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Green Mountain Puts Highest Since '09 as Einhorn Shorts: Options  
2011-10-31 04:01:00.9 GMT

By Nikolaj Gammeltoft and Cecile Vannucci

Oct. 31 (Bloomberg) -- Green Mountain Coffee Roasters Inc. traders are paying the most for bearish options since April 2009 after short seller David Einhorn questioned accounting at the largest U.S. seller of single-serve coffee makers.

Contracts that pay should Green Mountain fall 10 percent in three months were priced 8.29 points higher than comparable calls, and the gap reached 10.21 on Oct. 20, the widest in more than two years, according to data compiled by Bloomberg. Implied volatility, the key gauge of options prices, for the Waterbury, Vermont-based coffeemaker was the second-highest among Standard & Poor's MidCap 400 Index companies and last week reached a record versus Starbucks Corp.'s, the data show.

Green Mountain has lost 23 percent since Einhorn said Oct. 17 at an investing conference in New York that competitors may emerge for its single-cup packets and the company has a "litany of accounting questions." Whitney Tilson, the managing director of hedge fund T2 Partners LLP, said he's betting on declines.

"We shorted more after we saw David Einhorn's presentation at the Value Investing Congress because it was so compelling," Tilson, who manages \$150 million, wrote in an Oct. 28 e-mail. "He laid out an airtight case, in our opinion, that the company has far less upside and faces far more risks than is currently reflected in the richly valued stock price."

Suzanne DuLong, a Green Mountain spokeswoman, didn't return a phone message and e-mail seeking comment on Oct. 28. Previously, she declined to comment on Einhorn's presentation.

#### Rising Profits

Green Mountain has posted quarterly growth in net income averaging 86 percent over the past five years, data compiled by Bloomberg show. Its price-earnings ratio fell 36 percent since reaching a 13-year high of 88.6 in September, falling to 56.3 times reported income. That's more than twice the valuation for Seattle-based Starbucks, the biggest coffee-shop operator, and three times the multiple for the S&P MidCap 400.

"While we don't outright reject the accounting concerns, we do believe they're overblown," Harry Rady, who manages \$260 million as chief executive officer of La Jolla, California-based Rady Asset Management LLC, wrote in an e-mail on Oct. 28. Rady said the stock may triple within five years. "They still have a very large unexploited market opportunity internationally," he said. All of the company's revenue comes from North America.

Implied volatility for options expiring in 30 days reached 136.33 on Oct. 26, the highest on record and up 61 percent from Oct. 14. The level was second to Eastman Kodak Co. among S&P MidCap 400 companies. Rochester, New York-based Kodak is being removed from the

gauge after the close today. Starbucks's 30-day implied volatility was at 35.50 on Oct. 28.

#### Open Interest

November \$50 puts, priced 30 percent below the shares, had the biggest increase in ownership among all Green Mountain options in the past two weeks, increasing by 4,457 contracts. Their price climbed to \$4.50 on Oct. 26 from 49 cents before Einhorn's comments. The stock has surged 116 percent this year.

Green Mountain and a distributor may have engaged in "shenanigans" to mislead auditors and overstate financial results, Einhorn, president of Greenlight Capital Inc., said during an Oct. 17 presentation at the Value Investing Congress.

The company sells brewing machines and "K-Cup" portion packs to produce individual servings.

Green Mountain disclosed in September 2010 that it was the subject of an inquiry by the U.S. Securities and Exchange Commission. Two months later, it restated earnings for years back to 2007 because of issues with K-Cup coffee-pod revenue and royalties, a company statement said. The coffeemaker said in August it continues to cooperate with the SEC inquiry.

#### Loss Protection

"People are saying, 'We like the stock, we like the fundamentals, we like the long-term prospects, there might something really worthwhile here,' but at the same time they want to protect themselves on the downside," Paul Marshall, portfolio manager at Atlanta Capital Management Co., which owns about 900,000 shares, said in a telephone interview Oct. 28. The Atlanta-based firm manages about \$13 billion.

The Chicago Board Options Exchange Volatility Index, known as VIX, has tumbled 46 percent to 24.53 since peaking this month on Oct. 3. The volatility gauge is heading for a record monthly retreat as the S&P 500 climbed 14 percent, poised for its biggest monthly gain since 1974.

Investors increased short sales on Green Mountain to 12.6 percent of shares outstanding as of Oct. 20, a jump from 7.3 percent on Oct. 4 and the highest level since March, according to data compiled for Bloomberg by researcher Data Explorers of London. In a short sale, a trader borrows a stock and sells it, hoping to profit from a decline by replacing it at a lower price.

"You kind of hold your breath day-to-day to see what's going to be announced next or who's going to have a view on the company," Dan Veru, chief investment officer at Fort Lee, New Jersey-based Palisade Capital Management LLC, which manages \$3.4 billion, said in an Oct. 28 telephone interview. "There are companies out there with good valuations, where there aren't as many question marks."

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