

GREEN MOUNTAIN COFFEE ROASTERS INC

FORM 10-K (Annual Report)

Filed 12/22/03 for the Period Ending 09/27/03

Address	33 COFFEE LANE WATERBURY, VT 05676
Telephone	8022445621
CIK	0000909954
Symbol	GMCR
SIC Code	2090 - Miscellaneous Food Preparations And Kindred
Industry	Food Processing
Sector	Consumer/Non-Cyclical
Fiscal Year	09/29

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, 2003

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 ROASTERS, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

33 Coffee Lane, Waterbury, Vermont

(Address of principal executive offices)

03-0339228

(IRS employer identification no.)

05676

(Zip code)

Registrant's telephone number: (802) 244-5621

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.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).
Yes No

The aggregate market value of the voting stock of the registrant held by non-affiliates of the registrant on April 12, 2003 was approximately \$49,166,000 based upon the closing price of such stock on that date.

As of December 12, 2003, 7,015,317 shares of common stock of the registrant were outstanding. See "Market for the Registrant's Common Equity and Related Stockholder Matters."

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for the 2004 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this Form 10-K, are incorporated by reference in Part III, Items 10-14 of this Form 10-K.

This Form 10-K includes statements that constitute "forward-looking statements" within the meaning of federal securities regulations. For more detail regarding "forward-looking statements" see item 7 of Part II of this Form 10-K.

GREEN MOUNTAIN COFFEE ROASTERS, INC.

Annual Report on Form 10-K

Table of Contents

	<u>Page</u>
	Part I
Item 1. Business	4

Item 2.	Properties	15
Item 3.	Legal Proceedings	15
Item 4.	Submission of Matters to a Vote of Security Holders	15

Part II

Item 5.	Market for the Registrant's Common Equity and Related Stockholder Matters	18
Item 6.	Selected Financial Data	20
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	21
Item 7A.	Quantitative and Qualitative Disclosures about Market Risk	34
Item 8.	Financial Statements and Supplementary Data	35
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	35
Item 9A.	Controls and Procedures	35

Part III

Item 10.	Directors and Executive Officers of the Registrant	36
Item 11.	Executive Compensation	36
Item 12.	Security Ownership of Certain Beneficial Owners and Management	36
Item 13.	Certain Relationships and Related Transactions	36
Item 14.	Principal Accountant Fees and Services	36

Part IV

Item 15.	Exhibits, Financial Statement Schedules and Reports on Form 8-K	37
----------	---	----

PART I

Item 1. Business

Overview

Green Mountain Coffee Roasters, Inc. ("*the Company*" or "*Green Mountain*" or "*Green Mountain Coffee*") is a leader in the specialty coffee industry. The Company sells over 100 coffee selections through a coordinated multi-channel distribution network in its wholesale and consumer direct operations. This distribution network is designed to maximize brand 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 over 7,000 wholesale customer accounts located primarily in the eastern United States. The wholesale operation serves supermarket, specialty food store, convenience store, food

service, hotel, restaurant, 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

The Company is a Delaware corporation formed in July 1993. Until January 1, 2003, it was a holding company whose only asset was the stock of a Vermont corporation named Green Mountain Coffee Roasters, Inc. On January 1, 2003, the Vermont company was merged with and into the Company. At the same time, the Company changed its name from Green Mountain Coffee, Inc., to Green Mountain Coffee Roasters, Inc., which is the name under which the Company has always operated. The purpose of this merger was primarily to simplify tax reporting.

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 2003," "fiscal 2002" and "fiscal 2001" represent the 52-week periods ended September 27, 2003, September 28, 2002 and September 29, 2001, 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 e-mail address for investor information is *investor.services@gmcr.com* . The address of the Company's website is *www.GreenMountainCoffee.com* .

The Product

Green Mountain roasts high-quality arabica coffees and offers over 100 coffee selections including single-origins, estates, certified organics, Fair Trade, proprietary blends, and flavored coffees that it sells under the Green Mountain Coffee Roasters[®] and Newman's Own[®] Organics brands. The Company carefully selects its coffee beans and then *appropriately roasts* the coffees to maximize their taste and flavor differences.

The Company roasts its coffee in 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 the subtleties of a particular coffee's taste. The Company 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 profiles for each bean type and degree of roast to establish a Green Mountain "signature" for that bean type, which the Company calls its *appropriate roast*[®] . 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 some 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 technology in many of its packages that 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.

Green Mountain coffee comes in a variety of packages including whole bean, fractional packages, and single-cup Keurig[®] portions. The packaging equipment for Keurig K-Cup[®] portion packs is owned by Green Mountain. Green Mountain pays a royalty to Keurig, Incorporated for each K-Cup sold.

Corporate Objective and 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 by differentiating and reinforcing the Green Mountain brand and engendering a high degree of customer and consumer loyalty. Essential elements of this unique approach include:

High Quality Coffee. Green Mountain buys some of 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 has a passion for coffee and believes that its coffees are among the highest quality coffees sold in the world.

Outstanding Customer Service. Green Mountain seeks to create customers for life. The Company believes that coffee is a convenience purchase and utilizes its multi-channel distribution network of wholesale customers to make its coffee widely and easily available to consumers for home or away-from-home consumption.

To ensure a high level of responsiveness to customer needs, the Company has established regional distribution centers to supply coffee to its wholesale customers from which customer service calls are dispatched. Green Mountain has also established relationships with some of its vendors to drop ship items directly from the vendor to the customer, thereby significantly decreasing shipping times and costs.

The Company has an online inventory system for its central and regional distribution centers which helps to better serve the Company's customers and to improve the Company's direct-store-delivery process and capability. Green Mountain attempts to maintain at all times adequate levels of inventory to satisfy customer demand. The Company's online ordering application on its website (www.GreenMountainCoffee.com) is fully integrated with the Company's PeopleSoft[®] Enterprise Resource Planning ("ERP") system and customers receive instantaneous, electronic shipping confirmations for all online orders.

Customer Coffee Education. The Company offers its wholesale customers, employees and vendor partners educational experiences about the origin and preparation of coffee. A series of training programs, tours and manuals, which feature both classroom and hands-on learning experiences is known as "Coffee College." This intensive training covers all aspects of the coffee experience from tree to cup. In fiscal 2003, over 470 employees of Green Mountain's customers attended Coffee College either on site at the Company's Java University located in Waterbury, Vermont or at a customer location in a program known as "Java U to You."

The Company's consumer direct catalog and website provide an overview of the unique qualities of the different coffees from around the world. Both also provide updates on the current coffee crisis and its impact on coffee-farming communities. The Company believes that educational initiatives create an appreciation for Green Mountain coffee and a loyal consumer base.

Individual Employee Development. Green Mountain Coffee Roasters strives to be a highly inclusive and collaborative work environment that stimulates employees' individual growth and personal awareness. Success for the Company comes from employees' personal contribution and willingness to add value to our process and products. The Company offers programs that provide employees the expertise to offer the very best quality in service, fostering long-term relationships. Green Mountain Coffee Roasters believes that dedication to employee training and development is vital to attracting and retaining the most highly performing, qualified, and motivated employees.

The Company has adopted the Appreciative Inquiry (AI) process as one method of business analysis. AI incorporates a highly positive, inclusive and people-centered way of pursuing business development. In 2003, Green Mountain Coffee Roasters held a Summit with approximately 160 employees and 30 external stakeholders. More than 15 teams of

employees are exploring ways to positively change the organization. In 2004, more employees will participate in a second Summit to continue this important work.

Green Mountain Coffee Roasters offers an Educational Assistance Plan that provides financial support to employees who are continuing their education. The Company also offers numerous educational workshops and professional seminars, a leadership development program, a series of coffee knowledge classes and many other opportunities including David Allen's Getting Things Done® and personal financial planning. Green Mountain Coffee Roasters supports individual self-awareness through a variety of activities including meditation training.

In connection with the introduction of its Employee Stock Ownership Plan in 1998, Green Mountain initiated a series of business literacy training sessions for its employee owners. The first three sessions concentrated on learning fundamental business concepts. It expands and focuses on the coffee business from tree to cup. The Company also rolled out Committed Engaged Owners "CEO" training to its managers and supervisors. This program focuses on more advanced financial literacy.

Socially Responsible Business Practices. As the worldwide coffee crisis extended into its fourth year, Green Mountain continued to focus attention on supporting its coffee producer partners and the non-profit organizations that work with them. In fiscal year 2003, the Company donated over \$180,000 to social and environmental programs in Mexico, Guatemala, Peru, Indonesia, and other coffee-growing countries. Examples of projects include environmental improvements on farms in Mexico and Guatemala with Rainforest Alliance, improvements in coffee milling operations in the war-torn Indonesian region of Aceh, and a new customer-based initiative with Wild Oats Markets, Inc. to construct organic vegetable gardens for coffee-growers in rural Mexico.

In an effort to enhance its impact in coffee source countries, Green Mountain partnered with the U.S. Agency for International Development (USAID) and Ecologic Enterprise Ventures, Inc. ("EEV"), a non-profit organization, to develop a new pre-harvest financing mechanism for sustainable coffee producers. The \$1 million award from USAID to EEV will help coffee producers address cash flow needs throughout the year. Green Mountain also expanded partnerships with Heifer International, Inc., and Newman's Own® Organics, and started a new effort with the National Wildlife Federation to use proceeds from the sale of Green Mountain coffee to support social and environmental causes.

The Company contributes 5% of its pretax income to coffee growers and non-governmental organizations ("NGOs") in the form of cash, products, and paid employee time. The Company's cash donations were focused on supporting NGOs in the communities where the Company has facilities and where its employees live and work. Approximately 1,200 organizations benefited from coffee product donations in fiscal year 2003 including libraries, religious organizations, schools, cultural organizations, and social welfare agencies in 41 states. The Company also provides an opportunity for employees to perform volunteer work for non-profit and community-based organizations on company time. Through the CAFÉ^(SM) program, or Community Action For Employees, employees are paid for up to 2.5% of their annual hours worked while providing community services. In 2003, employees volunteered for 1,271 hours of community service time.

Green Mountain also continued to seek ways to improve its environmental performance as it endeavored to create a long-term sustainable business model. In fiscal year 2003, the Company focused its attention on global climate change. Green Mountain produces more than 7,000 tons of greenhouse gases (GHGs) annually. The Company is working to reduce its GHG emissions, however the nature of Green Mountain's business results in emissions even after reduction measures are implemented. One way to address these emissions is to offset them. In fiscal year 2003, the Company worked with Vermont-based Native Energy, LLC to support the construction of a wind turbine on the Rosebud Sioux Reservation in South Dakota to offset one-third of the Company's 2003 emissions and provide employment opportunities on the Sioux reservation where incomes are low and opportunities are limited. Another way to offset GHG emissions is to plant trees to "sequester" the carbon dioxide the Company generates. In fiscal year 2003 Green Mountain collaborated with the National Arbor Day Foundation to support the planting of 25,000 trees in national forest areas burnt-over by recent wildfires in Colorado and Arizona.

Compliance with federal, state and local environmental laws and regulations does not materially impact capital expenditures, earnings or the competitive position of the Company.

Growth Strategy

Green Mountain is focused on building its brand and profitably growing its business. At present, management believes it can continue to grow sales over the next few years at a rate similar to its historical five-year average growth rate (in the range of 15 to 20 percent), by increasing market share in existing markets, expanding into new geographic markets, and selectively pursuing other opportunities, including opportunistic acquisitions. This statement is forward-looking and subject to the risks and uncertainties outlined in "Management's Discussion and Analysis of Financial Condition and Results of Operations," and under the heading, "Forward-looking information."

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

Green Mountain coffee is available in many different distribution channels and customer categories, as best seen in its primary geographic market, the Eastern United States. This multi-channel strategy provides 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 coffee is widely available throughout the day: at home in the morning, in hotels, on airplanes and trains, at convenience stores on the way to work, at the office, in restaurants, in supermarkets, at the movie theatre, and at home again at the end of the day. The Company also participates in many special event activities, providing great sampling opportunities and visibility to the brand.

The Company believes that its coffees' convenient availability for consumer trial through convenience stores, office coffee services (OCS) and food service establishments is a significant advantage and a key component of its growth strategy. As brand awareness increases through trial by consumers of the Company's coffee "by the cup," demand for the Company's coffee for home consumption also increases. As brand equity is built in "by the cup" venues, expansion typically continues through customers such as supermarkets and specialty food stores who, in turn, sell the Company's "by the pound" coffee to consumers. This expansion process capitalizes upon this "by the cup"/ "by the pound" interrelationship. This strategy 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. In addition to its efforts to boost sales in its core geographic markets in the Eastern United States, the Company also seeks to introduce Green Mountain coffee in additional markets within the United States, leveraging distribution through either a select few or multiple classes of trade simultaneously, depending upon the market.

In the consumer direct area, the Company focuses solicitations on catalog customers who buy regularly from the Company, including members of the Company's "Coffee Club," a continuity program with customized standing orders for automatic re-shipment. A large portion of the Company's efforts in the consumer direct channel have been directed towards increasing traffic on its website (www.GreenMountainCoffee.com). That, along with the catalog, is intended to build brand awareness nationwide and boost direct sales to consumers in the Company's less mature geographic markets.

Recent Developments

The Keurig Investment. In fiscal 2002, Green Mountain acquired a 42% ownership interest in Keurig, Incorporated ("Keurig") by acquiring shares from early investors in Keurig for a price of approximately \$15 million. Keurig manufactures brewing equipment that allows users to brew high-quality specialty coffee one cup at a time. Green Mountain has been involved with Keurig since 1994 supporting the development of a single-cup brewing system and as an early investor. Green Mountain was also the first licensed roaster/ distributor partner with Keurig. Keurig seeks to license office coffee service ("OCS") distributors to sell and distribute K-Cups[®] and brewers to offices both nationally and internationally. Green Mountain is one of four coffee roasters that manufacture and distribute the K-Cups used to brew coffee by the cup in the Keurig system throughout North America, and continues to sell more K-Cups than all other domestic licensed coffee roasters combined.

Through the purchase, Green Mountain has established a stronger relationship with Keurig and its management team. Both Keurig and the Company started to market and sell the Keurig[®] Single-Cup Brewer for the home market in November of 2003. The Company's launch of the home brewer is being effected through its consumer direct channel, through catalog sales as well as on the website (www.GMCR.com). The Company is also supporting sales to the home through OCS distributors that wish to participate in the fulfillment of the needs of the home market. Keurig's launch of the home machine is primarily through its own website and sales to OCS distributors.

Keurig is effectively controlled by MD Co. (controlled by MDT Advisers, an institutional investment company) which owns approximately 23% of Keurig's capital stock. As a result of contractual limitations and restrictions agreed to by the Company and certain other stockholders of Keurig, MD Co. has the ability to elect a majority of Keurig's Board of Directors, cause certain types of amendments to Keurig's Certificate of Incorporation, and approve or reject a sale of Keurig's business.

New Products. In October 2002, Green Mountain Coffee Roasters signed a licensing agreement with Newman's Own Organics, Inc. Under the agreement, Green Mountain has launched a line of six co-branded Newman's Own[®] Organics coffees under the Newman's Own[®] Organics and Green Mountain Coffee Roasters[®] brand names. These products were launched successfully in 2003 with several large supermarket customers, and more are expected to follow in 2004. In the past year, the Newman's Own Organics product line, as well as Green Mountain's organic and Fair Trade product line, have enabled the Company to grow at a faster rate outside its core geographic market through the acquisition of new supermarket accounts.

In January 2003, Green Mountain Coffee Roasters completed a licensing agreement with the Hain Celestial Group, Inc. to produce and distribute a line of six teas in K-Cups[®] under the Celestial Seasonings[®] brand. These products are currently being sold to office coffee distributors as well as through the Company's Consumer Direct channel.

Customers. The Company continued to experience solid growth in its wholesale business in fiscal 2003. During the year, it acquired and/or deepened relationships with several large customers.

In the convenience store channel, the Company's pounds shipped increased by over 14%. While the total number of locations serving the Company's coffee increased by about 5% over the prior year (to 3,300 at the close of fiscal 2003), the majority of the growth in this channel was driven by improved business with current customers. The Company's relationship with Exxon Mobil Corporation ("ExxonMobil") continues to be a strong driver for growth in this convenience store channel.

The supermarket channel experienced over 24% growth in coffee pounds shipped over the prior year. This growth was driven largely by new distribution, since the beginning of fiscal 2003, to two very large customers: Wild Oats Markets, Inc., a leading chain in the rapidly growing natural foods category; and Costco Wholesale Corporation, a leading buyer's club retailer. The Company is the exclusive supplier of bulk certified Fair Trade and organic coffee for all Wild Oats locations. Growth in the supermarket channel continued throughout the year, with the addition of several others chains, including D'Agostino Supermarkets, Harris Teeter, and Wegmans Food Markets. In November 2003, after the close of its fiscal 2003, the Company began selling to Publix Super Markets as well.

Coffee pounds shipped in the OCS channel grew by 13% over the prior year. Three key factors contributed to sales growth in this channel. First, the Company successfully converted most of Procter & Gamble's Millstone customers when this competitor exited the K-Cup[®] business in the summer of 2003. Second, Green Mountain began selling to over 50 branches of ARAMARK Corporation during the year. The third factor contributing to the OCS channel growth was the introduction of Celestial Seasonings[®] Teas in K-Cups.

Coffee pounds shipped in various food service venues grew at an aggregate rate of 17% in fiscal 2003 compared to the prior fiscal year. The most significant source of growth was driven by the Company's deeper relationship with Sodexo (a provider of food service products and services to business and industry, universities and health care facilities). This relationship facilitated new distribution for Green Mountain's Fair Trade and organic coffees at dozens of colleges, hospitals and business locations in 2003, and more are expected in fiscal 2004. The Company has also developed a new

relationship with Xanterra (a food service provider for many of the U.S. National Parks) in fiscal 2003, which has enabled Green Mountain to gain access to thousands of visitors in places such as Yellowstone and the Grand Canyon. Furthermore, the Company broadened its relationship with AMTRAK Corporation, which now serves Green Mountain Coffee on-board their trains throughout the United States (the previous relationship limited exposure primarily to the eastern corridor routes).

Coffee pounds shipped in fiscal 2003 and fiscal 2002, broken down by sales channel, are as follows:

Channel	52 weeks ended 9/27/03	52 weeks ended 9/28/02	Full Year Y/Y lb Increase	Full Year % Y/Y lb Increase
Supermarkets	4,710,000	3,780,000	930,000	24.6%
Convenience Stores	4,527,000	3,968,000	559,000	14.1%
Other Retail	290,000	306,000	(16,000)	-5.2%
Restaurants	1,138,000	1,156,000	(18,000)	-1.6%
Office Coffee Service Distributors	3,329,000	2,935,000	394,000	13.4%
Other Food Service	1,158,000	987,000	171,000	17.3%
Consumer Direct	417,000	371,000	46,000	12.4%
Totals	15,569,000	13,503,000	2,066,000	15.3%

Note 1: Certain prior year customer channel classifications were reclassified to conform to current year classifications.

Note 2: Coffee pounds shipped to several of the former Frontier distributors have been reclassified from Other Retail and Other Food Service to the Supermarket channel to reflect the fact that most of their sales are to natural food grocery stores.

Coffee pounds by geographic region are as follows:

Region	52 weeks ended 9/27/03	52 weeks ended 9/28/02	Full Year Y/Y lb. Increase	Full Year % Y/Y lb. Increase
Northern New England	4,625,000	4,267,000	358,000	8.4%
Southern New England	3,003,000	2,841,000	162,000	5.7%
Mid-Atlantic	4,422,000	3,770,000	652,000	17.3%
South Atlantic	1,447,000	1,164,000	283,000	24.3%
South Central	629,000	505,000	124,000	24.6%
Midwest	550,000	455,000	95,000	20.9%
West	784,000	414,000	370,000	89.4%
International	109,000	87,000	22,000	25.3%
Totals	15,569,000	13,503,000	2,066,000	15.3%

Note: The allocation by region of coffee pounds shipped to certain McLane Company, Inc. warehouses for distribution to ExxonMobil convenience stores has been estimated. Since the second quarter of fiscal 2002, these estimates have been based on actual McLane's shipment patterns from each McLane warehouse to ExxonMobil convenience stores.

Wholesale Operations

During fiscal 2003, 2002, and 2001, approximately 94%, 95%, and 96%, respectively, of Green Mountain's sales were derived from its wholesale operations which services accounts located primarily in the Eastern 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, from individual upscale restaurants to major supermarket chains. This strategy enables a deeper penetration in a given geographic market, exposing consumers to the brand throughout the day in a variety of locations. The diversity of end users limits the risks of the Company's dependence on any single distribution channel.

Wholesale operations are coordinated from the Company's headquarters in Waterbury, Vermont, and supplemented by regional distribution centers in geographic locations where the density of customer accounts so warrants. Regional distribution centers are located in Biddeford, Maine; Latham, New York; Woburn, Massachusetts; Southington, Connecticut; and Lakeland, Florida. Distribution facilities are located within a two-hour radius of most customers to expedite delivery. The Company uses third party carriers, primarily Federal Express, for shipping to customers not supported by a regional distribution center.

The wholesale operation primarily uses in-house sales people. However, in certain sales channels, such as the OCS 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 Company personnel or contracted service personnel. A customer also is 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 merchandisers who ensure that supermarket displays are clean, appropriately stocked, and have promotional items to maximize sales. The Company believes most competitors of Green Mountain in the wholesale segment do not provide such high levels of sales and equipment service support.

Consumer Direct Operations

Consumer direct represents Green Mountain Coffee at its best, helping to position the brand as a lifestyle brand. It offers the opportunity to inform consumers, build one-on-one relationships, and illuminate the Company's point of difference. The Company publishes catalogs and maintains a website to market over 75 coffees, and coffee-related equipment and accessories, as well as gift assortments and gourmet food items covering a wide range of price points. Green Mountain's Customer Care Representatives provide coffee consultations and education on the various attributes of the Company's coffee selections as they process a consumer's order.

In the consumer direct channel, coffee pounds shipped grew by 12% in fiscal 2003 over the prior year. This growth resulted from K-Cups[®] sold during the Company's single cup at-home testing initiatives as well as improved targeting techniques used to generate orders from the Company's catalog and e-commerce website. Consumer direct sales accounted for approximately 6%, 5%, and 4% of total sales in fiscal 2003, 2002, and 2001, respectively.

Competition

The specialty coffee market is highly competitive, and Green Mountain competes against all sellers of specialty coffee. In the OCS, convenience store and food service arenas, Sara Lee, Kraft, Procter & Gamble and New England Coffee are competitors. In addition, specialty coffee includes retailers such as Starbucks, and Dunkin' Donuts (a subsidiary of Allied Domecq). Green Mountain Coffee was the first roaster to sell its coffee in Keurig's innovative single-cup brewing system, used primarily in the office coffee service market, and the Company has established a dominant position in the sale of single-cup Keurig portions. The Company does, however, now compete for Keurig sales with three other North American roasters: Diedrich Coffee, Timothy's and Van Houtte, a vertically integrated roaster and office coffee service distributor operating in Canada and the United States.

FLAVIA[®] Beverage Systems, an affiliate company of Masterfoods USA (part of Mars, Incorporated), is the manufacturer of a single-cup machine that also competes in the OCS market.

In the fall of 2003, Salton, the manufacturer of the One:One single-cup machine has entered the market with coffee

being supplied by Mellita. This machine is positioned for use in the home market and is currently being offered by mass-market retailers as well as through various direct mail catalogs.

In the supermarket channel, Starbucks, a leading independent specialty coffee retailer, has a significant presence nationwide. Starbucks has a distribution agreement with Kraft Foods to place Starbucks coffee in supermarkets along with Kraft's Maxwell House® coffee. Additionally, the Company also competes with "commercial" coffee roasters, to the extent that it is also trying to "upsell" consumers to the specialty coffee segment. A number of large consumer goods multinationals have divisions or subsidiaries selling specialty coffees, a significant portion of them having been developed through the acquisition of independent brands. For example, Procter & Gamble distributes the premium coffee products Millstone® and Brothers in many supermarkets nationwide, which compete with Green Mountain's coffee.

In the consumer direct channel, the Company competes with established suppliers such as Gevalia®, a division of Kraft Foods, as well as with other direct mail companies.

The Company expects intense competition, both within its primary geographic territory, the Eastern 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.

Green Mountain competes primarily by providing 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 and consumer direct operations and its "by the cup"/ "by the pound" strategy, the Company believes it differentiates itself from many of its larger competitors, who specialize in one primary channel 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 prior to blending, varying both the degree and timing of the roast to maximize a coffee's particular taste characteristics. The Company also seeks to differentiate itself by being socially and environmentally responsible. Finally, the Company believes that being an independent roaster allows it to be better focused and in tune with its wholesale customers' needs than its larger, multi-product 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.

Green Coffee Cost and Supply

The Company utilizes a combination of outside brokers and direct relationships with farms, estates, cooperatives and cooperative groups for its supply of green coffees. Outside brokers provide the largest supply of green coffee to the Company. 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 common and it is expected that coffee prices and differentials will remain volatile in the coming years. In addition, a number of factors, such as pest damage and weather-related crop failure could cause coffee prices to climb. In recent years, green coffee prices have been under considerable downward pressures due to oversupply, driven largely by the production of medium to low-grade coffee. While production of commercial grade coffee is on the rise, many industry experts anticipate a drop in production of top grade specialty coffees. This situation is likely to persist in the short-term although the Company anticipates somewhat higher prices than the record lows set earlier in 2002. The low coffee price ranges generally experienced in recent years are not considered high enough to support proper farming and processing practices, impacting the overall supply of top grade coffees. With the growth of the specialty coffee segment, it is important that prices remain high enough to support world consumption of the top grades of coffees.

For coffees that Green Mountain continues to purchase with differentials against the commodity market, 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 this approach is the best way to provide its customers with a fair price for its coffee. Approximately 52% of the Company's estimated coffee requirements through September 26, 2004, the end of its 2004 fiscal year, had been contracted for as of September 27, 2003. Some of the fixed coffee purchase commitments entered into recently extend through several fiscal years, as the Company made a decision to enter into long-term contracts with specific coffee sources to ensure a consistent supply of high quality coffee. In addition, the Company does from time to time purchase coffee futures contracts and coffee options to provide additional protection when it is not able to enter into coffee purchase commitments or when the price of a significant portion of committed contracts has not been fixed.

The Company generally tries to pass on coffee price increases and decreases to its customers. Since coffee has come down from its 1997 highs, the Company has decreased its prices several times. In general, there can be no assurance that the Company will be successful in passing on green coffee price increases to 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 and purchase commitments. Green Mountain roasts over 40 different types of green coffee beans to produce its more than 100 coffee selections. 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. However, a worldwide supply shortage of the high-quality arabica coffees the Company purchases could have an adverse impact on the Company.

In fiscal 2001, Green Mountain purchased approximately 25% of its coffee from specifically identified farms, estates, cooperatives and cooperative groups. In fiscal 2002, that number grew to 34%, and to approximately 42% in fiscal 2003. The Company projects that close to 50% of coffee purchased during fiscal 2004 will be from identified sources. The Company believes its "farm identified" strategy will continue to 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.

Intellectual Property

The Company is the owner of certain United States trademark and service mark registrations, including Green Mountain Coffee®, Green Mountain Filters®, Green Mountain Coffee Roasters®, Nantucket Blend®, Rain Forest Nut®, Stewardship®, Green Mountain Coffee Roasters and Design®, Vermont Country Blend®, Café Vermont®, Mocha Almond Chiller®, You're Following the Leader®, Tapestry Blend Dark®, Appropriate Roast®, Autumn Harvest Blend®, Fresh From the Roaster®, Lake & Lodge®, La Esperanza®, Monté Verdé®, It's a Jungle Out There - Let's keep it that way® and Organic Black Parrot Blend®. The Company anticipates maintaining the United States registrations above with the United States Patent and Trademark Office. The Company is also the owner of other trademarks and service marks, including The Taste of a Better World™, Great Coffee Made Easy™, Sip and Relax, You're on Green Mountain Time™, PartnerFarm™, Quick-Cup™, Café Verdé™, Dark Magic™, Better World Hot Cocoa™ and The Ultimate Office Coffee™.

The Company has registered the mark "Green Mountain Coffee Roasters" in the United Kingdom, the European Union, in South Korea and in Taiwan. In Canada, the Company has registered the marks "Green Mountain Coffee" and "Green Mountain Coffee Roasters." The Company expects to maintain these registrations. Other foreign trademark and service mark applications are also pending.

The Company has an irrevocable, perpetual royalty-free license to use the mark "Earth-Friendly Coffee Filters" in connection with coffee filters. The Company also has a limited license to use the marks "Kona Mountain Coffee" and "Kona Mountain Estate" in connection with its Kona coffee worldwide (excluding Hawaii), all subject to the terms of the agreements under which these licenses are granted. In connection with the sale and distribution of Green Mountain K-Cups® and the Keurig® Single-Cup Brewing system, the Company has a limited, non-exclusive license to use the mark "Keurig®" and other marks owned by Keurig, Incorporated, subject to the terms of the agreement under which the licenses are granted. The Company has a limited, royalty-free license to reproduce a painting by artist Corliss

Blakely on its labels and marketing materials.

The Company believes these trademarks, service marks and licenses will continue to be important to its success. The Company does not hold any patents.

Employees

As of September 27, 2003, the Company had 512 full-time employees and 61 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 and consumer demand during the peak November-December holiday season. The Company believes that it maintains excellent 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 96,000 square feet of usable space which includes a 28,800 square foot mezzanine area. The lease on this building expires in 2014. The Company's other facilities, all of which are leased, are as follows:

Type	Location	Approximate Square Feet	Expiration of Lease
Warehouse/ Distribution/ Service Space	Woburn, MA	10,580	2006
	Southington, CT	11,200	2006
	Demeritt Place, Waterbury, VT	12,000	month-to-month
	Waterbury, VT	3,000	2005
	Waterbury, VT (Factory Outlet)	1,100	month-to-month
	Biddeford, ME	10,000	2011
	Latham, NY	7,500	2007
	Lakeland, FL	7,200	2006
Administrative Offices	Coffee Lane, Waterbury, VT	4,000	month-to-month
	Demeritt Place, Waterbury, VT	10,000	month-to-month
	Main Street, Waterbury, VT	8,680	2005
	Pilgrim Park II, Waterbury, VT	3,000	month-to-month
	Pilgrim Park II, Waterbury, VT	8,000	2003

Except for the warehousing and distribution space at its Vermont location, 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 for the remainder of fiscal 2004.

On November 5, 2003, the Company announced that it was expanding its Waterbury, Vermont manufacturing and distribution facility by constructing a new 52,000 square foot facility designated solely for warehousing and distribution. The Company plans to lease the underlying land from Pilgrim Partnership, LLC. This new warehousing and distribution building will incorporate material handling automation to improve the Company's distribution efficiencies, which the Company anticipates, will result in lower overall distribution costs relative to sales over the long-term. The additional warehouse space will also allow for more product diversity and the elimination of outside storage expenses. The Company expects this expansion project to cost approximately \$8,400,000 and anticipates utilizing a combination of long-term debt and lease financing.

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, 2003.

Executive Officers of the Registrant

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

Name	Age	Position	Officer since
Kathryn S. Brooks	48	Vice President and Director	2001
Paul Comey	53	Vice President	1993
Daniel R. Martin	38	Vice President	2002
James K. Prevo	50	Vice President	1997
Frances G. Rathke	43	Vice President, Chief Financial Officer and Director	2003
Stephen J. Sabol	42	Vice President	1993
Robert P. Stiller	60	Chairman of the Board, President and Chief Executive Officer	1993
Jonathan C. Wettstein	55	Vice President	1993

Kathryn S. Brooks has served as Vice President of Human Resources and Organization Development since April 2001. From April 1998 to April 2001, Ms. Brooks was Senior Vice President of Human Resources at Webster Bank, a financial services company. From May 1997 to April 1998, Ms. Brooks was President of Human Resources Professional Services, a management consulting company. From May 1992 to May 1997, Ms. Brooks served as Vice President of Human Resources at Bombardier Capital.

Paul Comey has served as Vice President of Facilities and Process Engineering of Green Mountain 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.

Daniel R. Martin has served as Vice President of Sales and Marketing of Green Mountain since December, 2002. From September 2002 to December 2002, Mr. Martin was Vice President, Marketing Services at the Great Atlantic & Pacific Tea Company (A&P). Prior to this position, Mr. Martin was the General Manager for A&P's Eight O'Clock Coffee Company division from February 2001 until August 2002. Prior to his years at A&P, Mr. Martin worked at Kraft Foods from July 1988 to February 2001, where he held roles of increasing responsibility in sales and brand management, including positions in the Maxwell House and Gevalia coffee divisions.

James K. Prevo has served as Chief Information Officer of Green Mountain 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). On May 1, 2000, *ComputerWorld* magazine recognized Mr. Prevo as one of the "Premier 100 IT Leaders for the Year 2000."

Frances G. Rathke has served as Chief Financial Officer of Green Mountain since October 2003, and as Interim Chief Financial Officer of the Company since April 2003. Prior to that, Ms. Rathke worked as a financial consultant with various food manufacturers and food retailers from July 2001 to April 2003. One of these consulting assignments

included the position of Interim Chief Financial Officer for Wild Oats Markets, Inc., a supermarket chain, from July 2001 to December 2001. Prior to this, Ms. Rathke served as Chief Financial Officer for Ben & Jerry's Homemade, Inc., an ice cream manufacturer, from April 1989 to August 2000. From September 1982 to March 1989, Ms. Rathke practiced public accounting and auditing with Coopers & Lybrand LLC, and is a certified public accountant.

Stephen J. Sabol has served as Vice President of Development of Green Mountain since October 2001. Mr. Sabol was Vice President of Sales of the Company from September 1996 to September 2001. Prior to that, Mr. Sabol served as Vice President of Branded Sales of the Company 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.

Robert P. Stiller, founder of Green Mountain, has served as its President and Chief Executive Officer 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 products and served as its President and director until June 1980, when Robert Burton Associates was sold.

Jonathan C. Wettstein has served as Vice President of Operations of Green Mountain 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, Marketing Manager, Business and Materials Manager and Product Line Controller.

PART II

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

(a) Price Range of Securities

The Company's common stock trades on the NASDAQ National Market under the symbol GMCR. The following table sets forth the high and low sales prices as reported by NASDAQ for the periods indicated.

		High	Low
Fiscal 2002	16 weeks ended January 19, 2002	\$ 29.25	\$ 19.85
	12 weeks ended April 13, 2002	\$ 26.25	\$ 17.90
	12 weeks ended July 6, 2002	\$ 25.74	\$ 20.08
	12 weeks ended September 28, 2002	\$ 23.34	\$ 13.01
Fiscal 2003	16 weeks ended January 18, 2003	\$ 16.00	\$ 12.03
	12 weeks ended April 12, 2003	\$ 18.38	\$ 13.99
	12 weeks ended July 5, 2003	\$ 21.49	\$ 16.35
	12 weeks ended September 27, 2003	\$ 22.09	\$ 18.06
Fiscal 2004	September 28, 2003 to December 9, 2003	\$ 24.00	\$ 19.69

(b) Number of Equity Security Holders

As of December 9, 2003, the number of record holders of the Company's common stock was 666.

(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.

On October 22, 2002, Green Mountain's Board of Directors approved a stock repurchase program authorizing the repurchase, up to an aggregate of \$3,000,000, of the Company's common stock. The repurchases are made from time to time on the open market at prevailing prices, in negotiated transactions. The Company repurchased 19,281 shares for an aggregate repurchase price of approximately \$286,000 during the first quarter of fiscal 2003.

D. Securities Authorized for Issuance Under Equity Compensation Plans

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance (c)
Equity compensation plans approved by security holders	999,602	\$10.79	353,006
Equity compensation plans not approved by security holders	-	-	-
Total	999,602	\$10.79	353,006

Item 6. Selected Financial Data

	Fiscal Years Ended				
	<u>Sept. 27, 2003</u>	<u>Sept. 28, 2002</u>	<u>Sept. 29, 2001</u>	<u>Sept. 30, 2000</u> ⁽¹⁾	<u>Sept. 25, 1999</u>
	(In thousands, except per share data)				
Coffee pounds shipped ⁽²⁾	15,570	13,504	12,408	10,871	9,004
Net sales from continuing operations ⁽²⁾	\$ 116,727	\$ 100,000	\$ 95,576	\$ 84,001	\$ 64,881
Income before equity in net earnings of Keurig, Incorporated	\$ 7,393	\$ 6,232	\$ 5,782	\$ 4,153	\$ 2,247
Income from continuing operations ⁽²⁾	\$ 6,266	\$ 5,970	\$ 5,782	\$ 4,153	\$ 2,247
Income per share from continuing operations - diluted ^{(2) (4)}	\$ 0.86	\$ 0.82	\$ 0.80	\$ 0.59	\$ 0.32
Total assets	\$ 59,990	\$ 54,687	\$ 34,496	\$ 27,244	\$ 23,878
Long-term obligations	\$ 9,028	\$ 15,209	\$ 6,256	\$ 8,783	\$ 4,964
Stockholders' equity	\$ 35,148	\$ 27,065	\$ 18,600	\$ 10,017	\$ 11,682
EBITDA ⁽³⁾	\$ 18,024	\$ 14,731	\$ 13,833	\$ 9,783	\$ 7,302

¹ The fiscal year ended September 30, 2000 was a 53-week year. All other fiscal years represented are 52-week years.

² Excludes results of the Company's discontinued company-owned retail stores operation.

³ Earnings from continuing operations before the impact of net earnings of Keurig, Incorporated, interest, taxes, depreciation and amortization.

⁴ Per share data was restated for years prior to 2001 to reflect the 2-for-1 stock split effective January 11, 2001.

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

Forward-looking information

Certain statements contained herein are not based on historical fact and are "forward-looking statements" within the meaning of applicable securities laws and regulations. In addition, the Company's representatives may from time to time make oral forward-looking statements. Forward-looking statements provide current expectations of future events based on certain assumptions and include any statements that do not directly relate to any historical or current fact. Words such as "anticipates," "believes," "expects," "will," "feels," "estimates," "intends," "plans," "projects," "forecasts," and similar expressions, may identify such forward-looking statements. 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, fluctuations in availability and cost of high-quality green coffee, competition, organizational changes,

the impact of a weaker economy, business conditions in the coffee industry and food industry in general, the impact of the loss of one or more major customers, delays in the timing of adding new locations with existing customers, Green Mountain's level of success in continuing to attract new customers, variances from budgeted sales mix and growth rate, and weather and special or unusual events, as well as other risks described in this report and other factors described from time to time in the Company's filings with the Securities and Exchange Commission.

In addition, the Company has an equity investment in Keurig, Incorporated, a small private company. Keurig, Incorporated can have significant operating income fluctuations and its results can differ materially from expectations set forth in forward-looking statements. Keurig is currently operating at a loss. Further, there is a high degree of uncertainty with respect to Keurig's spending for the launch of the Keurig Single-Cup ® Brewer for the home and results could materially vary depending on Keurig, Incorporated's success in entering the home brewer market and its ability to secure adequate financing to support this launch . 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, other than in conjunction with its regular, quarterly earnings releases and related disclosures.

Overview

Green Mountain Coffee Roasters, Inc. ("the Company" or "Green Mountain") is a leader in the specialty coffee industry. The Company roasts high-quality arabica coffees and offers over 100 coffee selections, including single-origins, estates, certified organics, Fair Trade, proprietary blends, and flavored coffees that it sells under the Green Mountain Coffee Roasters ® and Newman's Own® Organics brands. Green Mountain sells coffee to retailers including supermarkets, convenience stores, specialty food stores; food service enterprises including restaurants, hotels, universities and business offices; and directly to individual consumers.

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 for Green Mountain's wholesale or consumer direct channels, including media and advertising expenses, a portion of the 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 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 2003, fiscal 2002 and fiscal 2001 represent the 52 week-periods ended September 27, 2003, September 28, 2002, and September 29, 2001, respectively.

The Company is a Delaware company formed in July 1993. Until January 1, 2003, it was a holding company whose only asset was the stock of a Vermont corporation named Green Mountain Coffee Roasters, Inc. On January 1, 2003, the Vermont company was merged with and into the Company. At the same time, the Company changed its name from Green Mountain Coffee, Inc., to Green Mountain Coffee Roasters, Inc., which is the name under which the Company has always operated. The purpose of this merger was primarily to simplify tax reporting.

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:

	Fiscal years ended		
	<u>Sept. 27, 2003</u>	<u>Sept. 28, 2002</u>	<u>Sept. 29, 2001</u>
Net sales	100.0 %	100.0 %	100.0 %
Cost of sales	<u>58.0 %</u>	<u>57.1 %</u>	<u>57.8 %</u>

Gross profit	42.0 %	42.9 %	42.2 %
Selling and operating expenses	23.7 %	24.7 %	24.3 %
General and administrative expenses	7.0 %	7.5 %	7.3 %
Loss on abandonment of equipment	-	-	-
Operating income	11.3 %	10.7 %	10.6 %
Other income	0.0 %	0.0 %	0.0 %
Interest expense	(0.5)%	(0.3)%	(0.5)%
Income before income taxes	10.8 %	10.4 %	10.1 %
Income tax expense	(4.5)%	(4.1)%	(4.0)%
Income before equity in net earnings of Keurig, Incorporated	6.3 %	6.3 %	6.1 %
Equity in net earnings of Keurig, Incorporated	(0.9)%	(0.3)%	-
Income from continuing operations	5.4 %	6.0 %	6.1 %
Discontinued operations:			
Income on disposal, net of tax benefits	-	-	0.1 %
Net income	5.4 %	6.0 %	6.2 %
	===	===	===

Fiscal 2003 versus Fiscal 2002

Net sales increased by \$16,727,000 or 16.7%, to \$116,727,000 in fiscal 2003 as compared to fiscal 2002. Coffee pounds shipped increased by approximately 2,066,000 pounds, or 15.3%, to approximately 15,570,000 pounds in fiscal 2003. The pounds increase was strongest in the supermarket channel, up 930,000 pounds or 24.6%, and the other food service channel, up 171,000 pounds or 17.4%, due to the addition of new customers. The convenience store channel grew 559,000 pounds or 14.1% largely due to the strong seasonal sales to McLane Company, Inc. ("McLane"), the distributor for ExxonMobil, in the first and last quarters of 2003. The Office Coffee Service channel ("OCS") regained momentum in fiscal 2003 and grew 394,000 pounds or 13.4%.

Gross profit increased by \$6,041,000, or 14.1%, to \$48,907,000 in fiscal 2003. As a percentage of net sales, gross profit decreased 0.9 percentage points to 42.0% in fiscal 2003. The principal reasons for this decrease were higher green coffee costs and higher third-party carrier distribution costs.

Selling and operating expenses increased by \$2,890,000, or 11.7%, to \$27,587,000 in fiscal 2003, primarily due to compensation and benefits increases totaling \$1,894,000. General and administrative expenses increased by \$724,000, or 9.7%, to \$8,213,000 in fiscal 2003. Expenses related to management changes in the first half of fiscal 2003 (including severance costs) accounted for \$581,000 of the increase in operating expenses.

Interest expense increased by \$259,000 to \$539,000 in fiscal 2003. This increase is due to higher debt balances associated with the Keurig investment which took place in fiscal 2002. . The average effective interest rate was 3.6% in fiscal 2003. In fiscal 2003 and fiscal 2002, Green Mountain capitalized \$127,000 and \$135,000 of interest expense, respectively.

Income tax expense increased \$1,107,000, or 26.7%, to \$5,245,000 in fiscal 2003. The effective tax rate in 2003 was 41.5%, up from 39.9% in 2002. Green Mountain reduced its valuation allowance on the Vermont Manufacturer's tax credit by \$145,000 and \$170,000 in fiscal 2003 and fiscal 2002, respectively. The ultimate amount of this credit that the Company will be able to use is dependent on many factors, including: the amount of taxable income being generated, the percentage of income that is allocable to the State of Vermont and, the number of disqualifying dispositions of stock options.

The Company adopted the equity method of accounting for its investment in Keurig, Incorporated ("Keurig") in the

third quarter of fiscal 2002 as its common stock ownership percentage grew from under 10% to 49.93% during that quarter. The Company's percentage ownership of the total common stock equivalent shares of Keurig was 41.8% and 41.9% at September 27, 2003 and September 28, 2002, respectively. Keurig is effectively controlled by MD Co. (controlled by MDT Advisers, an institutional investment company) which owns approximately 23% of Keurig's capital stock. As a result of contractual limitations and restrictions agreed to by the Company and certain other stockholders, MD Co. has the ability to elect a majority of Keurig's Board of Directors, cause certain types of amendments to Keurig's Certificate of Incorporation, and approve or reject a sale of Keurig's business.

The equity in the net earnings/loss of Keurig in fiscal 2003 was a loss of \$1,127,000 or \$0.16 per diluted share. The Keurig loss is primarily due to marketing expenditures by Keurig related to the launch of the Keurig® Single-Cup Brewer for the home.

Net income increased by \$296,000, or 5.0%, to \$6,266,000 in fiscal 2003. Earnings per diluted share increased \$0.04 to \$0.86.

Fiscal 2002 versus Fiscal 2001

Net sales increased by \$4,424,000, or 4.6%, from \$95,576,000 in fiscal 2001 to \$100,000,000 in fiscal 2002. Coffee pounds shipped increased by approximately 1,096,000 pounds, or 8.8%, from 12,408,000 pounds in fiscal 2001 to 13,504,000 pounds in fiscal 2002. The difference between coffee pounds growth and dollar sales growth was due primarily to sales mix (including the successful expansion of the Company's business with ExxonMobil convenience stores, which carry lower sales prices but also lower costs) and increased sales rebates to newly acquired and existing customers. Coffee pounds growth came primarily from the supermarket channel and the convenience store channel. The office coffee service channel, a major growth driver in prior years, experienced no significant pounds growth in fiscal 2002, due to the weaker economy and reduced sales to two major office coffee distributors. Though the consumer direct channel is small, it contributed a healthy pounds growth of 108,000 lbs. in fiscal 2002.

Green Mountain's gross profit increased by \$2,583,000, or 6.4%, from \$40,283,000 in fiscal 2001 to \$42,866,000 in fiscal 2002. Gross profit as a percentage of net sales increased 1.0 percentage point from 42.2% in fiscal 2001 to 43.2% in fiscal 2002. The gross profit increase was primarily due to favorable channel mix change, with the supermarket and convenience store channels growing faster than average. Coffee costs were relatively flat for the whole year but trending up during the latter half.

Selling and operating expenses increased by \$1,506,000, or 6.5%, from \$23,190,000 in fiscal 2001 to \$24,696,000 in fiscal 2002, and increased 0.7 percentage points as a percentage of net sales from 24.3% in fiscal 2001 to 25.0% in fiscal 2002. The increase in selling and operating expenses was primarily due to increases in sales and sales support compensation expense of \$1,399,000, and travel and entertainment expenses of \$420,000, offset by a decrease in bad debt expense of \$590,000.

General and administrative expenses increased by \$518,000, or 7.4%, from \$6,972,000 in fiscal 2001 to \$7,490,000 in fiscal 2002. As a percentage of net sales, this change represents a 0.2 percentage point increase from 7.3% in fiscal 2001 to 7.5% in fiscal 2002. The increase was primarily due to higher compensation expenses of \$610,000 and travel expenses of \$297,000, offset by a decrease in consulting expenses of \$297,000.

As a result of the foregoing and including a reduction in incentive compensation for non-sales staff and employee stock ownership plan expenses of approximately \$721,000, operating income increased by \$559,000, or 5.5%, from \$10,121,000 in fiscal 2001 to \$10,680,000 in fiscal 2002. As a percentage of sales, operating income increased 0.1 percentage point from 10.6% in fiscal 2001 to 10.7% in fiscal 2002.

Interest expense decreased \$253,000, or 47.5%, from \$533,000 in fiscal 2001 to \$280,000 in fiscal 2002 due to successive reductions in interest rates throughout the year. The average effective interest rate was 3.5% in fiscal 2002. During fiscal 2002, \$135,000 of interest expense was capitalized as part of the Waterbury plant capacity expansion project.

Income tax expense from continuing operations increased \$293,000, or 7.6%, from \$3,845,000 in fiscal 2001 to \$4,138,000 in fiscal 2002. The Company's effective tax rate remained flat in 2002, at 39.9% of income before taxes. The Company recorded reductions totaling \$170,000 in the deferred tax asset valuation allowance on its manufacturer's investment tax credit from the State of Vermont during fiscal 2002. These reductions were based upon management's best estimate of future taxable income and that portion which is expected to be allocable to Vermont on which the credit could be applied.

The equity in the net earnings/loss of Keurig in fiscal 2002 was a loss of \$262,000, net of tax. For the reasons outlined above, income from continuing operations increased \$188,000, or 3.3%, from \$5,782,000 in fiscal 2001 to \$5,970,000 in fiscal 2002 and net income increased \$70,000, or 1.2%, from \$5,900,000 in fiscal 2001 to \$5,970,000 in fiscal 2002.

Liquidity and Capital Resources

Working capital increased \$3,353,000 to \$9,258,000 at September 27, 2003 from \$5,905,000 at September 28, 2002. This increase is primarily due to increased accounts receivable and inventories. Accounts receivable were higher compared to fiscal 2002 year-end due to the sales volume increase in the last weeks of fiscal 2003 and because of an increase in credit terms given to certain customers. Green coffee inventories increased \$833,000 at September 27, 2003 as compared to September 28, 2002, primarily because Green Mountain is buying more farm-identified green coffee as it becomes available, which is after the annual crop and does not necessarily coincide with the period the Company needs this green coffee to fulfill customer demand. Inventories are likely to increase further as Green Mountain approaches the holiday season and launches the new Keurig brewer for the home.

Net cash provided by operating activities decreased by \$662,000, or 5.5%, to \$11,322,000 in fiscal 2003 from fiscal 2002 levels. In fiscal 2003, strong cash flows from operations were used to fund capital expenditures and pay back \$6.5 million of outstanding debt.

In fiscal 2003, Green Mountain had capital expenditures of \$6,855,000, including \$3,880,000 for production equipment, \$1,641,000 for loaner equipment, \$1,050,000 for computer equipment and software, \$124,000 for vehicles and \$160,000 for leasehold improvements and fixtures. At September 27, 2003, the balance of fixed assets classified as construction in progress (primarily the installation of the bowl roasters and related conveyance and storage equipment), and therefore not being depreciated in the current period, amounted to \$2,264,000. The majority of the assets covered in this amount will be ready for production use before the end of the second quarter of fiscal 2004.

In fiscal 2002, Green Mountain had capital expenditures of \$11,042,000, comprised of \$7,580,000 for production and distribution equipment, \$1,532,000 for equipment on loan to wholesale customers, \$517,000 in leasehold improvements, \$1,045,000 for computer equipment and software, and \$368,000 for furniture and fixtures. The production equipment expenditure in fiscal 2002 included the purchase of five K-Cup[®] packaging lines and related maintenance parts from Keurig, Incorporated, for \$2,613,000. Since the beginning of the fourth quarter of fiscal 2002, the Company pays a reduced royalty rate to Keurig on the sale of each Green Mountain K-Cup[®] as a result of this equipment purchase.

The fiscal 2003 and 2002 production equipment expenditures also included installation costs for two roasters purchased at auction in fiscal 2001. Once the installation of these two new roasters is completed, the Company's annual roasting capacity in Waterbury, Vermont, is expected to increase to a range of 40 to 50 million pounds of roasted coffee. The installation of the first roaster and related equipment was completed in September 2002. The second roaster is expected to be ready for use in the first half of fiscal 2004. The related equipment consists primarily of a green coffee inventory storage system and a new green coffee transport system.

The Company currently plans to make capital expenditures in fiscal 2004 in the range of \$13,000,000 to \$15,000,000. The largest portion of these expenditures (approximately \$8.4 million) is for the construction of a new warehousing and distribution facility in Waterbury, Vermont, to be completed by September 2004.

In fiscal 2003, cash flow from financing activities included \$1,317,000 generated from the exercise of employee stock options, up from \$1,066,000 in the 2002 fiscal year. In addition, cash flow from operating activities included a \$591,000 tax benefit from the exercise of non-qualified options and disqualifying dispositions of incentive stock options, down from \$623,000 in 2002. As options granted under the Company's stock option plans are exercised, Green

Mountain will continue to receive proceeds and a tax deduction for disqualifying dispositions; however, neither the amounts nor the timing thereof can be predicted.

In the first fiscal quarter of 2003, Green Mountain repurchased 19,281 of its own common shares at a cost of \$286,000. No additional repurchases are anticipated in fiscal 2004.

On August 30, 2002, Green Mountain entered into a new syndicated credit facility with Fleet Bank and Banknorth, N.A. This new credit facility was entered into to finance the purchase of 628,450 shares of Preferred Stock and 1,642,854 shares of Common Stock of Keurig, Incorporated ("Keurig") from third parties at a cost of \$14,602,000. This facility includes an equipment line of credit of up to \$5,000,000 and a revolving line of credit of up to \$12,500,000, which is subject to a borrowing base formula, and matures in 2005. On September 27, 2003, \$350,000 was outstanding under the revolving line of credit, and, based on the borrowing base formula, the remaining amount available was \$17,150,000 (including the \$5,000,000 specific equipment line). The credit facility is subject to quarterly covenants and Green Mountain was in compliance with these covenants at September 27, 2003. Also part of this credit facility is a \$15,000,000 term loan that is being paid back in quarterly installments of \$750,000 and matures in 2007. The outstanding balance on the term loan at September 27, 2003 was \$11,500,000. The interest paid on the credit facility varies with prime, LIBOR and Banker's Acceptance rates, plus a margin based on a performance price structure.

Management believes that cash flow from operating activities, existing cash, the currently available 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 in the next twelve months. It is likely that the Company will seek additional borrowings to specifically finance the construction of the new warehousing and distribution facility, although no assurances can be made that the Company will be able to secure such financing.

A summary of the Company's cash requirements related to its outstanding long-term debt, future minimum lease payments and green coffee purchase commitments is as follows:

Fiscal Year	Long-Term Debt	Operating Lease Commitments	Green Coffee Purchase Commitments	Total
2004	\$ 3,123,000	\$ 1,389,000	\$ 11,222,000	\$15,734,000
2005	3,388,000	1,296,000	1,344,000	6,028,000
2006	2,520,000	989,000	110,000	3,619,000
2007	3,000,000	734,000	110,000	3,844,000
2008	-	603,000	110,000	713,000
Thereafter	-	1,848,000	110,000	1,958,000
Total	\$ 12,031,000	\$ 6,859,000	\$ 13,006,000	\$31,896,000

In addition, in October 2003, the Company committed to purchasing 5,000 B-100 brewers from Keurig, Incorporated for a total price of \$1,025,000 in the first quarter of fiscal 2004.

Factors Affecting Quarterly Performance

Historically, the Company has experienced 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.

Outlook

Looking forward, in fiscal 2004, the Company anticipates growth in dollar sales to be in the range of 13% to 18% and

coffee pounds growth to be in the range of 9% to 12%. Management anticipates that growth will be coming from all of the major sales channels, including consumer direct with the launch of K-Cups® for the home. Given its commitment to socially responsible sourcing and the current outlook of the green market, Green Mountain expects that its gross margin will decline to be in the range of 40% to 41%. Selling, general and administrative expenses will most likely be 30% to 31% of sales. Green Mountain anticipates that its interest expense for the full year will be \$500,000 to \$600,000 and its tax rate will slightly increase to 42%.

All the above factors are expected to result in an increase of 12% to 17% in income before the impact of the Company's equity investment in Keurig. Keurig results are extremely difficult to forecast, especially in light of the Keurig at-home launch. Given the best information on hand at this time, the total impact of Keurig in fiscal 2004 is expected to be a reduction in diluted earnings per share of 7 to 12 cents. Results from Keurig could be materially different from this estimate. Keurig is a small private company with the potential for significant quarterly operating income fluctuations. Further, there is a high degree of uncertainty concerning the magnitude of Keurig's spending in connection with the strategic launch of the Keurig® Single-Cup Brewer for the home.

Management currently anticipates making total capital expenditures in the range of \$13 to \$15 million in fiscal 2004. This includes \$8.4 million of expenditures to build a new warehousing and distribution facility at the Company's Waterbury site, which is scheduled for completion in September 2004. Management continuously reviews capital expenditure needs and actual amounts expended may differ from these estimates. In fiscal 2004, depreciation expense is forecasted to be between \$5.5 and \$6.0 million. Earnings before the impact of Keurig, interest, taxes, depreciation and amortization are expected to increase to \$19.0 to \$21.0 million in fiscal 2004, up from \$18.0 million in fiscal 2003.

Critical Accounting Policies

The Company prepares its consolidated financial statements in conformity with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period (see Note 2 to the Company's Consolidated Financial Statements included in this Annual Report on Form 10-K). Actual results could differ from those estimates.

In December 2001, the Securities and Exchange Commission ("SEC") requested that all registrants list their critical accounting policies in Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations* of their Form 10-K. The SEC defined a critical accounting policy as one that is important to the portrayal of the company's financial condition and results of operations and requires management's subjective or complex judgments. In accordance with this request, Green Mountain has described its critical accounting policies below.

Provision for Doubtful Accounts:

Periodically, management reviews the adequacy of its provision for doubtful accounts based on historical bad debt expense results and current economic conditions using factors based on the aging of its accounts receivable. In addition, from time-to-time Green Mountain estimates specific additional allowances based on indications that a specific customer may be experiencing financial difficulties. Actual bad debt results could differ materially from these estimates.

Deferred Tax Valuation Allowance:

Periodically, management reviews the adequacy of its deferred tax valuation allowance that is primarily related to a Vermont manufacturer's investment tax credit. This review entails estimating: the Company's future taxable income through fiscal 2004; how much of that taxable income will be allocable to Vermont; and, the levels of disqualifying dispositions of stock options, among other factors. A reduction in the valuation allowance can result in a decrease in the Company's income tax expense. Conversely, an increase in the valuation allowance can lead Green Mountain to report its income tax at a higher rate. Since future results may differ materially from those estimates, Green Mountain's estimate of the amount of deferred tax assets that will be ultimately realized could differ materially.

Impairment of Long-Lived Assets:

When facts and circumstances indicate that the carrying values of long-lived assets, including fixed assets, investments in other companies and intangibles, may be impaired, an evaluation of recoverability is performed by comparing the carrying value of the assets to projected future cash flows in addition to other quantitative and qualitative analyses. Upon indication that the carrying value of such assets may not be recoverable, the Company recognizes an impairment loss as a charge against current operations. Long-lived assets to be disposed of are reported at the lower of the carrying amount or fair value, less estimated costs to sell. Judgments Green Mountain makes related to the expected useful lives of long-lived assets and its ability to realize undiscounted cash flows in excess of the carrying amounts of such assets are affected by factors such as the ongoing maintenance and improvements of the assets, changes in economic conditions, and changes in operating performance. As the Company assesses the ongoing expected cash flows and carrying amounts of its long-lived assets, these factors could cause Green Mountain to realize a material impairment charge.

Hedge Accounting:

The Company uses coffee futures to hedge price increases in price-to-be-fixed coffee purchase commitments and anticipated coffee purchases. These derivative instruments qualify for hedge accounting under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." Hedge accounting is permitted if the hedging relationship is expected to be highly effective. Effectiveness is determined by how closely the changes in the fair value of the derivative instrument offset the changes in the fair value of the hedged item. If the derivative is determined to qualify for hedge accounting, the effective portion of the change in the fair value of the derivative instrument is recorded in other comprehensive income and recognized in earnings when the related hedged item is sold. The ineffective portion of the change in the fair value of the derivative instrument is recorded directly to earnings. If these derivative instruments do not qualify for hedge accounting, the Company would have to record the changes in the fair value of the derivative instruments directly to earnings. See "Item 7A. Quantitative and Qualitative Disclosures about Market Risk" and Note 11 in the "Notes to Condensed Consolidated Financial Statements," included elsewhere in this report.

Risks Related to the Company's Business

The Company's business, its future performance and forward-looking statements are affected by general industry and market conditions and growth rates, general U.S. and non-U.S. economic and political conditions (including the global economy), competition, interest rate and currency exchange rate fluctuations and other events. The following items are representative of the risks, uncertainties and other conditions that may impact the Company's business, future performance and the forward-looking statements that it makes in this report or that it may make in the future.

Because the Company's business is focused entirely on the sale of specialty coffee, if the demand for specialty coffee decreased, the Company's business could suffer.

Sales of specialty coffee constituted nearly 100% of the Company's 2003 net revenue.

Demand for specialty coffee is affected by many factors, including:

- Consumer tastes and preferences;
- International, national, regional and local economic conditions; and
- Demographic trends

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

Because the Company relies heavily on common carriers to deliver its coffee any disruption in their services or increase in shipping costs could adversely affect the Company's business.

The Company relies on a number of common carriers to deliver coffee to the Company's customers and distribution centers. The Company has no control over these common carriers and the services provided by them may be

interrupted as a result of labor shortages, contract disputes or other factors. If the Company experiences an interruption in these services, it may be unable to ship its coffee in a timely manner. A delay in shipping could:

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

Any significant increase in shipping costs could lower the Company's profit margins or force the Company to raise prices, which could cause the Company's revenue and profits to suffer.

The Company depends on the expertise of key personnel. If these individuals leave or change their role within the Company without effective replacements, the Company's operations may suffer.

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

The Company may not be able to hire or retain additional management and other personnel and the Company's recruiting and compensation costs may increase as a result of turnover, both of which may increase the Company's costs and reduce its profits and may adversely impact its ability to implement its business strategy.

The success of the Company's business depends upon its ability to attract and retain highly motivated, well-qualified management and other personnel. The Company faces significant competition in the recruitment of qualified employees. The Company's ability to execute its business strategy may suffer if:

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

Recently the Company has experienced significant turnover with respect to certain key management positions in the Company, including the position of Chief Financial Officer. This turnover increases expenses incurred as a result of severance arrangements, up-front hiring expenses and recruiting expenses. In addition, the lack of continuity among members of the Company's management team may result in frequent changes to its business strategy or may delay or hinder the effective implementation of the Company's business strategy.

Because the Company has only one roasting facility, a significant interruption in the operation of this facility could potentially disrupt its operations.

The Company has only one coffee roasting facility. A significant interruption in the operation of this facility, whether as a result of a natural disaster or other causes, could significantly impair its ability to operate its business on a day-to-day basis. In addition, because the Company's coffee roasting facility is located in Vermont, its ability to ship coffee and receive shipments or raw materials may be adversely effected during winter months as a result of severe winter conditions and storms.

Increases in the cost of high quality arabica coffee beans could reduce the Company's gross margin and profit .

Green coffee commodity prices are subject to substantial price fluctuations, generally caused by multiple factors including weather, political and economic conditions in certain coffee-producing countries and other supply-related concerns. In recent years, green coffee prices have been under considerable downward pressures due to oversupply, and this situation is likely to persist. Management believes that the "C" price of coffee (the price per pound quoted by the Coffee, Sugar and Cocoa Exchange) will remain highly volatile in future fiscal years. In addition to the "C" price, coffee of the quality sought by Green Mountain tends to trade on a negotiated basis at a substantial premium or "differential" above the "C" price. These differentials also are subject to significant variations. In recent years, while the "C" price has been at or near historic lows, differentials have generally been on the rise.

In the past, the Company generally has been able to pass increases in green coffee costs to its customers. However, there can be no assurance that it will be successful in passing such fluctuations on to the customers without losses in sales volume or gross margin in the future. Similarly, rapid sharp decreases in the cost of green coffee could also force Green Mountain to lower sales prices before realizing cost reductions in its green coffee inventory. Because Green Mountain roasts over 40 different types of green coffee beans to produce its more than 100 coffee selections, 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. 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 Green Mountain and its profitability.

The Company enters into fixed coffee purchase commitments in an attempt to secure an adequate supply of quality coffees. To further reduce its exposure to rising coffee costs, Green Mountain enters into futures contracts to hedge price-to-be-established coffee purchase commitments. The specific risks associated with these hedging activities are described in Item 7A "Quantitative and Qualitative Disclosures about Market Risk."

Decreased availability of high quality arabica coffee beans could result in a decrease in revenue and jeopardize the Company's ability to maintain or expand its business.

Arabica coffee beans of the quality the Company purchases are not readily available on the commodity markets. The Company depends on its relationships with coffee brokers, exporters and growers for the supply of its primary raw material, high quality arabica coffee beans.

Green Mountain purchases an increasing amount of green coffee from specifically identified farms, estates, cooperatives and cooperative groups. In fiscal 2003, close to 42% of green coffee purchases were "farm-identified," up from 34% in fiscal 2002. The timing of these purchases is dictated by when the coffee becomes available (after the annual crop), which does not always coincide with the period the Company needs this green coffee to fulfill customer demand. This can lead to higher and more variable inventory levels.

If the Company's relationships with coffee brokers, exporters and growers deteriorate, the Company may be unable to procure a sufficient quantity of high quality coffee beans. In such case, the Company may not be able to fulfill the demand of its existing customers, supply new customers or expand other channels of distribution. A raw material shortage could result in decreased revenue or could impair the Company's ability to maintain or expand the Company's business.

Political instability in coffee growing regions could result in a decrease in the availability of high quality arabica coffee beans needed for the continued operation and growth of the Company's business and an increase in its operating costs.

The Company roasts Arabica coffee beans from many different regions to produce over 100 types and blends of coffee. The political situation in many of those regions, including Africa, Indonesia and Central and South America, can be

unstable, and such instability could affect the Company's ability to purchase coffee from those regions. If Arabica coffee beans from a region become unavailable or prohibitively expensive, the Company may be forced to discontinue particular coffee types and blends or substitute coffee beans from other regions in its blends. Frequent substitutions and changes in the Company's coffee product lines may lead to cost increases, customer alienation and fluctuations in its gross margins. Furthermore, a worldwide supply shortage of the high quality Arabica coffee beans the Company purchases could have a material adverse effect on its business.

The Company's roasting methods are not proprietary, so competitors may be able to duplicate them, which could harm the Company's competitive position.

The Company considers its roasting methods essential to the flavor and richness of its coffee and, therefore, essential to its brand. Because the Company's roasting methods cannot be patented, the Company would be unable to prevent competitors from copying its roasting methods if such methods became known. If the Company's competitors copy its roasting methods, the value of the Company's brand may be diminished, and the Company may lose customers to its competitors. In addition, competitors may be able to develop roasting methods that are more advanced than the Company's roasting methods, which may also harm its competitive position.

Competition in the specialty coffee market is intense and could affect the Company's profitability.

The specialty coffee market is highly fragmented. The Company's primary competitors in specialty coffee sales include Gevalia Kaffe (Kraft Foods), Dunkin' Donuts (a subsidiary of Allied Domecq), Peet's Coffee & Tea, Millstone (Procter & Gamble), New England Coffee Company and Starbucks. There are numerous smaller, regional brands that also compete in this category. In addition, the Company competes indirectly against all other coffee brands on the market. A number of nationwide coffee marketers, such as Kraft Foods, Procter & Gamble, Sara Lee and Nestle, are distributing premium coffee brands in supermarkets. These premium coffee brands may serve as substitutes for the Company's coffee. If the Company does not succeed in effectively differentiating itself from its competitors or its competitors adopt the Company's strategies, then its competitive position will be weakened.

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

Because a substantial portion of the Company's revenue is related to sales to certain major customers, the loss of one or more of these customers could materially harm the Company's business.

The Company receives a significant portion of its revenues in each fiscal period from a relatively limited number of customers, and that trend is likely to continue. Coffee pounds shipped to the Company's ten largest customers accounted for approximately 41% of its total coffee pounds shipped in fiscal 2003. The loss of one or more of these major customers or a decrease in orders from one of these customers could materially affect its revenue, business and reputation.

In addition, a significant percentage of the Company's total revenues in fiscal 2003 comes from sales of K-Cups[®]. If the Company was no longer permitted to manufacture K-Cups[®] or if competitive, business or economic factors had a material negative impact on sales of the Keurig brewing system, the Company's business would be adversely affected.

The Company's substantial equity investment in Keurig, Incorporated, a small, privately-held company, could

have a material ongoing negative effect on the Company's net income.

The Company has a substantial equity investment in Keurig, Incorporated, a small private company. Keurig can have significant quarterly operating income/loss fluctuations and its results can differ materially from expectations set forth in forward-looking statements. Keurig is currently operating at a loss and its negative earnings have a direct effect on the Company's net income because the Company's investment in Keurig is accounted for under the equity method of accounting. Further, there is a high degree of uncertainty with respect to Keurig's spending for the launch of the Keurig[®] Single-Cup Brewer for the home and results could materially vary depending on Keurig's success in entering the home brewer market and its ability to secure adequate financing to support this launch. Due to contractual agreements between the Company and the other stockholders of Keurig, Incorporated, the Company has very little control over the management, operation or strategic direction of Keurig, Incorporated.

The Company is constructing a new large manufacturing and distribution facility. This project could have an adverse effect on the Company as result of increased capital needs, possible construction delays and cost overruns, implementation and coordination problems and other unforeseen difficulties associated with a large capital project.

The Company has announced that it intends to construct a new 52,000 square foot facility designated solely for warehousing and distribution. The cost of this project is currently estimated at \$8.4 million. The Company anticipates financing a large portion of the project through long-term debt. The increased debt could have a negative impact on the Company and could limit the Company's ability to have access to additional capital sources in the future to pursue other opportunities or make additional capital expenditures. In addition, the increased expense associated with servicing this debt could have an adverse effect on the Company's current cash flow.

As a large-scale construction project, there are inherent risks such as changes in materials costs or availability, inclement weather or other unforeseen events or conditions, that may substantially delay the project's completion or increase its cost. In either case this could have a material adverse effect on the Company and negatively impact its ability to meet its growth expectations.

After the anticipated completion of this facility in September 2004, the Company will have to shift portions of its warehousing and distribution operation to the new facility. Problems implementing and coordinating the new facility into the Company's current operations could cause the Company to fail to realize the expected returns on this project and focus management's attention away from implementing other aspects of the Company's business strategy.

The Company relies on a single third party supplier for its integrated software management system that is integral to the success and operation of the Company.

The Company relies on PeopleSoft and its employees and subcontractors in connection with its software management system that is essential to the Company's operations, including without limitation accounting, inventory, and sales. If PeopleSoft was to experience financial, operational, or quality assurance difficulties, or if there is any other disruption in the Company's relationship with PeopleSoft, the Company may decide to purchase and/or implement a new software management system, which could have a material adverse effect on the Company.

Because a substantial portion of the Company's business is based in New England, a worsening of the regional New England economy, a decrease in consumer spending or a change in the competitive conditions in this market may substantially decrease the Company's revenue and may adversely impact the Company's ability to implement its business strategy.

Coffee pounds shipped to customers in New England accounted for 49% of the Company's total pounds shipped in 2003. The Company expects that its New England operations will continue to generate a substantial portion of its revenue. In addition, the Company's market share and visibility in New England provides the Company with a means

for increasing brand awareness, building customer loyalty and strengthening its premium specialty coffee brand. As a result, an economic downturn or other decrease in consumer spending in New England may not only lead to a substantial decrease in revenue, but may also adversely impact the Company's ability to market its brand, build customer loyalty, or otherwise implement its business strategy and further diversify the geographical concentration of its operations.

Item 7A - Quantitative and Qualitative Disclosures about Market Risk

Market risks relating to the Company's operations result primarily from changes in interest rates and commodity prices (the "C" price of coffee). To address these risks, the Company enters into hedging transactions as described below. Green Mountain does not use financial instruments for trading purposes.

For purposes of specific risk analysis, the Company uses sensitivity analysis to determine the impacts that market risk exposures may have on the Company's financial position or earnings.

Interest rate risks

At September 27, 2003, the Company had \$6,850,000 of debt subject to variable interest rates (Fleet Bank's prime rate, or LIBOR rates plus a margin based on a performance price structure). A 100 basis point increase in interest rates would increase annual interest expense by approximately \$68,000.

Green Mountain has also entered into a \$5 million amortizing interest rate swap agreement effective January 1, 2003, in order to fix the interest rate on a portion of its term loan. The effect of the swap is to limit the interest rate exposure to a fixed rate of 3.495% versus the 30-day LIBOR. In fiscal 2003, the Company paid \$71,000 in additional interest expense pursuant to the swap agreement. The Company is exposed to credit loss in the event of non-performance by the other party to the swap agreement; however, nonperformance is not anticipated. The fair market value of the interest rate swap is the estimated amount that the Company would receive or pay to terminate the agreement at the reporting date, taking into account current interest rates and the credit worthiness of the counterparty. At September 27, 2003, the Company estimates it would have paid \$120,000 (gross of tax) to terminate the agreement. Green Mountain designates the swap agreement as a cash flow hedge and the fair value of the swap is classified in accumulated other comprehensive income.

Commodity price risks

Green coffee prices are subject to substantial price fluctuations, generally caused by multiple factors including weather, political and economic conditions in certain coffee-producing countries and other supply-related concerns. The Company's gross profit margins can be significantly impacted by changes in the price of green coffee. Green Mountain enters into fixed coffee purchase commitments in an attempt to secure an adequate supply of coffee. These agreements are tied to specific market prices (defined by both the origin of the coffee and the time of delivery) but the Company has significant flexibility in selecting the date of the market price to be used in each contract. Green Mountain 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. At September 27, 2003, the Company had approximately \$13.0 million in purchase commitments, of which approximately 90% had a fixed price. Approximately 52% of its estimated coffee requirements through September 26, 2004, the end of its 2004 fiscal year, had been contracted for as of September 27, 2003.

In addition, the Company regularly uses commodity-based financial instruments to hedge price-to-be-established coffee purchase commitments with the objective of minimizing cost risk due to market fluctuations. These hedges generally qualify as cash flow hedges. Gains and losses are deferred in other comprehensive income until the hedged inventory sale is recognized in earnings, at which point they are added to cost of sales. At September 27, 2003, the Company held outstanding coffee futures contracts covering 375,000 lbs of coffee and with a fair value of (\$3,000). The average settlement price used to calculate the fair value of the contracts outstanding was \$0.64. If the settlement price drops on

average by 10%, the additional loss incurred will be approximately \$24,000 gross of tax. However, this loss, if realized, would be offset by lower costs of coffee purchased during fiscal 2004.

Item 8. Financial Statements and Supplementary Data

See Index to Consolidated Financial Statements on Page F-1.

In accordance with rule 3-09, the Company will file audited financial statements of its equity method investee Keurig, Incorporated for the calendar year ending December 31, 2003, which meets the significant subsidiary tests, within 90 days of the equity investee's year-end.

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

None.

Item 9A. Controls and Procedures

As of the end of the period covered by this Report, and pursuant to Rule 13a-15(e) under the Securities Exchange Act of 1934, the Company's Chief Executive Officer and Chief Financial Officer, together with other members of Company management, have conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective to make known to them in a timely fashion material information related to the Company required to be filed in this report. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to the date of their evaluation.

While the Company believes that the present design of its disclosure controls and procedures is effective to make known to its senior management in a timely fashion all material information concerning its business, the Company will continue to improve the design and effectiveness of its disclosure controls and procedures to the extent necessary in the future to provide senior management with timely access to such material information, and to correct any deficiencies that the Company may discover in the future.

PART III

Item 10. Directors and Executive Officers of the Registrant

Except for the information regarding the Company's executive officers, the information called for by this Item is incorporated by reference in this report to the Company's definitive Proxy Statement for the Company's Annual Meeting of Stockholders to be held on March 25, 2004, which will be filed not later than 120 days after the close of the Company's fiscal year ended September 27, 2003 (the "Definitive Proxy Statement").

For information concerning the executive officers of the Company, see "Executive Officers of the Registrant."

Item 11. Executive Compensation

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

Item 13. Certain Relationships and Related Transactions

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

Item 14. Principal Accountant Fees and Services

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

PART IV

Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K

<u>Exhibit</u>	<u>Exhibit Title</u>
-----------------------	-----------------------------

<u>No.</u>	
-------------------	--

- | | |
|-----|---|
| 3.1 | Certificate of Incorporation, as amended (incorporated by reference to Exhibit 3.1 in the Quarterly Report on Form 10-Q for the 12 weeks ended April 13, 2002). |
| 3.2 | Bylaws of the Company, as amended (incorporated by reference to Exhibit 3.2 in the Quarterly Report on Form 10-Q for the 12 weeks ended April 13, 2002). |
| 3.3 | Certificate of Merger (incorporated by reference to Exhibit 3.3 in the Quarterly Report on Form 10-Q for the 16 weeks ended January 18, 2003). |
| 4.1 | Amended and Restated Credit Agreement, dated as of August 30, 2002, by and among the Company, as guarantor, Green Mountain Coffee Roasters, Inc. ("GMCR") and Green Mountain Coffee Roasters Franchising Corporation ("GMCRF"), as borrowers, Fleet National Bank, as agent ("Fleet"), and Fleet National Bank and Banknorth, N.A. ("Banknorth"), as lenders (collectively, the "Lenders"). |
| (a) | Revolving Note dated August 30, 2002, by GMCR and GMCRF in favor of Fleet (incorporated by reference to Exhibit 4.1(a) in the Current Report on Form 8-K dated August 30, 2002). |
| (b) | Revolving Note dated August 30, 2002, by GMCR and GMCRF in favor of Banknorth (incorporated by reference to Exhibit 4.1(b) in the Current Report on Form 8-K dated August 30, 2002). |
| (c) | Term Note dated August 30, 2002, by GMCR and GMCRF in favor of Fleet (incorporated by reference to Exhibit 4.1(c) in the Current Report on Form 8-K dated August 30, 2002). |
| (d) | Term Note dated August 30, 2002, by GMCR and GMCRF in favor of Banknorth (incorporated by reference to Exhibit 4.1(d) in the Current Report on Form 8-K dated August 30, 2002). |
| (e) | Equipment Note dated August 30, 2002, by GMCR and GMCRF in favor of Fleet (incorporated by reference to Exhibit 4.1(e) in the Current Report on Form 8-K dated August 30, 2002). |
| (f) | Equipment Note dated August 30, 2002, by GMCR and GMCRF in favor of Banknorth (incorporated by reference to Exhibit 4.1(f) in the Current Report on Form 8-K dated August 30, 2002). |
| (g) | Swing Line Note dated August 30, 2002, by GMCR and GMCRF in favor of Fleet (incorporated by reference to Exhibit 4.1(g) in the Current Report on Form 8-K dated August 30, 2002). |
| (h) | Security Agreement dated as of August 30, 2002, by and between GMCR and Fleet, as agent for the benefit of the Lenders (incorporated by reference to Exhibit 4.1(h) in the Current Report on Form 8-K dated August 30, 2002). |
| (i) | Security Agreement dated as of August 30, 2002, by and between GMCRF and Fleet, as agent |

for the benefit of the Lenders (incorporated by reference to Exhibit 4.1(i) in the Current Report on Form 8-K dated August 30, 2002).

- (j) Security Agreement (Intellectual Property) dated as of August 30, 2002, by and between GMCR and Fleet, as agent for the benefit of the Lenders (incorporated by reference to Exhibit 4.1(j) in the Current Report on Form 8-K dated August 30, 2002).
- (k) Pledge Agreement dated as of August 30, 2002, by and between GMCR and Fleet, as agent for the benefit of the Lenders (incorporated by reference to Exhibit 4.1(k) in the Current Report on Form 8-K dated August 30, 2002).
- (l) Mortgage, Security Agreement and Fixture Filing dated as of August 30, 2002, by and between GMCR and Fleet, as agent for the benefit of the Lenders (incorporated by reference to Exhibit 4.1(l) in the Current Report on Form 8-K dated August 30, 2002).
- (m) Collateral Assignment of Leasehold Interests dated as of August 30, 2002, by and between GMCR and Fleet, as agent for the benefit of the Lenders (incorporated by reference to Exhibit 4.1(m) in the Current Report on Form 8-K dated August 30, 2002).

10.1 U.S. Small Business Administration ("SBA") Authorization and Debenture Guaranty relating to \$766,000 loan to Green Mountain Coffee, Inc. together with Letters dated July 14, 1993 and July 19, 1993 from SBA to Central Vermont Economic Development Corporation relating thereto (incorporated by reference to Exhibit 10.22 in the Registration Statement on Form SB-2 (Registration No. 33-66646) filed on July 28, 1993 and declared effective on September 21, 1993).

- (a) Small Business Administration Guaranty dated September 30, 1993, from Robert P. Stiller to Central Vermont Economic Development Corporation (incorporated by reference to Exhibit 10.22(a) in the Annual Report on Form 10-KSB for the fiscal year ended September 25, 1993, filed on December 23, 1993).
- (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 (incorporated by reference to Exhibit 10.22(b) in the Annual Report on Form 10-KSB for the fiscal year ended September 25, 1993, filed on December 23, 1993).
- (c) Mortgage, dated September 30, 1993, between Green Mountain Coffee Roasters, Inc., and Central Vermont Economic Development Corporation (incorporated by reference to Exhibit 10.22(c) in the Annual Report on Form 10-KSB for the fiscal year ended September 25, 1993, filed on December 23, 1993).
- (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 (incorporated by reference to Exhibit 10.22(d) in the Annual Report on Form 10-KSB for the fiscal year ended September 25, 1993, filed on December 23, 1993).
- (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. (incorporated by reference to Exhibit 10.22(e) in the Quarterly Report on Form 10-QSB for the 16 weeks ended January 15, 1994, filed on February 25, 1994).
- (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 (incorporated by reference to Exhibit 10.22(f) in the Annual Report on Form 10-KSB for the fiscal year ended September 25, 1993, filed on December 23, 1993).
- (g) Security Agreement from Green Mountain Coffee Roasters, Inc., to Central Vermont Economic Development Corporation (incorporated by reference to Exhibit 10.22(g) in the Annual Report on Form 10-KSB for the fiscal year ended September 25, 1993, filed on December 23, 1993).
- (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 (incorporated by reference to Exhibit 10.22(h) in the Annual Report on Form 10-KSB for the fiscal year ended September 25, 1993, filed on December 23, 1993).
- (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., (incorporated by reference to Exhibit 10.22(i) in the Annual Report on Form 10-KSB for the fiscal year ended September 25, 1993, filed on December 23, 1993).
- (j) Development Company 504 Debenture, issued October 14, 1993, for principal amount of \$766,000, by Central Vermont Economic Development Corporation to Harris Trust of New York, as Trustee (incorporated by reference to Exhibit 10.22(j) in the Annual Report on Form 10-KSB for the fiscal year ended September 25, 1993, filed on December 23, 1993).

10.2 Lease Agreement, dated April 28, 1993, between Pilgrim Partnership and Green Mountain Coffee, Inc., (incorporated by reference to Exhibit 10.33 in the Registration Statement on Form SB-2 (Registration No. 33-66646) filed on July 28, 1993 and declared effective on September 21, 1993).

- (a) Addendum to Lease Agreement dated April 28, 1993 (incorporated by reference to Exhibit 10.33(a) in the Registration Statement on Form SB-2 (Registration No. 33-66646) filed on July 28, 1993, and declared effective on September 21, 1993).
 - (b) Lease Amendment dated August 16, 1993 (incorporated by reference to Exhibit 10.33(b) in the Annual Report on Form 10-KSB for the fiscal year ended September 25, 1993, filed on December 23, 1993).
 - (c) Letter Agreement dated July 30, 1997 (incorporated by reference to Exhibit 10.33(c) in the Quarterly Report on Form 10-Q for the 16 weeks ended January 17, 1998).
 - (d) Amendment to Lease Agreement dated July 1, 2002 (incorporated by reference to Exhibit 10.1 in the Quarterly Report on Form 10-Q for the 12 weeks ended July 6, 2002).
 - (e) Addendum & Amendment to Lease dated October 15, 2003.
- 10.3 1993 Stock Option Plan of the Company, as revised (incorporated by reference to Exhibit 10.36 in the Annual Report on Form 10-K for the fiscal year ended September 27, 1997).*
- (a) Form of Stock Option Agreement.*
- 10.4 1998 Employee Stock Purchase Plan with Form of Participation Agreement (incorporated by reference to Exhibit 10.37 in the Annual Report on Form 10-K for the fiscal year ended September 26, 1998).*
- 10.5 1999 Stock Option Plan of the Company (incorporated by reference to Exhibit 10.38 in the Quarterly Report on Form 10-Q for the 16 weeks ended January 18, 1999).*
- (a) Form of Stock Option Agreement.*
- 10.6 Employment Agreement of Stephen J. Sabol dated as of July 1, 1993 (incorporated by reference to Exhibit 10.41 in the Registration Statement on Form SB-2 (Registration No. 33-66646) filed on July 28, 1993, and declared effective on September 21, 1993).*
- 10.7 Employment Agreement of Paul Comey dated as of July 1, 1993 (incorporated by reference to Exhibit 10.42 in the Registration Statement on Form SB-2 (Registration No. 33-66646) filed on July 28, 1993, and declared effective on September 21, 1993).*
- 10.8 Employment Agreement of Jonathan C. Wettstein dated as of July 1, 1993 (incorporated by reference to Exhibit 10.44 in the Registration Statement on Form SB-2 (Registration No. 33-66646) filed on July 28, 1993, and declared effective on September 21, 1993).*
- 10.9 2000 Stock Option Plan of the Company (incorporated by reference to Exhibit 10.105 in the Annual Report on Form 10-K for the fiscal year ended September 30, 2000).*
- (a) Form of Stock Option Agreement*
- 10.10 Green Mountain Coffee, Inc., Employee Stock Ownership Plan (incorporated by reference to Exhibit 10.113 in the Annual Report on Form 10-K for the fiscal year ended September 30, 2000).
- 10.11 Green Mountain Coffee, Inc., Employee Stock Ownership Trust (incorporated by reference to Exhibit 10.114 in the Annual Report on Form 10-K for the fiscal year ended September 30, 2000).
- 10.12 Loan Agreement by and between the Green Mountain Coffee, Inc., Employee Stock Ownership Trust and Green Mountain Coffee, Inc., made and entered into as of April 16, 2001 (incorporated by reference to Exhibit 10.118 in the Quarterly Report on Form 10-Q for the 12 weeks ended April 14, 2001).
- 10.13 Asset Purchase Agreement between Green Mountain Coffee, Inc., and Frontier Cooperative Herbs dated June 5, 2001 (incorporated by reference to Exhibit 10.119 in the Quarterly Report on Form 10-Q for the 12 weeks ended July 7, 2001).
- 10.14 Promissory note from Kevin G. McBride, dated January 5, 2001, (incorporated by reference to Exhibit 10.16 in the Annual Report on Form 10-K for the fiscal year ended September 29, 2001).
- 10.15 Employment agreement of Robert D. Britt dated September 13, 2001, (incorporated by reference to Exhibit 10.17 in the Annual Report on Form 10-K for the fiscal year ended September 29, 2001).* Superseded by Employment Agreement of Robert D. Britt dated as of November 11, 2002 filed as Exhibit 10.24
- 10.16 Shareholder Rights Agreement dated April 4, 2002, by and among Green Mountain Coffee Roasters, Inc., Keurig, Incorporated and MD Co. (incorporated by reference to Exhibit 10.1 in the Current Report on Form 8-K dated April 5, 2002).
- 10.17 Second Amended and Restated First Refusal Agreement dated as of February 4, 2002, by and among Green Mountain Coffee Roasters, Inc., Keurig, Incorporated and certain other holders of the capital stock of Keurig, Incorporated (incorporated by reference to Exhibit 10.2 in the Current Report on Form 8-K dated April 5, 2002).
- 10.18 Voting Agreement dated as of February 4, 2002, by and among Green Mountain Coffee Roasters, Inc., Keurig, Incorporated and certain other holders of the capital stock of Keurig, Incorporated (incorporated by reference to Exhibit 10.3 in the Current Report on Form 8-K dated April 5, 2002).
- 10.19 Stock Rights Agreement dated as of February 4, 2002, by and among Keurig, Incorporated, Green Mountain Coffee Roasters, Inc., and other holders of preferred stock of Keurig, Incorporated (incorporated by reference to Exhibit 10.4 in the Current Report on Form 8-K dated April 5, 2002).
- 10.20 Fourteenth Amendment of Commercial Loan Agreement and Loan Documents dated April 3, 2002 between the Green Mountain Coffee Roasters, Inc., and Fleet National Bank (incorporated by reference to Exhibit 10.5 in the Current Report on Form 8-K dated April 5, 2002).**

- 10.21 \$5,000,000 Term Promissory Note dated April 3, 2002 issued by Green Mountain Coffee Roasters, Inc., in favor of Fleet National Bank (incorporated by reference to Exhibit 10.1 in the Current Report on Form 8-K dated April 5, 2002).**
- 10.22 Stock Pledge and Security Agreement dated April 3, 2002 executed by Green Mountain Coffee Roasters, Inc., in favor of Fleet National Bank (incorporated by reference to Exhibit 10.1 in the Current Report on Form 8-K dated April 5, 2002).**
- 10.23 Equipment Purchase Agreement dated as of June 21, 2002 by and between Green Mountain Coffee Roasters, Inc., and Keurig, Incorporated (incorporated by reference to Exhibit 10.1 in the Quarterly Report on Form 10-Q for the 12 weeks ended July 6, 2002).
- 10.24 Employment Agreement between Green Mountain Coffee, Inc., and Robert D. Britt dated as of November 11, 2002 (incorporated by reference to exhibit 10.24 in the Annual Report on Form 10-K for the fiscal year ended September 28, 2002). *
- 10.25 Resignation of Kevin G. McBride dated December 11, 2002, and Exhibit A (proposed Release and Severance Agreement) (incorporated by reference to exhibit 10.25 in the Annual Report on Form 10-K for the fiscal year ended September 28, 2002). *
- 10.26 Employment Agreement between Green Mountain Coffee Roasters, Inc. and Frances G. Rathke dated as of October 31, 2003. *
- 14. Green Mountain Coffee Roasters Finance Code of Professional Conduct.
- 21 List of Subsidiaries of the Company.
- 23 Consent of PricewaterhouseCoopers LLP.
- 24 Powers of Attorney.
- 31.1 Principal Executive Officer Certification Pursuant to Securities Exchange Act Rules 13a-14 and 15d-14 as Adopted Pursuant to the Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Principal Financial Officer Certification Pursuant to Securities Exchange Act Rules 13a-14 and 15d-14 as Adopted Pursuant to the Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Principal Executive Officer Certification Pursuant 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Principal Financial Officer Certification Pursuant 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Management contract or compensatory plan

** Superseded and replaced by the agreements included in Exhibit 4.1 and related to a new credit facility

Reports on Form 8-K

The Company filed a Form 8-K on July 31, 2003. The Company furnished its third quarter 2003 earnings press release as an exhibit under Item 7(c) "Financial Statements, Pro Forma Financial Information and Exhibits" and furnished the information contained in the earnings press release pursuant to Item 12 "Results of Operations and Financial Condition" under Item 9 "Regulation FD Disclosure."

SIGNATURES

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

GREEN MOUNTAIN COFFEE ROASTERS, 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 the Securities and 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
<u>/s/ Robert P. Stiller</u> ROBERT P. STILLER	Chairman of the Board of Directors, President and Chief Executive Officer (Principal Executive Officer)	December 19, 2003
<u>/s/ Frances G. Rathke</u> FRANCES G. RATHKE	Chief Financial Officer, Treasurer, Secretary and Director (Principal Financial and Accounting Officer)	December 19, 2003
KATHRYN S. BROOKS*	Vice President of Human Resources and Organizational Development and Director	December 19, 2003
BARBARA CARLINI*	Director	December 19, 2003
WILLIAM D. DAVIS*	Director	December 19, 2003
JULES A. DEL VECCHIO*	Director	December 19, 2003
HINDA MILLER*	Director	December 19, 2003
DAVID E. MORAN*	Director	December 19, 2003

*By: /s/ Robert P. Stiller
Robert P. Stiller, Attorney-in-fact

GREEN MOUNTAIN COFFEE ROASTERS, INC.
Index to Consolidated Financial Statements

	<u>Page</u>
Report of Independent Auditors	F-2
Consolidated Financial Statements:	
Consolidated Balance Sheet at September 27, 2003 and September 28, 2002	F-3
Consolidated Statement of Operations for each of the three years in the period ended September 27, 2003	F-4
Consolidated Statement of Changes in Stockholders' Equity for each of the three years in the period ended September 27, 2003	F-5
Consolidated Statement of Comprehensive Income for each of the three years in the period ended September 27, 2003	F-6
Consolidated Statement of Cash Flows for each of the three years in the period ended September 27, 2003	F-7
Notes to Consolidated Financial Statements	F-8

Report of Independent Auditors

To The Board of Directors and Stockholders of Green Mountain Coffee Roasters, Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, changes in stockholders'

equity, comprehensive income and cash flows present fairly, in all material respects, the financial position of Green Mountain Coffee Roasters, Inc. at September 27, 2003 and September 28, 2002, and the results of its operations and its cash flows for each of the three years in the period ended September 27, 2003 in conformity with accounting principles generally accepted in the United States of America. 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 auditing standards generally accepted in the United States of America, 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 our opinion.

/s/ PricewaterhouseCoopers LLP
 Boston, Massachusetts
 November 14, 2003

GREEN MOUNTAIN COFFEE ROASTERS, INC.
Consolidated Balance Sheet
(Dollars in thousands)

	September 27, 2003	September 28, 2002
Assets		
Current assets:		
Cash and cash equivalents	\$ 502	\$ 800
Receivables, less allowances of \$439 and \$351 at September 27, 2003, and September 28, 2002, respectively	12,708	9,132
Inventories	7,465	5,876
Other current assets	905	789
Income taxes receivable	276	528
Deferred income taxes, net	<u>756</u>	<u>546</u>
Total current assets	22,612	17,671
Fixed assets, net	22,313	20,834
Investment in Keurig, Incorporated	13,364	14,491
Goodwill and other intangibles	1,446	1,465
Other long-term assets	<u>255</u>	<u>226</u>
	\$ 59,990	\$ 54,687
	=====	=====
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of long-term debt	\$ 3,123	\$ 3,193
Accounts payable	6,352	6,271
Accrued compensation costs	2,056	1,031
Accrued expenses	<u>1,823</u>	<u>1,271</u>
Total current liabilities	13,354	11,766
Long-term debt	<u>8,558</u>	<u>12,079</u>
Long-term line of credit	<u>350</u>	<u>3,130</u>
Deferred income taxes	<u>2,460</u>	<u>647</u>
Other long-term liabilities	<u>120</u>	<u>-</u>
Commitments and contingencies (Note 16)		
Stockholders' equity:		
Common stock, \$0.10 par value: Authorized - 20,000,000 shares; Issued - 8,156,491 and 7,956,872 shares at September 27, 2003 and September 28, 2002, respectively	816	795
Additional paid-in capital	21,669	19,793
Retained earnings	20,914	14,648
Accumulated other comprehensive (loss)	(69)	(12)
ESOP unallocated shares, at cost - 31,181 and 40,941 shares at September 27, 2003 and September 28, 2002, respectively	(846)	(1,109)
Treasury shares, at cost - 1,157,554 and 1,138,273 shares at September 27, 2003 and September 28, 2002, respectively	<u>(7,336)</u>	<u>(7,050)</u>

Total stockholders' equity

35,14827,065

\$ 59,990

\$ 54,687

=====

=====

GREEN MOUNTAIN COFFEE ROASTERS, INC.
Consolidated Statement of Operations
(Dollars in thousands except per share data)

	September 27, 2003	Year Ended September 28, 2002	September 29, 2001
Net sales	\$ 116,727	\$ 100,000	\$ 95,576
Cost of sales	<u>67,716</u>	<u>57,134</u>	<u>55,293</u>
Gross profit	49,011	42,866	40,283
Selling and operating expenses	27,649	24,696	23,190
General and administrative expenses	<u>8,241</u>	<u>7,490</u>	<u>6,972</u>
Operating income	13,121	10,680	10,121
Other income (expense)	56	(30)	39
Interest expense	<u>(539)</u>	<u>(280)</u>	<u>(533)</u>
Income before income taxes	12,638	10,370	9,627
Income tax expense	<u>(5,245)</u>	<u>(4,138)</u>	<u>(3,845)</u>
Income before equity in net earnings of Keurig, Incorporated	7,393	6,232	5,782
Equity in net earnings of Keurig, Incorporated	<u>(1,127)</u>	<u>(262)</u>	<u>-</u>
Income from continuing operations	6,266	5,970	5,782
Discontinued operations:			
Income on disposal of retail stores, net of income tax expense of \$81	<u>-</u>	<u>-</u>	<u>118</u>
Net income	\$ 6,266 =====	\$ 5,970 =====	\$ 5,900 =====
Basic income per share:			
Weighted average shares outstanding	6,859,709	6,677,394	6,398,577
Income from continuing operations	\$0.91	\$0.89	\$0.90
Income from discontinued operations	\$0.00	\$0.00	\$0.02
Net income	\$0.91	\$0.89	\$0.92
Diluted income per share:			
Weighted average shares outstanding	7,259,805	7,264,310	7,196,740
Income from continuing operations	\$0.86	\$0.82	\$0.80
Income from discontinued operations	\$0.00	\$0.00	\$0.02
Net income	\$0.86	\$0.82	\$0.82

GREEN MOUNTAIN COFFEE ROASTERS, INC.
Consolidated Statement of Changes in Stockholders' Equity

**For the years ended September 27, 2003, September 28, 2002, and September 29, 2001
(Dollars in thousands)**

	Common stock		Additional paid-in capital	Retained earnings (accumulated deficit)	Accumulated other compre- hensive (loss)	Treasury stock		ESOP un-
	Shares	Amount				Shares	Amount	
Balance at September 30, 2000	7,342,010	\$ 734	\$ 13,534	\$ 2,778	-	(1,137,506)	\$ (7,029)	
Issuance of common stock under employee stock purchase plan	40,569	4	415	-	-	-	-	-
Options exercised	422,068	42	1,604	-	-	-	-	-
Purchase of unallocated ESOP shares	-	-	-	-	-	-	-	(73,8)
Tax benefit from exercise of options	-	-	2,828	-	-	-	-	-
Other comprehensive loss, net of tax	-	-	-	-	\$ (219)	-	-	-
Short-swing profit	-	-	9	-	-	-	-	-
Net income	-	-	-	5,900	-	-	-	-
Balance at September 29, 2001	7,804,647	780	18,390	8,678	(219)	(1,137,506)	(7,029)	(73,8)
Issuance of common stock under employee stock purchase plan	38,365	4	517	-	-	-	-	-
Options exercised	113,860	11	441	-	-	(767)	(21)	-
Allocation of ESOP shares	-	-	(285)	-	-	-	-	32,8
Tax benefit from allocation of ESOP shares	-	-	107	-	-	-	-	-
Tax benefit from exercise of options	-	-	623	-	-	-	-	-
Other comprehensive income, net of tax	-	-	-	-	207	-	-	-
Net income	-	-	-	5,970	-	-	-	-
Balance at September 28, 2002	7,956,872	795	19,793	14,648	(12)	(1,138,273)	(7,050)	(40,9)
Issuance of common stock under employee stock purchase plan	41,363	5	528	-	-	-	-	-
Options exercised	158,256	16	747	-	-	-	-	-
Deferred compensation and non-employee compensation expense	-	-	53	-	-	-	-	-
Allocation of ESOP shares	-	-	(69)	-	-	-	-	9,7
Tax benefit from allocation of ESOP shares	-	-	26	-	-	-	-	-
Tax benefit from exercise of options	-	-	591	-	-	-	-	-
Purchase of treasury shares	-	-	-	-	-	(19,281)	(286)	-
Other comprehensive loss, net of tax	-	-	-	-	(57)	-	-	-
Net income	-	-	-	6,266	-	-	-	-
Balance at September 27, 2003	8,156,491	\$ 816	\$ 21,669	\$20,914	\$ (69)	(1,157,554)	\$(7,336)	(31,1)

**GREEN MOUNTAIN COFFEE ROASTERS, INC.
Consolidated Statement of Comprehensive Income
(Dollars in thousands)**

	Year Ended		
	September 27, 2003	September 28, 2002	September 29, 2001
Net income	\$ 6,266	\$ 5,970	\$ 5,900
Other comprehensive (loss) income, net of tax:			
Deferred losses on derivatives designated as cash flow hedges	(50)	(56)	(408)
(Gains) losses on derivatives designated as cash flow hedges included in net income	(7)	263	189
Other comprehensive (loss) income	(57)	207	(219)
Comprehensive income	\$ 6,209	\$ 6,177	\$ 5,681

**GREEN MOUNTAIN COFFEE ROASTERS, INC.
Consolidated Statement of Cash Flows
(Dollars in thousands)**

Year ended
September 27, September 28, September 29,

	2003	2002	2001
Cash flows from operating activities:			
Net income	\$6,266	\$ 5,970	\$5,900
Adjustments to reconcile net income to net cash provided by operating activities:			
Income from discontinued operations	-	-	(118)
Depreciation and amortization	4,848	4,081	3,673
(Gain) loss on disposal of fixed assets	(54)	34	(20)
Provision for doubtful accounts	397	333	830
Change in fair value of interest rate swap	120	-	-
Change in fair value of futures derivatives	(11)	(355)	369
Change in accumulated other comprehensive income	(57)	207	(219)
Tax benefit from exercise of non-qualified stock options	591	623	2,828
Tax benefit from allocation of ESOP shares	26	107	-
Equity in loss of Keurig, Incorporated	1,127	262	-
Deferred income taxes	1,603	912	(132)
Deferred compensation and non-employee compensation	53	-	-
Changes in assets and liabilities:			
Receivables	(3,973)	(323)	(1,518)
Inventories	(1,589)	-	(108)
Other current assets	(116)	(82)	28
Income taxes receivable	252	215	(714)
Other long-term assets	(29)	(82)	53
Accounts payable	81	172	(26)
Accrued compensation costs	1,225	(51)	301
Accrued expenses	562	(39)	611
Net cash provided by operating activities	<u>11,322</u>	<u>11,984</u>	<u>11,738</u>
Cash flows from investing activities:			
Investment in Keurig, Incorporated	-	(14,602)	-
Expenditures for fixed assets, excluding Frontier assets in 2001	(6,855)	(11,042)	(6,666)
Proceeds from disposals of fixed assets	601	571	215
Payment for Frontier acquisition	-	-	(2,474)
Net cash used for investing activities	<u>(6,254)</u>	<u>(25,073)</u>	<u>(8,925)</u>
Cash flows from financing activities:			
Proceeds from issuance of common stock	1,291	959	2,074
Purchase of treasury shares	(286)	-	-
Purchase of unallocated ESOP shares	-	-	(2,000)
Proceeds from issuance of long-term debt	90	20,017	196
Repayment of long-term debt	(3,681)	(5,196)	(163)
Repayment of revolving line of credit	(2,780)	(2,870)	(2,500)
Net cash provided by (used for) financing activities	<u>(5,366)</u>	<u>12,910</u>	<u>(2,393)</u>
Net (decrease) increase in cash and cash equivalents	(298)	(179)	420
Cash and cash equivalents at beginning of year	800	979	559
Cash and cash equivalents at end of year	\$502	\$ 800	\$ 979
	=====	=====	=====
Supplemental disclosures of cash flow information:			
Non cash activities - release of ESOP shares to participants	\$200	\$600	-
Cash paid for interest	\$511	\$ 247	\$ 526
Cash paid for income taxes	\$2,726	\$2,423	\$ 1,656

Green Mountain Coffee Roasters, Inc.
Notes to Consolidated Financial Statements

1. Nature of Business and Organization

Green Mountain Coffee Roasters, Inc. ("the Company" or "Green Mountain Coffee") 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 supermarket, specialty food store, convenience store, food service, hotel, restaurant, university, travel and office

coffee service customers. The Company also has a consumer direct operation serving customers nationwide.

The Company's fiscal year ends on the last Saturday in September. Fiscal 2003, fiscal 2002 and fiscal 2001 represent the years ended September 27, 2003, September 28, 2002, and September 29, 2001, respectively. Each of these fiscal years consists of 52 weeks.

On January 1, 2003, Green Mountain Coffee Roasters, Inc., a Vermont company, merged into its parent company, Green Mountain Coffee, Inc., a Delaware company. At the same time, the parent company changed its name to Green Mountain Coffee Roasters, Inc., which is the name under which Green Mountain has always operated. The parent company owned 100% of the issued and outstanding capital stock of the merged subsidiary and the purpose of this merger was primarily to simplify tax reporting.

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 or market risk.

Inventories

Inventories are stated at the lower of cost or market, with cost being determined by the first-in, first-out method. Inventories consist primarily of green and roasted coffee, packaging materials and purchased finished goods.

Hedging

The Company uses futures and options contracts to hedge the effects of fluctuations in the price of green coffee beans and interest rate swaps to hedge the effect of fluctuations on interest payments on its outstanding debt. The Company recognizes derivatives on its balance sheet at fair value. Derivatives that are not hedges are adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives are either offset against the change in fair value of the hedged assets, liabilities or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value is immediately recognized in earnings.

Other long-term assets

Other long-term assets consist of deposits and debt issuance costs. Debt issuance costs represent those costs incurred in connection with the issuance of debt. Debt issuance costs are being amortized over the respective life of the applicable debt. Debt issuance costs included in other long-term assets in the accompanying consolidated balance sheet at September 27, 2003 and September 28, 2002 were \$74,000 and \$103,000, respectively.

Advertising costs

The Company expenses the costs of advertising the first time the advertising takes place, except for direct mail campaigns targeted directly at consumers, which are expensed over the period during which the catalog is expected to generate sales. At September 27, 2003 and September 28, 2002, prepaid advertising costs of \$48,000 and \$49,000, respectively, were recorded in other current assets in the accompanying consolidated balance sheet. Advertising expense totaled \$4,814,000, \$4,454,000, and \$4,392,000, for the years ended September 27, 2003, September 28, 2002, and September 29, 2001, respectively.

Fixed assets

Fixed assets are carried at cost, net of accumulated depreciation. Expenditures for maintenance, repairs and renewals of minor items are charged to expense as incurred. Depreciation is calculated using the straight-line method over the assets' estimated useful lives. The cost and accumulated depreciation for fixed assets sold, retired, or otherwise disposed of are relieved from the accounts, and the resultant gains and losses are reflected in income.

In order to facilitate sales, the Company follows an industry-wide practice of purchasing and loaning coffee brewing and related equipment to wholesale customers. These assets are also carried at cost, net of accumulated depreciation.

Depreciation costs of manufacturing and distribution assets are included in cost of sales. Depreciation costs of other assets are included in selling and operating expenses.

Revenue recognition

Revenue from wholesale and consumer direct sales is recognized upon product delivery.

In December 1999, the Securities and Exchange Commission ("SEC"), released Staff Accounting Bulletin No. 101 ("SAB 101"), which provides guidance on the recognition, presentation, and disclosure of revenue in financial statements filed with the SEC. In June 2000, the SEC released SAB 101B, which postponed the effective date of SAB 101 to the fourth quarter of fiscal years beginning after December 15, 1999. Green Mountain Coffee was required to be in conformity with the provisions of SAB 101 in the fourth quarter of fiscal 2001. The adoption of SAB 101 did not have a material impact on the Company's financial position or results of operations.

Cost of Sales

The Company records external shipping and handling expenses in cost of sales. The Company also recorded in cost of sales licensing royalties in the amount of \$5,091,000, 4,878,000, and \$5,256,000 for the years ended September 27, 2003, September 28, 2002, and September 29, 2001, respectively, to a related party.

Income taxes

The Company utilizes the asset and liability method of accounting for income taxes, as set forth in Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS 109"). 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.

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, 2003.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect amounts reported in the accompanying consolidated financial statements. Actual results could differ from those estimates.

Significant customer credit risk and supply risk

Since March 2001, under a new distribution agreement with ExxonMobil Corporation ("ExxonMobil"), all corporate-owned locations as well as a number of franchisee-owned locations must purchase their coffee from McLane Company ("McLane"), with McLane becoming the direct customer of Green Mountain Coffee. Net sales to McLane and corporate-owned ExxonMobil convenience stores made up less than 10% of the Company's revenues in the years ended September 27, 2003, September 28, 2002, and September 29, 2001. Receivables from McLane represented 16.2% and 15.3% of total receivables as of September 27, 2003 and September 28, 2002, respectively.

The majority of the Company's customers are located in the northeastern part of the United States. Concentration of credit risk with respect to accounts receivable is limited due to the large number of customers in various channels comprising the Company's customer base. The Company does not require collateral from customers as ongoing credit evaluations of customers' payment history are performed. The Company maintains reserves for potential credit losses and such losses, in the aggregate, have not exceeded management's expectations.

Recent pronouncements

In November 2002, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 45 ("FIN 45"), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN 45 requires that a liability be recorded in the guarantor's balance sheet upon issuance of a guarantee. In addition, FIN 45 requires disclosures about the guarantees that an entity has issued, including a reconciliation of changes in the entity's product warranty liabilities. The initial recognition and initial measurement provisions of FIN 45 are applicable on a prospective basis to guarantees issued or modified after December 31, 2002, irrespective of the guarantor's fiscal year-end. The disclosure requirements of FIN 45 are effective for financial statements for periods that end after December 15, 2002. The Company has adopted the provisions of FIN 45. In 2002, the Company entered into a customer contract with a minimum volume guarantee for calendar 2003. Under this guarantee, the maximum liability that the Company could incur is \$225,000.

On December 31, 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation -- Transition and Disclosure -- an amendment of FAS 123" ("FAS 148"). This Statement amends FAS Statement No. 123, Accounting for Stock-Based Compensation, to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. The Company has complied with the requirements of this Statement by prominently disclosing in both annual and interim financial statements the method of accounting for stock-based employee compensation and the effect of the method used on reported results. Currently, the Company is continuing to account for its stock-based compensation under the principles of Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees."

In January 2003, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"). This interpretation of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," addresses consolidation by business enterprises of variable interest entities, which possess certain characteristics. FIN 46 requires that if a business enterprise has a controlling financial interest in a variable interest entity, the assets, liabilities, and results of the activities of the variable interest entity must be included in the consolidated financial statements with those of the business enterprise. FIN 46 applies immediately to variable interest entities created after January 31, 2003 and to variable interest entities in which an enterprise obtains an interest after that date. The Company is currently evaluating the effects of the recent pronouncement, including the Company's investment in Keurig, Incorporated. The Company's maximum exposure related to Keurig is the current carrying value of the investment.

In April 2003, the FASB issued Statement of Financial Accounting Standards No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities," ("FAS 149") which amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under FAS 133. FAS 149 is effective for contracts entered into or modified after June 30, 2003 except for the provisions that were cleared by the FASB in prior pronouncements. The provisions of this statement will have no impact on the statement of financial position of the Company.

In May 2003, the FASB issued Statement of Financial Accounting Standards No. 150, Accounting for Certain

Financial Instruments with Characteristics of both Liabilities and Equity, ("FAS 150"). This statement establishes standards for how an issuer classifies and measures in its statement of financial position certain financial instruments with characteristics of both liabilities and equity. In accordance with the standard, financial instruments that embody obligations for the issuer are required to be classified as liabilities. The provisions of this statement will have no impact on the statement of financial position of the Company.

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, 2003	September 28, 2002
Raw materials and supplies	\$ 4,337,000	\$ 3,332,000
Finished goods	<u>3,128,000</u>	<u>2,544,000</u>
	\$ 7,465,000	\$ 5,876,000
	=====	=====

Inventory values above are presented net of \$148,000 and \$234,000 of obsolescence reserves at September 27, 2003 and September 28, 2002, respectively.

At September 27, 2003, the Company had approximately \$13,006,000 in green coffee purchase commitments, of which approximately 90% had a fixed price. These commitments extend through 2009. The value of the variable portion of these commitments was calculated using an average "C" price of coffee of \$0.63 per pound and a price of \$11 per pound for Kona Mountain EstateTM coffee. The Company believes, based on relationships established with its suppliers, that the risk of non-delivery on such purchase commitments is remote.

At September 28, 2002, the Company had approximately \$15,047,000 in purchase commitments, of which approximately 88% had a fixed price. These commitments extend through 2005. The value of the variable portion of these commitments was calculated using an average "C" price of coffee of \$0.57. The Company believes, based on relationships established with its suppliers, that the risk of non-delivery on such purchase commitments is remote.

4. Fixed Assets

Fixed assets consist of the following:

	Useful Life in Years	September 27, 2003	September 28, 2002
Production equipment	3 - 15	\$ 16,318,000	\$ 11,040,000
Computer equipment and software	2 - 5	7,132,000	6,160,000
Furniture and fixtures	2 - 10	2,146,000	2,335,000
Equipment on loan to wholesale customers	3 - 5	9,429,000	8,241,000
Vehicles	4 - 5	918,000	829,000
Leasehold improvements	2 - 10 or remaining life of the lease, whichever is less	3,561,000	3,540,000
Construction-in-progress		<u>2,264,000</u>	<u>3,814,000</u>

Total fixed assets

	41,768,000	35,959,000
Accumulated depreciation	<u>(19,455,000)</u>	<u>(15,125,000)</u>
	\$ 22,313,000	\$ 20,834,000
	=====	=====

Total depreciation expense relating to all fixed assets was \$4,829,000, \$4,000,000, and \$3,619,000 for fiscal 2003, 2002, and 2001, respectively.

Assets classified as Construction-in-progress are not depreciated, as they are not ready for production use. All assets classified as construction-in-progress on September 27, 2003 are expected to be in production use before the end of fiscal 2004.

During fiscal 2003 and fiscal 2002, \$127,000 and \$135,000 of interest expense was capitalized as part of the Waterbury plant capacity expansion project. No interest was capitalized in fiscal 2001.

During fiscal 2003, the Company undertook a review of its fixed assets records and recorded an impairment charge of \$340,000, mainly related to obsolete manufacturing and distribution equipment.

5. Income Taxes

The provision for income taxes for the years ended September 27, 2003, September 28, 2002, and September 29, 2001 consists of the following:

	September 27, 2003	September 28, 2002	September 29, 2001
Current tax expense:			
Federal	\$ 2,897,000	\$ 2,792,000	\$ 2,874,000
State	<u>699,000</u>	<u>552,000</u>	<u>906,000</u>
Total current	<u>3,596,000</u>	<u>3,344,000</u>	<u>3,780,000</u>
Deferred tax expense:			
Federal	1,356,000	611,000	(18,000)
State	<u>438,000</u>	<u>332,000</u>	<u>83,000</u>
Total deferred	<u>1,794,000</u>	<u>943,000</u>	<u>65,000</u>
Tax asset valuation allowance	<u>(145,000)</u>	<u>(149,000)</u>	-
Total tax expense	\$ 5,245,000	\$ 4,138,000	\$ 3,845,000
	=====	=====	=====

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.

Deferred tax liabilities consist of the following:

	September 27, 2003	September 28, 2002
Deferred tax assets:		
Vermont state manufacturers investment tax credit	\$ 1,733,000	\$ 2,070,000
Section 263A adjustment	7,000	7,000
Deferred hedging losses	48,000	8,000
Other reserves and temporary differences	<u>415,000</u>	<u>285,000</u>
Gross deferred tax assets	2,203,000	2,370,000

Deferred tax asset valuation allowance	(1,523,000)	(1,672,000)
Deferred tax liability:		
Depreciation	<u>(2,384,000)</u>	<u>(799,000)</u>
Net deferred tax liabilities	\$ (1,704,000)	\$ (101,000)
	=====	=====

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 2004. During fiscal 2003, 2002 and 2001, the Company utilized \$337,000, \$283,000 and \$87,000 of this credit, respectively. The resulting deferred tax asset, which is substantially offset by a valuation allowance, is reflected in the above table net of the federal tax effect.

During fiscal 2003 and 2002, the deferred tax asset valuation allowance was reduced by \$145,000 and \$170,000, respectively, based primarily upon estimates of future taxable income and that portion which is expected to be allocable to Vermont on which the credit could be applied. Although realization is not assured, management believes that the net deferred tax asset represents management's 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.

During fiscal 2002, the deferred tax asset valuation allowance was increased by \$21,000 due to the Company incurring a capital loss which it does not expect to utilize.

A reconciliation for continuing operations between the amount of reported income tax expense and the amount computed using the U.S. Federal Statutory rate of 34% is as follows:

	September 27, 2003	September 28, 2002	September 29, 2001
Tax at U.S. Federal Statutory rate	\$ 4,297,000	\$ 3,526,000	\$ 3,273,000
Increase (decrease) in rates resulting from:			
Other nondeductible items	89,000	90,000	(86,000)
State taxes, net of federal benefit	1,004,000	671,000	658,000
Deferred tax asset valuation allowance	<u>(145,000)</u>	<u>(149,000)</u>	<u>-</u>
Tax at effective rates	\$ 5,245,000	\$ 4,138,000	\$ 3,845,000
	=====	=====	=====

6. Investment in Keurig, Incorporated

During the first two quarters of fiscal 2002, the Company purchased 586,350 shares of Preferred Stock and 317,969 shares of Common Stock of Keurig, Incorporated ("Keurig") for approximately \$5,921,000 from third-party investors in Keurig. During the third fiscal quarter of 2002, the Company purchased an additional 1,324,885 shares of Common Stock and 3,925 shares of Preferred Stock of Keurig from third party investors for approximately \$8,681,000. Prior to January 8, 2002, the Company had an investment in the Preferred Stock of Keurig of \$151,000. As of September 27, 2003 and September 28, 2002, the shares of Common Stock owned by the Company represent approximately 49.72% and 49.93% of Keurig's outstanding Common Stock and the total acquired shares (Preferred Stock and Common Stock) represent approximately 41.8% and 41.9% of Keurig's common equivalent shares, respectively. The Company adopted the equity method of accounting to report its investment in Keurig, Incorporated in its third fiscal quarter of 2002. Due to the timing of the Company's investment in common stock of Keurig in the first two quarters of fiscal 2002, the retroactive application of equity method accounting to the results of the Company would not be material.

As a result of contractual limitations and restrictions agreed to by the Company, MD Co., which owns approximately 23% of Keurig's capital stock, effectively controls Keurig - having the ability to elect a majority of Keurig's Board of Directors, cause certain types of amendments to Keurig's Certificate of Incorporation, and approve or reject a sale of Keurig's business.

The allocation of the equity investment in Keurig included the assignment of \$2,554,000 to identifiable technology intangible assets that are being amortized on a straight-line basis over their estimated useful lives, which range from 7 to 10 years. In addition, the Company allocated \$1,152,000 to certain fixed assets of Keurig to approximate the estimated fair value of such assets. As the transaction was effected through the purchase of currently outstanding stock of Keurig, the historical tax basis of Keurig continues and the fair value ascribed to identifiable intangible assets and fixed assets are recorded net of a deferred tax liability.

In addition to its investment in Keurig, Incorporated, the Company conducts arms length business transactions with Keurig. Under license agreements with Keurig, dated July 22, 2003 and June 30, 2002 as amended, the Company pays Keurig a royalty for sales of Keurig licensed products. At September 27, 2003 and September 28, 2002, the Company had licensed royalties payable to Keurig of \$462,000 and \$595,000, respectively.

Keurig is on a calendar year-end. The Company has included in its income for the year ended September 27, 2003 the company's ownership interest in Keurig's earnings of the period starting on October 1, 2002 and ending September 30, 2003. The Company has included in its income for the year ended September 28, 2002 the Company's ownership interest of the second and third calendar 2002 quarters of Keurig's earnings (April 1, 2002 through September 30, 2002). During fiscal 2003 and the last two fiscal quarters of 2002, the equity impact of Keurig's earnings was \$(1,127,000) and \$(262,000), net of tax, respectively. The equity in earnings in the investment of Keurig represents the Company's portion of Keurig's earnings for the period relative to the Company's ownership of Common Stock in Keurig for that period including certain adjustments. These adjustments include the amortization of assigned intangible assets, the accretion of Preferred Stock dividends, as well as depreciation differences between the Company's equity in the fair value of certain fixed assets as compared to Keurig's historical cost basis. In addition, adjustments were also made to eliminate Keurig's gain recognized on the sale of packaging lines in fiscal 2003 and 2002 of \$205,000 and \$720,000, respectively, related to the fair value ascribed to such assets at the time of the Company's adoption of equity accounting for this investment.

Summarized financial information for Keurig (which is on a calendar year) is as follows:

Income Statement Information for the Twelve Months ended		
Dollars in thousands	September 30, 2003	September 30, 2002

Revenues	\$20,835	\$21,560
Cost of goods sold	8,839	\$ 9,809
Selling, general and administrative expenses	14,964	\$10,489
Operating (loss) income	(2,968)	\$ 1,262
Net (loss) income	(3,147)	\$ 623

Financial Position Information at		
Dollars in thousands	September 30, 2003	September 30, 2002

Current assets	\$9,858	\$12,500
Property, plant and equipment, net	\$5,547	\$5,018
Other assets	\$371	\$528
Total assets	\$15,776	\$18,046
Current liabilities	\$4,241	\$2,285
Noncurrent liabilities	\$80	\$1,237

Redeemable preferred stock	\$17,808	\$17,683
Stockholder's equity (deficit)	\$(6,353)	\$(3,159)

The following selected unaudited pro forma consolidated results of operations are presented as if the investment had occurred as of the beginning of the periods presented. The pro forma results give effect to certain adjustments including the additional funds borrowed to consummate the investment at interest rates consistent with those for each respective period and the related income tax effects.

Dollars in thousands	Fiscal Year 2002	Fiscal Year 2001
Net sales	\$100,000	\$ 95,576
Operating income	\$ 10,680	\$ 10,121
Income from continuing operations before equity in net earnings of Keurig, Incorporated	\$ 6,073	\$ 5,244
Equity in net earnings of Keurig, Incorporated	\$ (159)	\$ (661)
Net income	\$ 5,914	\$ 4,701
Basic income per share	\$ 0.89	\$ 0.73
Diluted income per share	\$ 0.81	\$ 0.65

7. Acquisition of Frontier[®] Organic Coffee

On June 5, 2001, Green Mountain Coffee Roasters purchased the assets related to the coffee business of Frontier Natural Products Co-op of Norway, Iowa for a cash payment of approximately \$2,440,000. The allocation of the purchase price was as follows: \$601,000 of inventory, \$271,000 of fixed assets, \$125,000 of intangible assets and \$1,443,000 of goodwill. In addition, the Company incurred transactions costs in the amount of \$34,000 that are classified as goodwill. This acquisition was recorded as a purchase business combination in accordance with Accounting Principles Board Opinion No. 16 (APB 16), "Business Combinations." Goodwill and other intangible assets recorded associated with this acquisition are being amortized over their estimated useful lives ranging from 1 to 15 years. The Company believes that Frontier's social responsibility positioning, high-quality certified organic coffees combined with its presence in the natural food distribution channel will enhance the Company's strategic position.

In July 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141 (FAS 141), "Business Combinations" and No. 142 (FAS 142), "Goodwill and Other Intangible Assets." FAS 141 supercedes APB 16. FAS 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001, and establishes specific criteria for the recognition of intangible assets separately from goodwill. Provisions of FAS 141 will be effective for the Company's business acquisitions that are consummated after July 1, 2001. FAS 142 supercedes Accounting Principles Board Opinion No. 17, "Intangible Assets," and addresses the accounting for goodwill and intangible assets subsequent to their acquisition. Under FAS 142, goodwill and indefinite lived intangible assets will no longer be amortized but will be tested for impairment at least annually at the reporting unit level. In addition, the amortization period of intangible assets with finite lives will no longer be limited to forty years. The Company adopted the provisions of FAS 142 in the first quarter of fiscal 2002, which resulted in the elimination of goodwill amortization in fiscal 2002.

The Company carried \$125,000 of intangibles from the Frontier acquisition (primarily a trademark licensing agreement) and related accumulated amortization of \$106,000 on its September 28, 2002 balance sheet. These intangibles were fully amortized in the first quarter of fiscal 2003.

The carrying value of the Company's goodwill was approximately \$1,446,000 at September 27, 2003 and September 28, 2002. There have been no changes in this carrying amount since September 29, 2001. The Company tested its goodwill for impairment at September 27, 2003 and at September 28, 2002, concluding that its goodwill is not impaired.

8. Credit Facility

The Company maintains a credit facility (the "Credit Facility") with Fleet National Bank ("Fleet"). In the second quarter of fiscal 2002, in order to finance the Keurig investment, the Company extended its existing \$15,000,000 line of credit with Fleet by one year to March 31, 2004 and entered into a \$5,000,000 term loan.

On August 30, 2002, the Company entered into a new syndicated credit facility with Fleet as agent, and Fleet and Banknorth N.A. as participating lenders. The new credit facility includes a \$15 million five-year term loan that was used to repay the Company's term loan and to pay down most of the Company's existing credit line. This \$15 million term loan is being paid back in quarterly installments of \$750,000 and matures on June 30, 2007. The new credit facility also includes an equipment line of credit of up to \$5 million and a revolving line of credit of up to \$12.5 million, which is subject to a borrowing base formula, and matures on March 31, 2005. The credit facility is secured by all of the Company's assets, including a pledge of the capital stock of Keurig, Incorporated owned by the Company.

The interest paid on the credit facility varies with prime, LIBOR and Banker's Acceptance rates, plus a margin based on a performance price structure. Interest on the Bankers Acceptance loans is paid in advance and amortized over the duration of the loans. Interest on LIBOR loans and the variable portion of the Credit Facility accrues daily and is paid monthly, in arrears.

The interest rate on the line of credit was 4% (prime rate) at September 27, 2003. The interest rate on the term loan was 2.61% (LIBOR plus 150 basis points) at September 27, 2003.

Interest rates on September 28, 2002 for each portion of the line of credit were as follows: 3.31% (Banker's Acceptance rate plus 150 basis points) on \$2,000,000; and 4.75% (prime rate) on \$1,130,000. The interest rate on September 28, 2002 on the term loan was 3.57% (LIBOR plus 175 basis points).

At September 27, 2003 and September 28, 2002, the outstanding balance on the Fleet line of credit was \$350,000 and \$3,130,000, respectively, and, based upon the revolving line of credit's borrowing base formula, the amount remaining available was \$17,150,000 and \$10,741,000 (including the \$5,000,000 specific equipment line), respectively. The terms of the Credit Facility also provide for the maintenance of specified financial ratios and restrict certain transactions without prior bank approval. The Company was in compliance with these covenants at September 27, 2003 and September 28, 2002.

The Company entered into an interest swap agreement with Fleet Bank ("Fleet") effective January 1, 2003, in order to fix the interest rate on a portion of its term loan. The swap has a notional amount of \$5,000,000 and matures on July 1, 2007. The effect of the swap is to limit the interest rate exposure to a fixed rate of 3.495% versus the 30-day LIBOR. In accordance with the agreement and on a monthly basis, interest expense is calculated based on the floating 30-day LIBOR and the fixed rate. If interest expense calculated is greater based on the 30-day LIBOR, Fleet pays the difference to the Company; if interest expense as calculated is greater based on the fixed rate, the Company pays the difference to Fleet. In fiscal 2003, the Company paid \$71,000 in additional interest expense pursuant to the swap agreement. The Company is exposed to credit loss in the event of nonperformance by the other party to the swap agreement; however, nonperformance is not anticipated. The fair market value of the interest rate swap is the estimated amount that the Company would receive or pay to terminate the agreement at the reporting date, taking into account current interest rates and the credit worthiness of the counterparty. At September 27, 2003, the Company estimates it would have paid \$120,000 (gross of tax)

to terminate the agreement. Green Mountain designates the swap agreement as a cash flow hedge and the fair value of the swap is classified in accumulated other comprehensive income.

9. Long-term Debt

	September 27, 2003	September 28, 2002
Fleet line of credit (Note 8)	\$ 350,000	\$ 3,130,000
Fleet and BankNorth Term Debt (Note 8)	11,500,000	15,000,000
Central Vermont Economic Development Corporation Debenture	33,000	130,000
Office equipment capital leases	18,000	17,000
Service vehicle installment loans	<u>130,000</u>	<u>125,000</u>
	12,031,000	18,402,000
Less current portion	<u>3,123,000</u>	<u>3,193,000</u>
	\$8,908,000	\$15,209,000
	=====	=====

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 matures on January 1, 2004 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.

Service Vehicle Installment Loans

The service vehicle installment loans represent several loans to financing institutions for the purchase of service vehicles. At September 27, 2003, the notes bear interest at a rate of varying from 0.0% to 4.9% and require monthly installments of principal and interest totaling approximately \$8,000. Maturities vary from April 2004 to March 2006.

Office Equipment Capital Leases

The Company leases fax machines. These leases require monthly installments of principal and interest totaling approximately \$1,300. Maturities vary from March 2004 to August 2005.

Maturities

Maturities of long-term debt for years subsequent to September 27, 2003 are as follows:

Fiscal Year	
2004	\$ 3,123,000
2005	3,388,000
2006	2,520,000
2007	<u>3,000,000</u>
	\$ 12,031,000
	=====

10. Discontinued operations

During the third fiscal quarter of 1998, the Company announced that it was discontinuing its company-owned retail store operations. In fiscal 2001, the Company revised its estimated pre-tax loss on disposal and reversed \$199,000 (\$118,000 net of tax) of the original estimate, due to lower lease termination costs.

11. Coffee prices hedging

The Company regularly enters into coffee futures contracts to hedge forecasted purchases of green coffee and therefore designates these contracts as cash flow hedges. At September 27, 2003, the Company held outstanding futures contracts covering 375,000 pounds of coffee with a fair market value of \$(3,000). At September 27, 2003, deferred gains on futures contracts designated as cash flow hedges amounted to \$3,000 (\$2,000 net of taxes). These deferred gains are classified as accumulated other comprehensive losses. These futures contracts are hedging coffee purchases forecasted to take place in the next three months and the related gains and losses will be reflected in cost of sales in the first two fiscal quarters of 2004, when the related finished goods inventory is sold. At September 28, 2002, the Company held outstanding futures contracts covering 1,087,500 pounds of coffee with a fair market value of \$(14,000). At September 28, 2002, deferred losses on futures contracts designated as cash flow hedges amounted to \$19,000 (\$12,000 net of taxes). The total gains on futures contracts designated as cash flow hedges that were included in cost of sales in fiscal 2003 amounted to \$13,000 (\$7,000 net of tax). The total losses on futures contracts that were included in cost of sales in fiscal 2002 amounted to \$439,000 (\$263,000 net of tax).

The fair market value for the futures was obtained from a major financial institution based on the market value of those financial instruments at September 27, 2003 and September 28, 2002.

12. Employee Compensation Plans

Stock Option Plans

Prior to the establishment on September 21, 1993 of the Company's first 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. These options had a maximum life of 10 years and vested immediately. On December 21, 1999, all options outstanding under these individual agreements were amended to extend the expiration date of these options from April 15, 2003 to April 15, 2008. At the time of this amendment, the exercise price of the options exceeded the fair market value of the stock, and as such, no compensation expense was recognized. At September 27, 2003, 73,814 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 150,000 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 550,000. Grants under the 1993 Plan expire 10 years after the grant date, or earlier if employment terminates. At September 28, 2002, options for 14,411 shares of common stock were available for grant under the plan. There were no options available under the 1993 Plan on September 27, 2003, as this Plan expired on September 21, 2003, ten years after inception.

On May 20, 1999, the Company registered on Form S-8 the 1999 Stock Option Plan (the "1999 Plan"). Under this plan, 500,000 shares of common stock are available for grants of both incentive and non-qualified stock options. Grants under the 1999 Plan expire 10 years after the grant date, or earlier if employment terminates. At September 27, 2003 and September 28, 2002, options for 61,234 shares and 43,342 shares of common stock were available for grant under the plan, respectively.

On September 25, 2001, the Company registered on Form S-8 the 2000 Stock Option Plan (the "2000 Plan"). Under this plan, 800,000 shares of common stock are available for grants of both incentive and non-qualified stock options. Grants under the 2000 Plan expire 10 years after the grant date, or earlier if employment terminates. At September 27, 2003 and September 28, 2002, options for 251,213 shares and 291,700 shares of common stock were available for grant under the plan, respectively.

Under the 1993 Plan, the 1999 Plan and the 2000 Plan, 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. Under the 1993 Plan and the 1999 Plan, 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 1993 Plan, the 1999 Plan and the 2000 Plan become exercisable over periods determined by the Board of Directors.

Option activity is summarized as follows:

	Number of Shares	Option Price	Weighted-average Exercise Price
Outstanding at September 30, 2000	1,122,926	\$ 2.188 - 8.969	\$ 3.74
Granted	444,000	9.438 - 23.05	12.48
Exercised	(422,068)	2.188 - 7.844	3.90
Canceled	<u>(57,800)</u>	2.188 - 17.00	4.46
Outstanding at September 29, 2001	1,087,058	2.188 - 23.05	7.12
Granted	215,250	13.50 - 26.83	21.86
Exercised	(113,860)	2.188 - 9.438	3.98
Canceled	<u>(52,125)</u>	2.188 - 23.95	8.84
Outstanding at September 28, 2002	1,136,323	2.188 - 26.83	10.15
Granted	100,550	12.89 - 21.45	15.20
Exercised	(158,256)	2.188 - 18.97	3.94
Canceled	<u>(79,015)</u>	2.188 - 26.83	16.136
Outstanding at September 27, 2003	999,602	\$ 2.188 - 26.83	\$ 10.79
	=====		
Exercisable at September 27, 2003	592,120	\$ 2.188 - 26.83	\$ 7.21
	=====		

Range of exercise price	Options outstanding			Options exercisable	
	Number outstanding at September 27, 2003	Weighted average remaining contractual life (in years)	Weighted average exercise price	Number exercisable at September 27, 2003	Weighted average exercise price
\$ 2.188 - 5.00	390,427	4.89	\$ 3.47	381,677	\$ 3.45
6.375 - 9.438	126,775	6.99	9.16	64,125	9.06
12.89 - 14.93	225,600	3.00	14.03	101,325	14.09
15.05 - 18.97	121,800	8.78	17.24	14,728	18.78
20.15 - 26.83	<u>135,000</u>	7.01	22.25	<u>30,265</u>	21.98
	999,602			592,120	
	=====			=====	

Employee Stock Purchase Plan

On October 5, 1998, the Company registered on Form S-8 the 1998 Employee Stock Purchase Plan. Under this plan, eligible employees may purchase shares of the Company's common stock, subject to certain limitations, at not less than 85 percent of the lower of the beginning or ending withholding period fair market value as defined in the plan. A total of 300,000 shares of common stock have been reserved for issuance under the plan. There are two six-month withholding periods in each fiscal year. At September 27, 2003 and September 28, 2002, options for 40,559 shares and 81,922 shares of common stock were available for grant under the plan, respectively.

The Company has chosen to continue to account for stock-based compensation using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees". Accordingly, except for two grants to outside consultants in fiscal 2003, no compensation expense has been recognized for its stock option awards and its stock purchase plan because the exercise price of the Company's stock options equals or exceeds the market price of the underlying stock on the date of the grant. The Company has adopted the disclosure-only provision of Statement of Accounting Standards No. 123 "Accounting for Stock Based Compensation" ("SFAS 123"). Had compensation cost for the Company's stock option awards and the stock purchase plan been determined based on the fair value at the grant dates for the awards under those plans,

consistent with the provisions of SFAS 123, the Company's net income and net income per share for the years ended September 27, 2003, September 28, 2002, and September 29, 2001, would have decreased to the pro forma amounts indicated below:

		Fiscal 2003	Fiscal 2002	Fiscal 2001
Net income:				
	As reported	\$ 6,266	\$ 5,970	\$ 5,900
	Pro forma	5,325	4,866	5,047
Diluted net income per share :				
	As reported	0.86	0.82	0.82
	Pro forma	0.73	0.67	0.70

The fair value of each stock option under the 1993, 1999 and 2000 Plans are estimated on the date of the grant using the Black-Scholes option-pricing model with the following assumptions: an expected life averaging 4 years, 4 years and 5 years in fiscal 2003, 2002, and 2001, respectively; an average volatility of 63%, 56%, and 97% for fiscal 2003, 2002, and 2001 respectively; no dividend yield; and a risk-free interest rate averaging 2.88%, 3.84%, and 4.12% for fiscal 2003, 2002, and 2001 grants, respectively. The weighted-average fair values of options granted during 2003, 2002, and 2001 are \$9.04, \$12.90, and \$8.76, respectively.

The fair value of the employees' purchase rights under the Purchase Plan was estimated using the Black-Scholes model with the following assumptions for fiscal 2003, 2002, and 2001: an expected life of six months for all periods presented; expected volatility of 65%, 56%, 97%, respectively; and an average risk-free interest rate of 1.00%, 1.96%, and 4.02%, respectively. The weighted average fair value of those purchase rights granted in fiscal 2003, 2002, and 2001, was \$8.81, \$5.61, and \$5.34, respectively.

13. 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 who are at least eighteen 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 6% of their salary. Company contributions to the plan amounted to \$462,000, \$425,000, and \$376,000, for the years ended September 27, 2003, September 28, 2002, and September 29, 2001, respectively.

14. Employee Stock Ownership Plan

On September 14, 2000, the Board of Directors of the Company adopted a resolution establishing the Green Mountain Coffee, Inc. Employee Stock Ownership Plan (the "ESOP") and the related Green Mountain Coffee, Inc. Employee Stock Ownership Trust (the "Trust"). The ESOP is qualified under sections 401(a) and 4975(e)(7) 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, in accordance with the terms of the Plan. The Company may, at its discretion, contribute shares of Company stock or cash that is used to purchase shares of Company stock. Company contributions are credited to eligible participants' accounts pro-rata based on their compensation. Plan participants hired before January 1, 2002 become vested in their Plan benefits ratably over five years from the date of hire of the employee. Plan participants hired after January 1, 2002 become vested in their Plan benefits after five years of employment.

For the years ended September 27, 2003, September 28, 2002, and September 29, 2001, the Company recorded compensation costs of \$200,000, \$200,000, and \$400,000, respectively, for contributions to the ESOP.

In April 2001, a total of 12,500 shares were purchased at a cost of \$197,000 in the open market and distributed

directly to participants.

On April 16, 2001, the Company made a \$2,000,000 loan to the Trust to provide funds for the open-market purchases of the Company's common stock. This loan bears interest at an annual rate of 8.5% and provides for annual repayments to the Company. The maturity date of the loan is the last business day of the Company's fiscal 2010 year. Between April 19, 2001 and August 21, 2001, the Trust purchased 73,800 shares of the Company's common stock at an average price of \$27.11 per share. The fair value of unearned ESOP shares at September 27, 2003 was \$627,000 or \$20.12 per share. The fair value of unearned ESOP shares at September 28, 2002 was \$534,000 or \$13.05 per share.

In the second quarter of 2003 and 2002, 15,325 and 17,354 shares were transferred from the unallocated ESOP pool of shares and allocated to participants' accounts, respectively. At September 27, 2003, 9,940 shares had been committed to be released to participants' accounts at the end of the calendar 2003 year.

15. Related party transactions

The Company uses travel services provided by Heritage Flight, a company which provides charter air services. On September 25, 2002, Mr. Stiller, the CEO of Green Mountain Coffee Roasters, Inc, purchased 100% of the ownership of Heritage Flight, now known as ElanAir, Inc., dba Heritage Flight. During fiscal 2003 and 2002, the Company paid a total of \$295,000 and \$442,000 to Heritage Flight for various travel services, respectively.

A portion of the travel fees billed in fiscal 2002 were for flights on an airplane owned by Sabre Mountain LLC, which was 50% owned by Spirit Too, LLC, a company whose sole owner was Mr. Stiller. The amount of revenues received by Sabre Mountain during fiscal 2002 from trips booked by Green Mountain Coffee amounted to \$152,000.

16. Commitments, Lease Contingencies and Contingent Liabilities

Leases

The Company leases office and retail space, production, distribution and service facilities and certain equipment under various non-cancelable operating leases, with terms 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. Total rent expense under all operating leases was \$1,948,000, \$1,848,000, and 1,792,000 in fiscal 2003, 2002, and 2001, respectively.

Minimum future lease payments (net of committed sublease agreements of \$54,000 for fiscal 2004, \$55,000 for fiscal 2005, \$56,000 for fiscal 2006, \$56,000 for fiscal 2007 and \$7,000 for fiscal 2008) under non-cancelable operating leases for years subsequent to September 27, 2003 are as follows:

Fiscal Year	Operating Leases
2004	\$ 1,389,000
2005	1,296,000
2006	989,000
2007	734,000
2008	603,000
Thereafter	<u>1,848,000</u>
Total minimum lease payments	\$ 6,859,000
	=====

In addition, in October 2003, the Company committed to purchasing 5,000 B-100 brewers from Keurig, Incorporated for a total price of \$1,025,000 in the first quarter of fiscal 2004.

17. Earnings per share

The following table illustrates the reconciliation of the numerator and denominator of basic and diluted income per share from continuing operations computations as required by SFAS No. 128 (dollars in thousands, except share and per share data):

	Year ended		
	September 27, 2003	September 28, 2002	September 29, 2001
Numerator - basic and diluted earnings per share:			
Net income from continuing operations	\$ 6,266	\$ 5,970	\$ 5,782
Denominator:	=====	=====	=====
Basic earnings per share - weighted average shares outstanding	6,859,709	6,677,394	6,398,577
Effect of dilutive securities -stock options	<u>400,096</u>	<u>586,916</u>	<u>798,163</u>
Diluted earnings per share -weighted average shares outstanding	<u>7,259,805</u>	<u>7,264,310</u>	<u>7,196,740</u>
Basic earnings per share	\$ 0.91	\$ 0.89	\$ 0.90
Diluted earnings per share	\$ 0.86	\$ 0.82	\$ 0.80

For the fiscal years ended September 27, 2003 and September 28, 2002, anti-dilutive options of 111,000 and 99,000, respectively, have been excluded from the calculation of EPS because the options' exercise price was greater than the market price of the common shares.

18. ChefExpress.net, Inc. Investment

In fiscal 2001, the Company held a \$104,000 minority investment in ChefExpress.net, a company whose Chief Executive Officer and President at the time was a board member of Green Mountain Coffee. The Company recorded an impairment charge of \$52,000 in fiscal 2001 against this minority ownership investment. A second impairment charge of \$52,000 was recorded in fiscal 2002, reducing the value of the investment to zero. This was due to the fact that the expected sale of ChefExpress.net was not completed and its operations were closed down in the second quarter of fiscal 2002.

19. Unaudited Quarterly Financial Data

The following table presents the quarterly information for fiscal 2003 and fiscal 2002 (dollars in thousands, except per share data). All quarters presented are made of 12 weeks except for the first fiscal quarters of fiscal 2002 and fiscal 2003 which comprise 16 weeks each.

Fiscal 2003	January 18, 2003	April 12, 2003	July 5, 2003	September 27, 2003
Net sales	\$ 36,567	\$ 26,311	\$ 26,344	\$ 27,505
Gross profit	\$ 15,724	\$ 11,095	\$ 11,275	\$ 10,917
Net income	\$ 2,314	\$ 1,198	\$ 1,358	\$ 1,396
Earnings per share:				
Basic	\$ 0.34	\$ 0.18	\$ 0.20	\$ 0.20
Diluted	\$ 0.32	\$ 0.17	\$ 0.19	\$ 0.19

Fiscal 2002	January 19, 2002	April 13, 2002	July 6, 2002	September 28, 2002
-------------	---------------------	-------------------	--------------	-----------------------

Net sales	\$ 32,357	\$ 23,013	\$ 22,989	\$ 21,641
Gross profit	\$ 14,233	\$ 9,884	\$ 9,685	\$ 9,064
Net income	\$ 2,246	\$ 1,326	\$ 1,441	\$ 957
Earnings per share:				
Basic	\$ 0.34	\$ 0.20	\$ 0.22	\$ 0.14
Diluted	\$ 0.31	\$ 0.18	\$ 0.20	\$ 0.13

**Report of Independent Auditors on
Financial Statement Schedules**

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

Our audits of the consolidated financial statements referred to in our report dated November 14, 2003 appearing in the 2003 Annual Report to Stockholders of Green Mountain Coffee Roasters, Inc. (which report and consolidated financials statements are incorporated by reference in this annual report on form 10-k) also included an audit of the financial statement schedules listed in Item 15(a)(2) of this Form 10-K. In our opinion, these financial statement schedules present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PricewaterhouseCoopers LLP
Boston, Massachusetts
November 14, 2003

**Schedule II - Valuation and Qualifying Accounts
for the fiscal years ended
September 27, 2003, September 28, 2002, and September 29, 2001**

Description	Balance at Beginning of Period	Additions		Deductions	Balance at End of Period
		Charged to Costs and Expenses	Charged to Other Accounts		
Allowance for doubtful accounts:					
Fiscal 2003	\$ 351,000	\$ 397,000	-	\$ 309,000	\$ 439,000
Fiscal 2002	\$ 492,000	\$ 333,000	-	\$ 474,000	\$ 351,000
Fiscal 2001	\$ 320,000	\$ 830,000	-	\$ 658,000	\$ 492,000
Obsolete inventory valuation allowance:					
Fiscal 2003	\$ 234,000	-	-	\$ 86,000	\$ 148,000
Fiscal 2002	\$ 149,000	\$ 289,000	-	\$ 204,000	\$ 234,000
Fiscal 2001	\$ 127,000	\$ 106,000	-	\$ 84,000	\$ 149,000
Deferred tax asset valuation allowance:					
Fiscal 2003	\$ 1,672,000	-	-	\$ 149,000	\$ 1,523,000
Fiscal 2002	\$ 1,821,000	\$ 21,000	-	\$ 170,000	\$ 1,672,000
Fiscal 2001	\$ 1,821,000	-	-	-	\$ 1,821,000

Addendum and Amendment to Lease Specific to Proposed 52,000 Sq. Ft. Distribution Center

It is agreed between Pilgrim Partnership, L.L.C. and Green Mountain Coffee Roasters as follows:

Pilgrim Partnership, L.L.C. is expanding their existing Lease with Green Mountain Coffee Roasters. This Lease is to include the proposed construction of a 52,000 square foot distribution center adjacent and connected to the existing roasting and manufacturing building that is included in the afore mentioned Lease; in so doing will extend the Lease Period an additional two years, to end August 31, 2014.

Occupancy and rent payments are to be no later than January 1, 2005.

Agreed to by:

/s/ Steve Van Esen
Pilgrim Partnership, L.L.C.
P.O. Box 447
Waterbury VT 05676
10/15/03

/s/ Paul Comey
Green Mountain Coffee Roasters, Inc.
10/15/03

EXECUTIVE EMPLOYMENT AGREEMENT

THIS EXECUTIVE EMPLOYMENT AGREEMENT (the "Agreement") is made and delivered as of October 31, 2003, between Frances G. Rathke (the "Executive") and Green Mountain Coffee Roasters, Inc., a Delaware corporation (the "Company").

PRELIMINARY STATEMENT

The Company is a leader in the specialty coffee industry, with a wholesale operation that serves supermarkets, convenience stores, offices and other locations, and operates a direct mail operation and an e-commerce website. The Company desires to employ Executive, and Executive desires to become an employee of the Company, pursuant to the terms of this Agreement.

NOW, THEREFORE, in consideration of the foregoing and the mutual promises herein contained, and in order to provide an incentive to Executive to enter into the employ of the Company, the parties hereby agree as follows:

ARTICLE I

TERM

1.01 Term. The term of this Agreement shall begin on October 31, 2003, and shall continue upon the terms and conditions hereinafter set forth.

ARTICLE II

SERVICES

2.01 Employment. The Company hereby agrees to employ Executive and Executive hereby agrees to be employed by the Company pursuant to the terms of this Agreement. During working hours, Executive shall devote her full time, attention, knowledge and skills to the business and interests of the Company, as shall be mutually agreed upon by Executive and the Company from time-to-time.

2.02 Reporting. Executive shall report to the Company's President and Chief Executive Officer (CEO).

2.03 Title. The title of Executive shall be Vice President, Chief Financial Officer, Treasurer and Secretary.

2.04 Duties and Responsibilities. Executive's duties and responsibilities shall be as set forth in Exhibit A.

ARTICLE III

COMPENSATION

3.01 Company Base Salary. For all services rendered by Executive pursuant to the terms of this Agreement, Executive shall receive through the Company payroll system the Company Base Salary, which shall mean an annual salary in the dollar amount set forth in Exhibit B. In addition, the Executive shall be entitled to annual or other bonuses starting in fiscal year 2003, commensurate with the bonus program (including "discretionary" bonuses) used to pay other Executive and Senior Leadership members. It is expected that the annual bonuses will be based upon meeting or exceeding performance criteria to be mutually agreed upon by the Executive and the CEO or Board of Directors.

3.02 Periodic Payment. The Company shall pay the Company Base Salary in twenty-six (26) equal bi-weekly payments, less all applicable payroll and other taxes required by law to be withheld.

ARTICLE IV

FRINGE BENEFITS

4.01 Holidays. Executive shall be entitled to all paid holidays that are annually observed at the Company.

4.02 Other Benefits and Reimbursements. Executive shall also be entitled to participate in (i) group medical, dental, disability and life insurance programs, (ii) retirement plans, (iii) vacation, (iv) expense reimbursement programs, and (v) such other benefit programs as shall be made available to the Company's senior executives during the term of this Agreement. Executive shall be entitled to a minimum of four weeks' paid vacation per year starting in fiscal year 2004. Any payments of benefits payable to Executive hereunder in respect to any fiscal year during which the Executive is employed by the Company for less than the entire year shall, unless otherwise provided in the applicable plan or arrangement or required by applicable law, be prorated in accordance with the number of days in such calendar year during which Executive is employed.

4.03 Stock Options. The Executive shall be granted stock options as set forth in Exhibit B.

ARTICLE V

INDEMNIFICATION AND INSURANCE

5.01 Bylaw Indemnification. The Company shall indemnify Executive against all liabilities incurred by Executive resulting from Executive's performance of this Agreement, all pursuant to and only to the extent provided in Article ___ of the Company's By-laws.

5.02 D&O Insurance. The Company, at its expense, may, in addition, provide director and officer liability insurance covering Executive, among others.

ARTICLE VI

TERMINATION

6.01 Death. Executive's employment shall terminate upon her death.

6.02 Company Termination. The Company may terminate Executive's employment hereunder:

(a) For Cause. The Company shall be deemed to have cause to terminate Executive's employment hereunder upon Executive's: (i) failure to perform and discharge, faithfully, diligently, and to the best of her abilities, the duties and responsibilities set forth herein and on Exhibit A and such other duties and responsibilities as may be assigned to her from time to time, or (ii) conduct that violates a material policy or procedure applicable to or adopted by the Company, or (iii) dishonest or unethical conduct which is injurious to the Company, monetarily or otherwise, or (iv) willful misconduct or gross negligence that is injurious to the Company, monetarily or otherwise, or (v) conviction of a misdemeanor involving moral turpitude or of a felony under the laws of the United States or any state or political subdivision thereof, or (vi) continued unauthorized absence from work, or (vii) material breach of any of the provisions of this Agreement if such breach is not cured within thirty (30) days after written notice thereof is delivered to Executive by the CEO. The decision to discharge Executive "for cause" shall be made by the CEO and Board of Directors.

(b) Without Cause. The Company may terminate Executive's employment without cause upon ten (10) business days advance notice to Executive.

6.03 Executive Termination. Executive may terminate Executive's employment without cause upon ten (10) business days advance notice to the Company.

6.04 Change of Control. Executive may terminate her employment hereunder within the first year following a Change of Control for Good

Reason (as such terms are defined herein), upon ninety (90) days' notice, or such shorter period as the Company may approve or require, by delivering a Notice of Termination to the Company pursuant to Section 6.05 hereof. In the event of any such termination, Executive shall continue to render services throughout said ninety (90) day period or such shorter period as the Company approves or requires, if requested by the Company. Regardless of whether the Company requests that Executive render services to the Company during such period, Executive shall be entitled to continue to receive the Company Base Salary during such period.

As used herein, a "Change of Control" shall mean the occurrence of any one or more of the following events:

- I. (i) A sale, transfer or other conveyance by the Company of all or substantially all of its assets whereby any person is or becomes Beneficial Owner, directly or indirectly, of securities of the Company representing 35% or more of the combined voting power of the Company's then outstanding securities (except if such Beneficial Owner is Mr. Robert P. Stiller or his affiliates, directly or indirectly),
- II. (ii) a merger or consolidation by or with the Company in which the Company is not the surviving corporation following such merger or consolidation other than (A) a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or being converted into voting securities of the surviving entity) 60% or more of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation, or (B) a merger or consolidation affected to implement a recapitalization of the Company (or similar transaction) in which Mr. Robert P. Stiller or his affiliates, directly or indirectly, continues to beneficially own at least 10% or more of the combined voting power of the Company's then outstanding securities,
- III. (iii) the implementation of any plan or proposal for the liquidation or dissolution or other winding up of the Company, or
- IV. (iv) Mr. Robert P. Stiller or his affiliates, directly or indirectly, fails to continue to beneficially own securities of the Company representing 10% or more of the combined voting power of the Company's then outstanding securities.

As used herein, "Good Reason" shall mean (i) failure of the Company to continue the Executive in the position the Executive had prior to the date of Change of Control, (ii) diminution in the nature or scope of the Executive's responsibilities, duties or authority existing prior to the date of the Change of Control, or (iii) failure of the Company to provide the Executive with the base salary, bonus, and benefits and perquisites in accordance with the terms of this Agreement, as in effect immediately prior to the Change of Control.

6.05 Notice of Termination. Any termination of employment, by the Company or Executive, except termination pursuant to Section 6.01, shall be communicated by delivery of a written notice of termination to the other party (a "Notice of Termination").

6.06 Date of Termination. For purposes of this Agreement, the date of termination (the "Date of Termination") is defined as (i) the date of death if the employment is terminated by death; or (ii) if employment is terminated pursuant to Section 6.02, 6.03 or 6.04 hereof, the date specified in the Notice of Termination.

6.07 Consequences of Termination.

(a) **Death.** If Executive's employment terminates pursuant to Section 6.01 hereof, the Company shall pay to Executive's executor, administrator or other legal representative the portion of the Company Base Salary earned prior to the Date of Termination. The Company shall have no further obligation to Executive's executor, administrator or legal representative under this Agreement or on account of, or arising out of, the termination of Executive's employment, except to the extent provided under the terms of any benefit plans, and as required by Section 4980B of the Internal Revenue Code ("COBRA") as it relates to the continuation of coverage under group health plan(s) maintained by the Company.

(b) **For Cause Termination by the Company.** If Executive's employment terminates pursuant to Section 6.02(a) hereof, the Company shall pay to Executive the portion of the Company Base Salary earned prior to the Date of Termination. The Company shall have no further obligation to Executive and/or Executive's executor, administrator or other legal representative under this Agreement or on account of, or arising out of, the termination of Executive's employment, except to the extent provided under the terms of any benefit plans and as required by COBRA.

(c) **Without Cause Termination by the Company.** If Executive's employment terminates pursuant to Section 6.02(b) hereof, the Company shall pay to Executive the portion of the Company Base Salary earned prior to the Date of Termination. The Company shall have no further obligation to Executive and/or Executive's executor, administrator or other legal representative under this Agreement or on account of, or arising out of, the termination of Executive's employment, except to the extent provided under the terms of any benefit plans and as required by COBRA. Notwithstanding the foregoing, Executive will receive the following additional benefits upon Executive's execution of the Release, attached hereto as Exhibit C, which Release shall be signed and effective as of the Date of Termination, (i) the Company shall pay to Executive her Company Base Salary for a period of twelve (12) months from the Date of Termination at the rate then in effect (subject to any employee contribution for the group medical and dental insurance plan applicable to Executive on the Date of Termination), (ii) the Company shall continue Executive's employee participation in the Company's group medical and dental insurance plans under COBRA at then existing employee contribution rates, which Executive shall pay, for a period up to twelve (12) months from the Date of Termination, or until the Employee secures other comparable employment, whichever is sooner, (iii) the Company shall provide, or arrange for, up to \$10,000.00 in outplacement services, (iv) unless provisions in some other agreement between the Executive and the Company or provisions in the stock option plan under which options held by the Executive as of the Date of Termination were granted are more favorable to the Executive, in which case those provisions shall govern, unvested stock options that would have vested in the first six-month period after the Date of Termination shall be accelerated by the Company and become vested as of the Date of Termination, and all vested options as of such date may be exercised by the Executive for up to three months thereafter (unless exercised, such options shall terminate at the end of such three-month

period), and all unvested stock options remaining unvested on the Date of Termination shall terminate as of such date, and (v) the Company shall pay to Executive the next annual cash bonus that would have otherwise been payable to Executive but for the termination (if and as approved by the Compensation Committee of the Company's Board of Directors in accordance with the policies and procedures generally applicable to all senior executives), which amount shall be no less than Executive's annual cash bonus in the immediately preceding fiscal year.

(d) Without Cause Termination by Executive. If Executive's employment terminates pursuant to Section 6.03 hereof, the Company shall pay to Executive the portion of the Company Base Salary earned prior to the Date of Termination. The Company shall have no further obligation to Executive and/or Executive's executor, administrator or other legal representative under this Agreement or on account of, or arising out of, the termination of Executive's employment, except to the extent provided under the terms of any benefit plans and as required by COBRA.

(e) Change of Control. If Executive's employment terminates pursuant to Section 6.04 hereof, the Company shall pay to Executive the portion of the Company Base Salary earned prior to the Date of Termination. The Company shall have no further obligation to Executive and/or Executive's executor, administrator or other legal representative under this Agreement or on account of, or arising out of, the termination of Executive's employment, except to the extent provided under the terms of any benefit plans and as required by COBRA. Notwithstanding the foregoing, Executive will receive the following additional benefits upon Executive's execution of the Release, attached hereto as Exhibit C, which Release shall be signed and effective as of the Date of Termination, (i) the Company shall pay to Executive a single lump sum equal to the sum of her (a) one and a half times (i.e. 18 months) annual Base Salary in effect immediately prior to the date of the Change in Control or immediately prior to the date of termination (whichever is greater) and (b) an amount equal to one and a half times the last year's annual cash bonus paid to the Executive (subject to any employee contribution for the group medical and dental insurance plan applicable to Executive on the Date of Termination), (ii) the Company shall continue Executive's employee participation in the Company's group medical and dental insurance plans under COBRA at then existing employee contribution rates, which Executive shall pay, for a period up to twelve (12) months from the Date of Termination, (iii) the Company shall provide, or arrange for, up to \$10,000.00 in outplacement services, (iv) unless provisions in some other agreement between the Executive and the Company or provisions in the stock option plan under which options held by the Executive as of the Date of Termination under a Change of Control were granted are more favorable to the Executive, in which case those provisions shall govern, unvested stock options that would have vested after the Date of Termination shall be accelerated by the Company and become vested immediately prior to the Change of Control and shall continue to be exercisable for six months.

ARTICLE VII

NON-COMPETITION

7.01 Restricted Activities. Executive agrees that some restrictions on her activities during and after her employment are necessary to protect the goodwill, Proprietary Information (as defined in Section 8.02 hereof) and other legitimate interests of the Company, and that the agreed restrictions set forth below will not deprive the Executive of the ability to earn a livelihood:

(a) Non-Competition Period. While the Executive is employed by the Company and, after her employment terminates, for one year from the Date of Termination (the "Non-Competition Period"), the Executive shall not, directly or indirectly, whether as owner, partner, investor, consultant, agent, employee, co-venturer or otherwise, compete with the business of the Company within the United States, or undertake any planning for any business competitive with the Company. For the purposes of this Article VII, the "business of the Company" shall mean the roasting, distribution, or sale of coffee, either through wholesale, retail, direct mail or e-commerce channels and any other activities engaged in by the Company at the Date of Termination.

(b) Non-Solicitation of Employees or Customers. The Executive further agrees that during the Non-Competition Period or in connection with the Executive's termination of employment, the Executive will not hire or attempt to hire any employee of the Company, assist in such hiring by any person or entity, encourage any such employee to terminate his or her relationship with the Company, or solicit or encourage any customer or vendor of the Company to terminate its relationship with it, or, in the case of a customer, to conduct with any person or entity any business or activity which such customer conducts or could conduct with the Company.

(c) Unrelated Activities. The provisions of this Article VII shall not be deemed to preclude the Executive from employment or engagement during the Non-Competition Period following termination of employment hereunder by a person or entity, some of the activities of which are competitive with the business of the Company, if the Executive's activities do not relate to such competitive business, and nothing contained in this Article VII shall be deemed to prohibit the Executive, during the Non-Competition Period following termination of employment hereunder, from acquiring or holding, solely as an investment, publicly traded securities of any competitor of the Company so long as such securities do not, in the aggregate, constitute one-half of 1% or more of the outstanding voting securities of such competitor.

(d) Cessation of Payments. Without restricting any other remedies available to the Company under this Agreement or at law or in equity, it is understood that the Company shall not be obligated to continue to make the payments specified in this Agreement in the event of a material breach by the Executive of the provisions of Articles VII or VIII of this Agreement, which breach continues without having been cured within 30 days after written notice to the Executive specifying the breach in reasonable detail.

ARTICLE VIII

CONFIDENTIALITY

8.01 Recognition of Company's Rights; Nondisclosure. At all times during Executive's employment and thereafter, Executive shall hold in strictest confidence and shall not disclose, use, lecture upon or publish any of the Company's Proprietary Information (defined below), except as such disclosure, use or publication may be required in connection with Executive's work for the Company, or unless an officer of the Company expressly authorizes such in writing. Executive hereby assigns to the Company any rights she may have or acquire in such Proprietary Information and recognize that all Proprietary Information shall be the sole property of the Company and its successors and assigns.

8.02 Proprietary Information. The term "Proprietary Information" shall mean any and all confidential or proprietary knowledge, data or information of the Company. By way of illustration but not limitation, "Proprietary Information" includes (a) trade secrets, inventions, ideas, processes, formulas, source and object codes, data, programs, other works of authorship, know-how, improvements, discoveries, developments, designs and techniques (hereinafter collectively referred to as "Inventions"); (b) information regarding plans for research, development, new products, marketing and selling, business plans, budgets and unpublished financial statements, licenses, prices and costs, suppliers and customers; and (c) information regarding the skills and compensation of other Company employees. Notwithstanding the foregoing, it is understood that, at all such times, Executive is free to use information which is generally known in the trade or industry, which is not gained as a result of a breach of this Agreement, and may use my her own skill, knowledge, know-how and experience to whatever extent and in whichever way she wishes.

8.03 No Improper Use of Information of Prior Employers and Others. During Executive's employment by the Company, Executive will not improperly use or disclose any confidential information or trade secrets, if any, of any former employer or any other person to whom Executive has an obligation of confidentiality, and Executive will not bring onto the premises of the Company any unpublished documents or any property belonging to any former employer or any other person to whom Executive has an obligation of confidentiality unless consented to in writing by that former employer or person. Executive will use in the performance of her duties only information which is generally known and used by persons with training and experience comparable to her own, which is common knowledge in the industry or otherwise legally in the public domain, or which is otherwise provided or developed by the Company.

8.04 Assignment of Inventions.

(a) Proprietary Rights. The term "Proprietary Rights" shall mean all trade secret, patent, copyright, and other intellectual property rights throughout the world.

(b) Assignment of Inventions. Executive hereby assigns and agrees to assign in the future (when any such Inventions or Proprietary Rights are first reduced to practice or first fixed in a tangible medium, as applicable) to the Company all her right, title and interest in and to any and all Inventions (and all Proprietary Rights with respect thereto) whether or not patentable or registrable under copyright or similar statutes, made or conceived or reduced to practice or learned by her, either alone or jointly with others, during the period of her employment with the Company, to the extent such Inventions and Proprietary Rights relate to the actual or anticipated business or research and development of Company, or result from or are suggested by work that Executive performs for Company. Inventions assigned to the Company are referred to herein as "Company Inventions."

(c) Works for Hire. Executive acknowledges that all original works of authorship which are made by her (solely or jointly with others) within the scope of her employment and which are protectable by copyright are "works made for hire," pursuant to United States Copyright Act (17 U.S.C., Section 101).

(d) Enforcement of Proprietary Rights. Executive will assist the Company in every proper way to obtain, and from time to time enforce, United States and foreign Proprietary Rights relating to Company Inventions in any and all countries. To that end Executive will execute, verify and deliver such documents and perform such other acts (including appearances as a witness) as the Company may reasonably request for use in applying for, obtaining, perfecting, evidencing, sustaining and enforcing such Proprietary Rights and the assignment thereof. In addition, Executive will execute, verify and deliver assignments of such Proprietary Rights to Company or its designee. Executive's obligation to assist the Company with respect to Proprietary Rights relating to such Company Inventions in any and all countries shall continue beyond the termination of her employment, but the Company shall compensate her at a reasonable rate after her termination for the time actually spent by her at the Company's request on such assistance.

8.05 Return of Company Documents. When Executive leaves the employ of the Company, Executive will deliver to the Company any and all drawings, notes, memoranda, specifications, devices, formulas, and documents, together with all copies thereof, and any other material containing or disclosing any Company Inventions or Proprietary Information of the Company. Executive further agrees that any property situated on the Company's premises and owned by the Company, including disks and other storage media, filing cabinets or other work areas, is subject to inspection by Company personnel at any time with or without notice.

ARTICLE IX

MISCELLANEOUS

9.01 No Conflicting Agreements. Executive warrants and represents that, to the best of Executive's knowledge, the execution and performance of this Agreement does not and will not violate, conflict with, or constitute a default under any contract, commitment, agreement,

understanding, arrangement, restriction or any adjudication, order, injunction or finding of any kind by any court or agency to which Executive may be a party or by which Executive may be bound.

9.02 Specific Performance. The parties hereby declare that it is impossible to measure in money alone the damages that will or may accrue to the parties bound by and entitled to the benefit of this Agreement by reason of a failure of the parties to comply with Articles VII, VIII or X hereof. It is hereby declared to be the intention of the parties that the provisions of Articles VII, VIII or X hereof may be required to be specifically performed. The non-prevailing party in any proceeding brought to specifically perform Articles VII, VIII or X hereof shall be required to pay the prevailing party's costs incurred in such proceeding, including reasonable attorneys' fees.

9.03 General Provisions. This Agreement, together with its Exhibits: (a) may be executed in any number of counterparts, each of which, when executed by all parties to this Agreement, shall be deemed to be an original, and all of which counterparts together shall constitute one and the same instrument; (b) shall be governed by and construed under the laws of the State of Vermont without regard to principles of conflicts of laws; (c) constitutes the entire agreement between the parties with respect to its subject matter, superseding all prior oral and written communications, proposals, negotiations, representations, understandings, courses of dealing, agreements, contracts, and the like between or among any or all of the parties in such respect; (d) may be amended, modified, or terminated only by a writing signed by all parties; (e) contains headings only for convenience, which headings shall not be used in construction of this Agreement; (f) shall bind and enure to the benefit of the parties and their respective successors and assigns, except that no obligation under this Agreement may be delegated, nor may this Agreement be assigned, without the prior written consent of all parties; and (g) shall be judicially enforced only in courts located within the State of Vermont, and the parties herein agree that such courts shall have exclusive venue and exclusive subject matter and personal jurisdiction, and such parties consent to service of process by registered mail, return-receipt requested, or by any other manner provided by law. Any notice or other communication required or permitted hereunder shall be in writing, and shall be deemed to have been given when placed in the United States mail, postage pre-paid, addressed to the last known address of the party to be notified.

ARTICLE X

ALTERNATE DISPUTE RESOLUTION

10.01 Subject to Section 10.12, Executive and the Company agree that they will submit any and all disputes directly or indirectly related to recruitment, employment or the termination of employment, except for constitutional or civil rights and worker's compensation claims, disputes relating to benefits, and disputes concerning confidentiality, nondisclosure and non-competition agreements ("any dispute covered by this Agreement") to final and binding arbitration before a neutral arbitrator according to the procedure set out below. The Company and Executive agree that it is their intention that arbitration is to be the sole method for resolving any dispute, except as noted above, covered by this Agreement, and that there will be no resort to court action except to compel arbitration, to enforce the arbitrator's award, or pursuant to Section 10.12 below.

10.02 If there is any dispute covered by this Agreement, the disputing party shall give written notice of such dispute to the other party no later than ninety (90) days after the party knew or should have known that the dispute existed. Within ten (10) days after notice of the dispute is given, the parties will meet to attempt to resolve the dispute. If the parties fail to meet within ten (10) days after the notice of dispute is given or if the parties fail to resolve the dispute within forty-five (45) days after they first meet, either party may initiate arbitration of the dispute as provided hereinafter and in accordance with the American Arbitration Association National Rules for the Resolution of Employment Disputes.

10.03 The party seeking arbitration shall send written notice to the other party of the intention to arbitrate no later than one hundred eighty (180) days after the party knew or should have known that the dispute existed. If the dispute involves statutory rights, the party seeking arbitration shall send written notice to the other party of its intention to arbitrate no later than three hundred (300) days after the party knew or should have known that the dispute existed or within the time limit established by the applicable statute of limitations, whichever is later. This written notice shall contain a description of the dispute, the amount involved, if any, and the remedy sought.

10.04 The Company and Executive shall select an arbitrator by mutual agreement within thirty (30) days after the written notice of intention to arbitrate is received. If the parties fail to select an arbitrator by mutual agreement, the party seeking arbitration shall notify the American Arbitration Association ("AAA") of the demand for arbitration and obtain a list of arbitrators from the AAA's Employment Dispute Resolution Roster. If the parties fail to agree on an arbitrator, the AAA Administrator or his/her delegate shall select an arbitrator, who is a member of the AAA's Employment Dispute Resolution Roster.

10.05 The Arbitrator shall have the authority to resolve all issues in dispute, including the Arbitrator's own jurisdiction, and to award compensatory remedies and other remedies permitted by law. The Arbitrator shall have no authority to alter, add to or modify the terms of the Employment Agreement. The Arbitrator shall decide the matters in dispute in accordance with the laws of the State of Vermont, without reference to the conflict of laws rules, except that the parties agree that this agreement to arbitrate shall be governed by the Federal Arbitration Act, 9 U.S.C. Section 1, *et seq.*

10.06 The place of arbitration shall be Waterbury, Vermont or at such other place as agreed by the Company and Executive. The Company and Executive may be represented by the attorney of their choice.

10.07 The award of the Arbitrator shall be final and shall be the sole and exclusive remedy between the parties regarding any claims, counterclaims, issues, or accountings. Any monetary award shall include interest, as necessary, at the highest domestic prime rate published by *The Wall Street Journal* on the date of the award.

10.08 Judgment upon the award rendered by the Arbitrator may be entered by any court of competent jurisdiction. For purposes of the enforcement of any arbitration award, the parties submit to the non-exclusive jurisdiction of the United States federal district court for the district of Vermont, and the courts of the State of Vermont. Each of the parties consents to service of process by registered mail at its address set forth herein and agrees that its submission to jurisdiction and its consent to service of process by mail is made for the express benefit of the other party

10.09 The Company shall pay the arbitrators' compensation (expenses and fees). The Executive and the Company shall pay their own attorneys' fees and costs, and all administrative fees of the AAA shall be divided equally between the parties, unless the arbitrator determines that applicable law requires otherwise. If the Arbitrator finds that the claim sought to be arbitrated was frivolous or presented in bad faith, he may award attorneys' fees to the prevailing party. Should either party request a transcript of the proceedings, then that party will bear the full cost for that transcript.

10.10 Any claim by either party shall be time-barred unless (i) the time period outlined in Section 10.03 is met, and (ii) an arbitrator has been selected and a hearing has been scheduled within 90 calendar days after providing the written notice of intention to arbitrate required under Section 10.03.

10.11 This agreement to arbitrate shall be binding upon the heirs, successors, and assigns and any trustee, receiver, or executor of each party.

10.12 The agreement to arbitrate shall in no way limit the Company's right to seek an injunction from any court of competent jurisdiction to enforce the provisions of Articles VII and VIII of the Executive Employment Agreement.

10.13 In the event that any provision regarding arbitration is held to be in conflict with a mandatory provision of applicable law, the conflicting provision shall be modified to conform to applicable law.

10.14 The Company and Executive agree that it is impossible to measure in money alone the damages that will or may accrue to the parties bound by and entitled to the benefit of this agreement to arbitrate because of a failure of a party to comply with it. The Company and Executive hereby declare that it is their intention that the agreement to arbitrate may be required to be specifically performed. The non-prevailing party in any proceeding brought to specifically perform the agreement to arbitrate shall be required to pay the prevailing party's costs incurred in such proceeding, including reasonable attorneys' fees.

10.15 The Executive should consult with a lawyer prior to signing this agreement to arbitrate. The Executive has twenty-one (21) days in which to consider this agreement to arbitrate and seven (7) days after signing to revoke the agreement to arbitrate.

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

GREEN MOUNTAIN COFFEE ROASTERS, INC.

By: Robert P. Stiller
Robert P. Stiller
President and CEO

/s/ Frances G. Rathke
Frances G. Rathke

Exhibits :

- A -- Duties and Responsibilities
- B -- Company Base Salary
- C -- Form of Release

BTV/249671.2

EXHIBIT A

DUTIES AND RESPONSIBILITIES

The Chief Financial Officer serves as a company officer managing the Company's accounting, reporting and control policies and practices; financial planning and analysis; treasury, tax planning, reporting and compliance; strategic planning and development, capital planning, credit and accounts receivables, accounts payables, risk management, and investor relations. The CFO will play an integral role in driving the financial performance in the business units, channels and teams. The CFO reports directly to the President and CEO.

The CFO will participate directly as a member of the Company's senior management team in setting short and medium-range goals and objectives, and in identifying, analyzing and implementing specific acquisition, reworking and divestiture initiatives and balance sheet driven opportunities.

Key Responsibilities:

The Chief Financial Officer of the Company is responsible to:

Plan, develop, organize, implement, direct and evaluate the Company's fiscal function and performance.

Participate in the development of the company's strategic plans and programs.

Ensure the timely and accurate preparation, analysis and presentation of financial reports and statements at the Company and to the SEC.

Perform timely and insightful financial and operational analyses, and present the related data and information to the Company for decision-making and action.

Develop and implement cash management programs, revenue and expense forecasting techniques, financial leverage approaches, and cost savings initiatives.

Staff and motivate the accounting, financial analysis, budget, treasury, tax and investor relations' functions with talented, competent and committed employees.

Assist in the evaluation and execution of potential alliances, acquisitions or divestitures.

Work with the auditors and advisors to complete consolidated annual reports, implement tax strategies, and develop and complete strategic plans and key projects.

Be an advisor from the financial perspective on any contracts into which the Company may enter.

EXHIBIT B

COMPANY BASE SALARY AND STOCK OPTION GRANT

BASE SALARY:

For the first six months of employment \$190,000

After six months of employment for the remainder of the first year \$200,000

After the first year of employment, the Executive may be eligible for annual increases in Company Base Pay commensurate with performance and economic conditions of company.

STOCK OPTIONS:

The Executive shall be granted nonqualified stock options for 25,000 shares of the Company's Common Stock in accordance with the Company's 2000 Stock Option Plan. The exercise price of shall be the lower of the price as of the date of the Executive's employment start date or the date upon which the Executive started as the Interim Chief Financial Officer on April 7, 2003. The options shall vest 25% after the first year of employment and 1/48th per month thereafter. The options shall have a 10-year term. The options shall be approved by the Compensation Committee of the Board of Directors.

-

EXHIBIT C

FORM OF RELEASE

SEPARATION AGREEMENT

AND

GENERAL RELEASE

This Separation Agreement is entered into by and between Employee and Green Mountain Coffee Roasters, Inc., (hereinafter "GMCR") in order to set out their agreement on the terms and conditions under which the employment of Employee with GMCR will end.

It is agreed that Employee's employment with GMCR ended on _____ (insert date).

GMCR, hereby agrees to provide Employee with the following:

- A. Bi-weekly salary payments of \$_____ (less appropriate federal, state, FICA and other deductions) for ---- calendar days following the expiration of the 7-day revocation period set out in paragraph 5 below.

It is agreed that these payments include amounts that Employee is not otherwise entitled to.

1. In exchange for the actions to be taken by GMCR, set out above, Employee agrees to the following general release:

- A. Employee for herself, her successors, administrators, heirs and assigns, hereby agrees to release, waive and forever discharge GMCR, any affiliated company or subsidiary, their predecessors, successors, affiliates, assigns, shareholders, directors, officers, agents, employees and/or representatives, whether past, present or future (hereinafter "the Released Parties"), from any and all actions, suits, debts, demands, damages, claims, judgments, or liabilities, including costs and attorneys' fees, whether known or unknown, including, but not limited to, all claims based on the Age Discrimination in Employment Act of 1967, as amended, 29 U.S.C.A. Section 621, et seq., Vermont's Fair Employment Practices Act, any other applicable state laws, including New York, and any applicable Federal Laws. This release applies to claims that arose during the course of and as a result of Employee's employment with GMCR.
- B. Further, except where prohibited by law, Employee agrees that she will not file any statutory, civil or administrative claim, action, complaint, or grievance or charge of any kind against the Released Parties, relating to the separation of employment. If Employee asserts such a claim, GMCR shall be entitled to cease making any payments under this Agreement. Employee further understands that, if, after having signed this Agreement, Employee files or causes to be filed, any lawsuit, charge, complaint, grievance, claim, including but not limited to, an administrative action asserting any claim or demand which is within the scope of this Agreement, GMCR shall retain all rights and benefits of this Agreement, and GMCR may recoup the value of all payments and benefits paid pursuant to this Agreement, whether or not the claim made by Employee, or on Employee's behalf is valid. This provision shall not apply to a claim for unemployment compensation.

1. Employee has waived rights or claims pursuant to this Agreement in exchange for consideration, the value of which exceeds payment or remuneration to which she was already entitled.
2. Employee has been provided twenty-one (21) days within which to consider whether she would sign this agreement. Employee understands that should she decide to execute the Agreement in fewer than 21 days, she has done so after having the opportunity of consulting with an attorney and with the express understanding that she has been given and has freely and voluntarily declined the opportunity to consider the agreement for a full twenty-one (21) days.
3. Employee has been advised that she may consult with an attorney of her choosing prior to executing this Agreement.
4. Employee may revoke this Agreement within seven (7) days after it is executed by giving written notice to Kathy Brooks, Vice-President of Human Resources, Green Mountain Coffee Roasters, Inc., 33 Coffee Lane, Waterbury, Vermont 05676-1529.
5. This Agreement contains the entire understanding between Employee and GMCR relating to the subject matter of Employee's separation and Employee agrees that GMCR has not made any oral or written promises to Employee that are not fully or accurately set forth in this Agreement.
6. The provisions of this Agreement shall be construed in accordance with the internal laws of the State of Vermont.
7. In the event that any paragraph, subparagraph or provision of this Agreement shall be determined to be partially contrary to governing law or otherwise partially enforceable, the paragraph, subparagraph, or provision and this Agreement shall be enforced to the maximum extent permitted by law, and if any paragraph, subparagraph, or provision of this Agreement shall be determined to be totally contrary to governing law or otherwise totally unenforceable, the paragraph, subparagraph, or provision shall be severed and disregarded and the remainder of this Agreement shall be enforced to the maximum extent permitted by law.
8. The parties acknowledge by signing this Agreement that they have read and understand this document, that they have conferred with or had opportunity to confer with an attorney regarding the terms and meaning of this Agreement, that they have had sufficient time to consider the terms provided for in this Agreement, that no representation or inducements have been made to them except as set forth herein, and that they have signed the same KNOWINGLY AND VOLUNTARILY.
9. This Agreement may not be modified, altered or changed except upon written consent of both parties.

PLEASE READ THIS AGREEMENT CAREFULLY. This separation agreement and general release includes releases of all known and unknown claims.

Date Received by Employee: _____

Date executed: _____

Employee

Date: _____ Green Mountain Coffee Roasters, Inc.

By: _____

Kathy Brooks, Vice-President of Human Resources

BTV.249671.2

**GMCR Finance Code of Professional Conduct
September 23, 2003**

Finance's mission includes promotion of professional conduct in the practice of financial management throughout Green Mountain Coffee Roasters, Inc. ("the Company" or "GMCR"). Green Mountain's Chief Executive Officer (CEO), Chief Financial Officer (CFO), Corporate Controller and all other employees of the finance organization hold an important and elevated role in corporate governance in that they are uniquely capable and empowered to ensure that all stakeholders' interests are appropriately balanced, protected and preserved. This Finance Code of Professional Conduct embodies principles to which we are expected to adhere and advocate. These tenets for ethical business conduct encompass rules regarding both individual and peer responsibilities, as well as responsibilities to GMCR employees, the public and other stakeholders. The CEO, CFO and Finance organization employees are expected to abide by this Code as well as all applicable GMCR business conduct standards and policies or guidelines in the Company's employee handbook relating to areas covered by this Code. Any violations of this Finance Code of Professional Conduct may result in disciplinary action, up to and including termination of employment.

All employees covered by this Finance Code of Professional Conduct will:

- Act with honesty and integrity, avoiding actual or apparent conflicts of interest in their personal and professional relationships.
- Provide stakeholders with information that is accurate, complete, objective, fair, relevant, timely and understandable, including in our filings with and other submissions to the U.S. Securities and Exchange Commission.
- Comply with rules and regulations of federal, state, provincial and local governments, and other appropriate private and public regulatory agencies.
- Act in good faith, responsibly, with due care, competence and diligence, without misrepresenting material facts or allowing one's independent judgment to be subordinated.
- Respect the confidentiality of information acquired in the course of one's work except when authorized or otherwise legally obligated to disclose.
- Confidential information acquired in the course of one's work will not be used for personal advantage.
- Share knowledge and maintain professional skills important and relevant to stakeholder's needs.
- Proactively promote and be an example of ethical behavior as a responsible partner among peers, in the work environment and the community.
- Achieve responsible use, control, and stewardship over all Company assets and resources that are employed or entrusted to us.
- Not unduly or fraudulently influence, coerce, manipulate, or mislead any authorized audit or interfere with any auditor engaged in the performance of an internal or independent audit of the Company's financial statements or accounting books and records.

If you are aware of any suspected or known violations of this Code of Professional Conduct or other Company policies or guidelines, you have a duty to promptly report such concerns either to the Chairman of the Audit Committee, the Company's Chief Financial Officer, the Company's Vice President of Human Resources or the 24-hour Business Conduct Line. The procedures to be followed for such a report are outlined in the Whistleblowing Reporting Procedure and Guidelines in the Employee Handbook.

The Company will handle all inquiries discretely and make every effort to maintain, within the limits allowed by law, the confidentiality of anyone requesting guidance or reporting questionable behavior and/or a compliance concern.

It is the Company's intention that this Code of Professional Conduct be its written code of ethics under Section 406 of the Sarbanes-Oxley Act of 2002 complying with the standards set forth in Securities and Exchange Commission Regulation S-K Item 406.

Your Personal Commitment to the Green Mountain Coffee Roasters, Inc. Code of Ethics for Financial Professionals

I acknowledge that I have received and read the GMCR Finance Code of Professional Conduct, dated September 23, 2003, and understand my obligations as an employee to comply with this code of Professional Conduct.

I understand that my agreement to comply with the Finance Code of Professional Conduct does not constitute a contract of employment.

Please sign here: _____ Date: _____

Please print your name: _____

Employee ID.: _____

This signed and completed form must be returned to your manager or designated human resources professional.

-
-

CONSENT OF INDEPENDENT AUDITORS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 dated June 20, 1997, October 5, 1998, May 20, 1999 and September 25, 2001 of Green Mountain Coffee Roasters, Inc. of our report dated November 14, 2003 appearing on page F-2 of Green Mountain Coffee Roasters, Inc.'s Annual Report on Form 10-K for the year ended September 27, 2003. We also consent to the application of such report to the Financial Statement Schedule for the three years ended September 27, 2003 listed under Item 15 of this Form 10-K when such schedule is read in conjunction with the financial statements referred to in our report.

/s/ PricewaterhouseCoopers LLP
Boston, Massachusetts
December 19, 2003

Exhibit 31.1

**CERTIFICATION PURSUANT TO
SECURITIES EXCHANGE ACT RULES 13a-14 and 15d-14
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Robert P. Stiller, President and Chief Executive Officer, certify that:

1. I have reviewed this annual report on Form 10-K of Green Mountain Coffee Roasters, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and

procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

- a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
- b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
- c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
- d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

- a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- B. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 19, 2003

/s/ Robert P. Stiller

Robert P. Stiller

President and Chief Executive Officer

Exhibit 31.2

**CERTIFICATION PURSUANT TO
SECURITIES EXCHANGE ACT RULES 13a-14 and 15d-14
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002 CERTIFICATIONS**

I, Frances G. Rathke, Interim Chief Financial Officer, certify that:

1. I have reviewed this annual report on Form 10-K of Green Mountain Coffee Roasters, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined

in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:

- a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
- b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
- c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
- d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

- a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- B. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 19, 2003

/s/ Frances Rathke
Frances G. Rathke
Chief Financial Officer

Exhibit 32.1

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

In connection with the Annual Report of Green Mountain Coffee Roasters, Inc. (the "Company") on Form 10-K for the period ending September 27, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robert P. Stiller, as the President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: December 19, 2003

/s/ Robert P. Stiller
Robert P. Stiller*
President and Chief Executive Officer

* A signed original of this written statement required by Section 906 has been provided to Green Mountain Coffee Roasters, Inc. and will be

retained by Green Mountain Coffee Roasters, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

The foregoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) and is not being filed as part of the Form 10-K or as a separate disclosure document.

Exhibit 32.2

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

In connection with the Annual Report of Green Mountain Coffee Roasters, Inc. (the "Company") on Form 10-K for the period ending September 27, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Frances G. Rathke, as the Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: December 19, 2003

/s/ Frances G. Rathke
Frances G. Rathke*
Chief Financial Officer

* A signed original of this written statement required by Section 906 has been provided to Green Mountain Coffee Roasters, Inc. and will be retained by Green Mountain Coffee Roasters, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

The foregoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) and is not being filed as part of the Form 10-K or as a separate disclosure document.

End of Filing

Powered By  EDGAR Online

© 2005 | EDGAR Online, Inc.