivery of Shares already owned by the person exercising the Option may be made only if such payment does not result in a charge to earnings for financial accounting purposes as determined by the Board. Upon such exercise, delivery of a certificate for paid-up, non-assessable Shares shall be made at the principal office of the Company to the person exercising the option, not less than thirty (30) and not more than ninety (90) days from the date of receipt of the notice by the Company.

(b) The Company shall at all times during the term of the Option reserve and keep available such number of Shares as will be sufficient to satisfy the requirements of the option.

6. Non-Transferability. The right of the Optionee to exercise the Option shall not be assignable or transferable by the Optionee otherwise than by will or the laws of descent and distribution, and the Option may be exercised during the lifetime of the Optionee only by him or her. The Option shall be null and void and without effect upon the bankruptcy of the Optionee or upon any attempted assignment or transfer, except as hereinabove provided, including without limitation any purported assignment, whether voluntary or by operation of law, pledge, hypothecation or other disposition contrary to the provisions hereof, or levy of execution, attachment, trustee process or similar process, whether legal or equitable, upon the Option.

7. Representation Letter and Investment Legend.

(a) In the event that for any reason the Shares to be issued upon exercise of the Option shall not be effectively registered under the Securities Act of 1933, as amended (the "1933 Act"), upon any date on which the option is exercised in whole or in part, the person exercising the Option shall give a written representation to the Company in the form attached hereto as Exhibit 1 and the Company shall place an "investment legend", so-called, as described in Exhibit 1, upon any certificate for the Shares issued by reason of such exercise.

(b) The Company shall be under no obligation to qualify Shares or to cause a registration statement or a post-effective amendment to any registration statement to be prepared for the purposes of covering the issue of Shares.

8. Adjustments on Changes in Capitalization. Adjustments on changes in capitalization and the like shall be made in accordance with the Plan, as in effect on the date of this Agreement.

9. No Special Employment Rights. Nothing contained in the Plan or this Agreement shall be construed or deemed by any person under any circumstances to bind the Company to continue the employment of the Optionee for the period within which this Option may be exercised. However, during the period of the Optionee's employment, the Optionee shall render diligently and faithfully the services which are assigned to the Optionee from time to time by the Board or by the executive officers of the Company and shall at no time take any action which directly or indirectly would be inconsistent with the best interests of the Company.

10. Rights as a Shareholder. The Optionee shall have no rights as a shareholder with respect to any Shares which may be purchased by exercise of this option unless and until a certificate or certificates representing such Shares are duly issued and delivered to the Optionee. Except as otherwise expressly provided in the Plan, no adjustment shall be made for dividends or other rights for which the record date is prior to the date such stock certificate is issued.

11. Withholding Taxes. Whenever Shares are to be issued upon exercise of this Option, the Company shall have the right to require the Optionee to remit to the Company an amount sufficient to satisfy all Federal, state and local withholding tax requirements prior to the delivery of any certificate or certificates for such Shares. The Company may agree to permit the Optionee to withhold Shares purchased upon exercise of this Option to satisfy the above-mentioned withholding requirement; provided, however, no such agreement may be made by an Optionee who is an officer or director within the meaning of Section 16 of the Securities Exchange Act of 1934, as amended, except pursuant to a standing election to so withhold Shares purchased upon exercise of an Option, such election to be made in the form set forth in Exhibit 2 hereto and to be made not less than six (6) months prior to the date of such exercise. such election may be revoked by the Optionee only upon six (6) months prior written notice to the Company.

IN WITNESS HEREOF, the Company has caused this Agreement to be executed, and the Optionee has hereunto set his or her hand and seal, all as of the day and year first above written.

GREEN MOUNTAIN COFFEE, INC. OPTIONEE

By: /s/ Robert P. Stiller

Robert P. Stiller

By: /s/ James K. Prevo

James K. Prevo

7 Hillside Drive
Williston, Vermont 05495

Address

009-40-1173

Social Security Number

6,000

Number of Shares:

\$9.625

Purchase Price Per Share

July 31, 2007
Expiration Date

**EXHIBIT 1
TO STOCK OPTION AGREEMENT**

Gentlemen:

In connection with the exercise by me as to 6,000 shares of Common Stock, \$.10 per share par value, of Green Mountain Coffee, Inc. (the "Company") under the incentive stock option agreement dated as of July 31, 1997, granted to me under the 1993 Stock Option Plan, as amended, I hereby acknowledge that I have been informed as follows:

1. The shares of common stock of the Company to be issued to me pursuant to the exercise of said option have not been registered under the Securities Act of 1933 (the "1933 Act"), and accordingly, must be held indefinitely unless such shares are subsequently registered under the 1933 Act, or an exemption from such registration is available.
2. Routine sales of securities made in reliance upon Rule 144 under the 1933 Act can be made only after the holding period and in limited amounts in accordance with the terms and conditions provided by that Rule, and in any sale to which that Rule is not applicable, registration or compliance with some other exemption under the 1933 Act will be required.
3. The Company is under no obligation to me to register the shares or to comply with any such exemptions under the 1933 Act.
4. The availability of Rule 144 is dependent upon adequate current public information with respect to the Company being available and, at the time that I may desire to make a sale pursuant to the Rule, the Company may neither wish nor be able to comply with such requirement.

In consideration of the issuance of certificates for the shares to me, I hereby represent and warrant that I am acquiring such shares for my own account for investment, and that I will not sell, pledge or transfer such shares in the absence of an effective registration statement covering the same, except as permitted by the provisions of Rule 144, if applicable, or some other applicable exemption under the 1933 Act. In view of this representation and warranty, I agree that there may be affixed to the certificates for the shares to be issued to me, and to all certificates issued hereafter representing such shares (until in the opinion of counsel, which opinion must be reasonably satisfactory in form and substance to counsel for the Company, it is no longer necessary or required) a legend as follows:

"The shares of common stock represented by this certificate have not been registered under the Securities Act of 1933, as amended (the "Act"), and were acquired by the registered holder, pursuant to a representation and warranty that such holder was acquiring such shares for his own account and for investment, with no intention to transfer or dispose of the same, in violation of the registration requirements of the Act. These shares may not be sold, pledged, or transferred in the absence of an effective registration statement under the Act, or an opinion of counsel, which opinion is reasonably satisfactory to counsel to the Company, to the effect that registration is not required under the Act."

I further agree that the Company may place a stop order with its Transfer Agent, prohibiting the transfer of such shares, so long as the legend remains on the certificates representing the shares.

Very truly yours,

/s/ James K. Prevo

James K. Prevo

**EXHIBIT 2
TO STOCK OPTION AGREEMENT**

Gentlemen:

The undersigned Optionee hereby elects and agrees that, whenever the undersigned exercises a stock option (including any options which now or may hereafter be granted), the Company shall withhold from the shares issuable upon such exercise such number of shares as is equal in value to the federal and state withholding taxes due upon such exercise. The undersigned further acknowledges and agrees that this election may not be revoked without six (6) months prior written notice to the Company.

OPTIONEE:

Signature

Name: James K. Prevo

Printed

009-40-1173

Social Security Number

GREEN MOUNTAIN COFFEE, INC.

Exhibit 11

Computation of Earnings Per Share

	September 27, 1997	Fiscal year ended September 28, 1996	September 30, 1995
Net income.....	\$ 1,325,000	\$ 1,262,000	\$ (218,000)
Primary weighted common shares outstanding:			
Common stock.....	3,433,929	3,399,843	3,383,529
Dilutive effect of outstanding common stock options.....	34,003	27,767	-
Weighted average common and common equivalent shares.....	3,467,932	3,427,610	3,383,529
Net income per share.....	\$ 0.38	\$ 0.37	\$ 0.06

This exhibit should be read in conjunction with the accompanying unaudited consolidated financial statements and the notes thereto.

List of Subsidiaries of the Company

Name State of Incorporation

Green Mountain Coffee Roasters, Inc. Vermont

Green Mountain Coffee Roasters Franchising Corporation Delaware

EXHIBIT 24

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each director and officer whose signature appears below constitutes and appoints Robert P. Stiller and Robert D. Britt, and each of them, his or her true and lawful attorney-in-fact and agent, with full power to each of them to act without the other and with full power of substitution and re-substitution, to sign, individually, in the name on behalf of the undersigned in any and all capacities stated below, the Annual Report on Form 10-K of Green Mountain Coffee, Inc. for the fiscal year ended September 27, 1997 and any and all amendments thereto, which amendments may make such changes in such Form 10-K as any such attorney-in-fact may deem appropriate, and to file the same with all exhibits thereto and other documents in connection therewith with the Securities and Exchange Commission, granting to such attorneys-in-fact and agents, and each of them, full power and authority to do all such other acts and execute all such other documents as they, or any of them, may deem necessary or desirable in connection with the foregoing, as fully as the undersigned might or could do in person, hereby ratifying and confirming all that such attorneys-in-fact and agents, or any of them, may lawfully do or cause to be done by virtue hereof.

Signature -----	Title -----	Date -----
----- Robert P. Stiller	Chairman of the Board of Directors, President and Chief Executive Officer (Principal Executive Officer)	
----- Robert D. Britt	Chief Financial Officer, Treasurer, Secretary and Director (Principal Financial and Accounting Officer)	
/s/ Stephen J. Sabol ----- Stephen J. Sabol	Director	December 23, 1997
/s/ Jonathan C. Wettstein ----- Jonathan C. Wettstein	Director	December 23, 1997
/s/ William D. Davis ----- William D. Davis	Director	December 23, 1997
/s/ Jules A. del Vecchio ----- Jules A. del Vecchio	Director	December 23, 1997
/s/ David E. Moran ----- David E. Moran	Director	December 23, 1997
/s/ Ian W. Murray ----- Ian W. Murray	Director	December 23, 1997

ARTICLE 5

This schedule contains summary financial information extracted from the balance sheet dated 9/27/97 and the Statement of Operations for the fiscal year ended 9/27/97 and is qualified in its entirety by reference to such financial statements.

MULTIPLIER: 1,000

PERIOD TYPE	OTHER
FISCAL YEAR END	SEP 27 1997
PERIOD START	SEP 29 1996
PERIOD END	SEP 27 1997
CASH	831
SECURITIES	0
RECEIVABLES	4,236
ALLOWANCES	116
INVENTORY	5,224
CURRENT ASSETS	11,415
PP&E	20,162
DEPRECIATION	8,904
TOTAL ASSETS	23,544
CURRENT LIABILITIES	6,924
BONDS	5,965
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	353
OTHER SE	10,302
TOTAL LIABILITY AND EQUITY	23,544
SALES	47,834
TOTAL REVENUES	47,834
CGS	29,420
TOTAL COSTS	29,420
OTHER EXPENSES	13,589
LOSS PROVISION	0
INTEREST EXPENSE	521
INCOME PRETAX	930
INCOME TAX	(395)
INCOME CONTINUING	1,325
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	1,325
EPS PRIMARY	.38
EPS DILUTED	.38

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