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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 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 June 30, 2007

OR

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

Commission File Number: 1-16153

**Coach, Inc.**

**Maryland**  
(State or Other Jurisdiction of  
Incorporation or Organization)

(Exact Name of Registrant as Specified in its Charter)

**52-2242751**  
(I.R.S. Employer  
Identification No.)

**516 West 34<sup>th</sup> Street, New York, NY 10001**

(Address of Principal Executive Offices); (Zip Code)

**(212) 594-1850**

(Registrant's Telephone Number, Including Area Code)

Securities Registered Pursuant to Section 12(b) of the Act:

**Title of Each Class:**

**Name of Each Exchange on Which Registered**

Common Stock, par value \$.01 per share

New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes   
NO

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer

Accelerated Filer

Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  NO

The aggregate market value of Coach, Inc. common stock held by non-affiliates as of December 29, 2006 (the last business day of the most recently completed second fiscal quarter) was approximately \$15.6 billion. For purposes of determining this amount only, the registrant has excluded shares of common stock held by directors and officers. Exclusion of shares held by any person should not be construed to indicate that such person possesses the power, direct or indirect, to direct or cause the direction of the management or policies of the registrant, or that such person is controlled by or under common control with the registrant.

On August 17, 2007, the Registrant had 373,092,893 shares of common stock outstanding, which is the Registrant's only class of capital stock.

**DOCUMENTS INCORPORATED BY REFERENCE**

**Documents**

**Form 10K Reference**

Proxy Statement for the 2007 Annual Meeting of Stockholders

Part III, Items 10 – 14

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**SPECIAL NOTE ON FORWARD-LOOKING INFORMATION**

This document and the documents incorporated by reference in this document contain certain forward-looking statements based on management’s current expectations. These statements can be identified by the use of forward-looking terminology such as “may,” “will,” “should,” “expect,” “intend,” “estimate,” “are positioned to,” “continue,” “project,” “guidance,” “forecast,” “anticipated” or comparable terms.

Coach, Inc.’s actual results could differ materially from the results contemplated by these forward-looking statements due to a number of factors, including those discussed in the sections of this Form 10-K filing entitled “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” These factors are not necessarily all of the important factors that could cause actual results to differ materially from those expressed in any of the forward-looking statements contained in this Form 10-K.

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*In this Form 10-K, references to “Coach,” “we,” “our,” “us” and the “Company” refer to Coach, Inc., including consolidated subsidiaries. The fiscal years ended June 30, 2007 (“fiscal 2007”), July 1, 2006 (“fiscal 2006”) and July 2, 2005 (“fiscal 2005”) were each 52-week periods. The fiscal year ending June 28, 2008 (“fiscal 2008”) will also be a 52-week period.*

**PART I**

**Item 1. Business**

**General Development of Business**

Founded in 1941, Coach was acquired by Sara Lee Corporation (“Sara Lee”) in 1985. In June 2000, Coach was incorporated in the state of Maryland. In October 2000, Coach was listed on the New York Stock Exchange and sold approximately 68 million shares of common stock, split adjusted, representing 19.5% of the outstanding shares. In April 2001, Sara Lee completed a distribution of its remaining ownership in Coach via an exchange offer, which allowed Sara Lee stockholders to tender Sara Lee common stock for Coach common stock.

In June 2001, Coach Japan, Inc. (“Coach Japan”) was formed to expand our presence in the Japanese market and to exercise greater control over our brand in that country. Coach Japan was initially formed as a joint venture with Sumitomo Corporation. On July 1, 2005, we purchased Sumitomo’s 50% interest in Coach Japan, resulting in Coach Japan becoming a 100% owned subsidiary of Coach, Inc.

In March 2007, the Company exited its corporate accounts business in order to better control the location and image of the brand where Coach product is sold. Through the corporate accounts business, Coach sold products primarily to distributors for gift-giving and incentive programs. The results of the corporate accounts business, previously included in the Indirect segment, have been segregated from continuing operations and reported as discontinued operations in the Consolidated Statements of Income for all periods presented.

## Financial Information about Segments

Segment information is presented in Note 13 to the Consolidated Financial Statements.

## Narrative Description of Business

Coach has grown from a family-run workshop in a Manhattan loft to a leading American marketer of fine accessories and gifts for women and men. Coach is one of the most recognized fine accessories brands in the U.S. and in targeted international markets. We offer premium lifestyle accessories to a loyal and rapidly growing customer base and provide consumers with fresh, relevant and innovative products that are extremely well made, at an attractive price. Coach’s modern, fashionable handbags and accessories use a broad range of high quality fabrics and materials. In response to our customer’s demands for both fashion and function, Coach offers updated styles and multiple product categories which address an increasing portion of our customer’s accessory wardrobe. Coach has created a sophisticated, modern and inviting environment to showcase our product assortment and reinforce a consistent brand position wherever the consumer may shop. Finally, we utilize a flexible, cost-effective global sourcing model, in which independent manufacturers supply our products, allowing us to bring our broad range of products to market rapidly and efficiently.

Coach offers a number of key differentiating elements that set it apart from the competition, including:

**A Distinctive Brand** — Coach offers distinctive, easily recognizable, accessible luxury products that are relevant, extremely well made and provide excellent value.

**A Market Leadership Position With Growing Share** — Coach is America’s leading premium handbag and accessories brand and each year, as our market share increases, our leadership position strengthens.

**Coach’s Loyal And Involved Consumer** — Coach consumers have a specific emotional connection with the brand. Part of the Company’s everyday mission is to cultivate consumer relationships by strengthening this emotional connection.

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**Multi-Channel International Distribution** — This allows Coach to maintain a critical balance as results do not depend solely on the performance of a single channel or geographic area. The Direct-to-Consumer channel provides us with immediate, controlled access to consumers through Coach-owned stores in North America and Japan, the Internet and the Coach catalog. The Indirect channel provides us with access to consumers via U.S. and international wholesale locations.

**Coach Is Innovative And Consumer-Centric** — Coach listens to its consumer through rigorous consumer research and strong consumer orientation. Coach works to anticipate the consumer’s changing needs by keeping the product assortment fresh and relevant.

We believe that these differentiating elements have enabled the Company to offer a unique proposition to the marketplace. We hold the number one position within the U.S. premium handbag and accessories market and the number two position within the Japanese imported luxury handbag and accessories market.

## Products

Coach’s product offerings include handbags, women’s and men’s accessories, footwear, outerwear, business cases, sunwear, watches, travel bags, jewelry and fragrance. The following table shows the percent of net sales that each product category represented:

	Fiscal Year Ended		
	June 30, 2007	July 1, 2006	July 2, 2005
Handbags	64%	65%	65%
Accessories	28	28	27
All other products	8	7	8
Total	100%	100%	100%

**Handbags** — Handbag collections feature classically inspired designs as well as fashion designs. Typically, there are three to four collections per quarter and four to seven styles per collection. Periodically, we also offer new lifestyle collections, which are collections designed to meet the fashion and functional requirements of our broad and diverse consumer base. During fiscal 2007, we introduced three major lifestyle collections: Signature Stripe, Legacy and Ergo. In fiscal 2008, we plan to introduce three additional major lifestyle collections: Bleecker, Heritage Stripe and Soho.

**Accessories** — Accessories include women’s and men’s small leather goods, novelty accessories and women’s and men’s belts. Women’s small leather goods, which coordinate with our handbags, include money pieces, wristlets, and cosmetic cases. Men’s small leather goods consist primarily of wallets and card cases. Novelty accessories include electronic, time management and pet accessories. Key fobs and charms are also included in this category.

**Footwear** — Jimlar Corporation (“Jimlar”) has been Coach’s footwear licensee since 1999. Footwear is distributed through over 700 locations in the U.S., including leading Coach retail stores and U.S. department stores. Footwear sales are comprised primarily of women’s styles, which coordinate with Coach’s handbag collections.

**Outerwear** — This category includes jackets, sweaters, gloves, hats and scarves. The assortment is primarily women’s and contains a fashion assortment in all components of this category.

**Business Cases** — This assortment is primarily men’s and includes computer bags, messenger-style bags and totes.

**Sunwear** — Marchon Eyewear (“Marchon”) has been Coach’s eyewear licensee since 2003. This collection is a collaborative effort from Marchon and Coach that combines the Coach aesthetic for fashion accessories with the latest fashion directions in sunglasses. Coach sunglasses are sold in Coach retail stores, department stores, select sunglass retailers and optical retailers in major markets.

**Watches** — Movado Group, Inc. (“Movado”) has been Coach’s watch licensee since 1998 and has developed a distinctive collection of watches inspired primarily by the women’s collections with select men’s styles.

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**Travel Bags** — The travel collections are comprised of luggage and related accessories, such as travel kits and valet trays.

**Jewelry** — In November 2006, Coach launched a jewelry line, consisting primarily of bangle bracelets. The Company plans to expand this category by introducing sterling silver, glass and gold plated brass pieces in fiscal 2008.

**Fragrance** — In March 2007, Coach launched its first fragrance in partnership with Beauty Bank, a division of Estee Lauder, Inc. This collection includes a perfume spray, a purse spray and a perfume solid and is sold exclusively in Coach stores and on the Coach internet site. The Company plans to expand this category by introducing body lotions in fiscal 2008.

**Design and Merchandising**

Coach’s New York-based design team, led by its Executive Creative Director, is responsible for conceptualizing and directing the design of all Coach products. Designers have access to Coach’s extensive archives of product designs created over the past 65 years, which are a valuable resource for new product concepts. Coach designers are also supported by a strong merchandising team that analyzes sales, market trends and consumer preferences to identify business opportunities that help guide each season’s design process. Merchandisers also analyze products to edit, add and delete to achieve profitable sales across all channels. The product category teams, each comprised of design, merchandising/product development and sourcing specialists, help Coach execute design concepts that are consistent with the brand’s strategic direction.

Coach’s design and merchandising teams work in close collaboration with all of our licensing partners to ensure that the licensed products (watches, footwear and eyewear) are conceptualized and designed to address the intended market opportunity and convey the distinctive perspective and lifestyle associated with the Coach brand.

**Segments**

Coach operates in two reportable segments: Direct-to-Consumer and Indirect. The reportable segments represent channels of distribution that offer similar products, service and marketing strategies.

**Direct-to-Consumer Segment**

The Direct-to-Consumer segment consists of channels that provide us with immediate, controlled access to consumers: retail stores and factory stores in North America and Japan, the Internet and Coach catalogs. This segment represented approximately 80% of Coach’s total net sales in fiscal 2007, with North American stores and Coach Japan contributing approximately 58% and 18% of total net sales, respectively.

**North American Retail Stores** — Coach stores are located in upscale regional shopping centers and metropolitan areas. The retail stores carry an assortment of products depending on their size and location. Our flagship stores, which offer the broadest assortment of Coach products, are located in high-visibility locations such as New York, Chicago and San Francisco.

Our stores are sophisticated, sleek, modern and inviting. They showcase the world of Coach and enhance the shopping experience while reinforcing the image of the Coach brand. The modern store design creates a distinctive environment to display our products. Store associates are trained to maintain high standards of visual presentation, merchandising and customer service. The result is a complete statement of the Coach modern American style at the retail level.

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The following table shows the number of Coach retail stores and their total and average square footage:

Fiscal Year Ended		
June 30, 2007	July 1, 2006	July 2, 2005

Retail stores	259	218	193
Net increase vs. prior year	41	25	19
Percentage increase vs. prior year	18.8%	13.0%	10.9%
Retail square footage	672,737	562,553	490,925
Net increase vs. prior year	110,184	71,628	59,308
Percentage increase vs. prior year	19.6%	14.6%	13.7%
Average square footage	2,597	2,581	2,544

**North American Factory Stores** — Coach's factory stores serve as an efficient means to sell manufactured-for-factory-store product, including factory exclusives, as well as discontinued and irregular inventory outside the retail channel. These stores operate under the Coach Factory name and are geographically positioned primarily in established centers that are generally more than 50 miles from major markets.

Coach's factory store design, visual presentations and customer service levels support and reinforce the brand's image. Through these factory stores, Coach targets value-oriented customers who would not otherwise buy the Coach brand. Prices are generally discounted from 10% to 50% below full retail prices.

The following table shows the number of Coach factory stores and their total and average square footage:

	Fiscal Year Ended		
	June 30, 2007	July 1, 2006	July 2, 2005
Factory stores	93	86	82
Net increase vs. prior year	7	4	6
Percentage increase vs. prior year	8.1%	4.9%	7.9%
Factory square footage	321,372	281,787	252,279
Net increase vs. prior year	39,585	29,508	20,924
Percentage increase vs. prior year	14.0%	11.7%	9.0%
Average square footage	3,456	3,277	3,077

**Coach Japan, Inc.** — Coach Japan operates department store shop-in-shop locations as well as freestanding flagship, retail and factory stores. Flagship stores, which offer the broadest assortment of Coach products, are located in select shopping districts throughout Japan.

The following table shows the number of Coach Japan locations and their total and average square footage:

	Fiscal Year Ended		
	June 30, 2007	July 1, 2006	July 2, 2005
Coach Japan locations	137	118	103
Net increase vs. prior year	19	15	3
Percentage increase vs. prior year	16.1%	14.6%	3.0%
Coach Japan square footage	229,862	194,375	161,632
Net increase vs. prior year	35,487	32,743	42,341
Percentage increase vs. prior year	18.3%	20.3%	35.5%
Average square footage	1,678	1,647	1,569

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**Internet** — Coach views its website as a key communications vehicle for the brand to promote traffic in Coach retail stores and department store locations and build brand awareness. Our online store provides a showcase environment where consumers can browse through a selected offering of the latest styles and colors. During fiscal 2007, our Internet business generated net sales of approximately \$82 million, up 51% from prior year. The growth in the Internet business was driven by the strength of the Coach brand as well as advertising and email contacts. In fiscal 2007, there were approximately 50 million unique visits to the website. In addition, the Company sent approximately 47 million emails to strategically selected customers as we continue to evolve our internet outreach to maximize productivity while streamlining distribution. Revenue from Internet sales is recognized upon shipment of the product.

**Coach Catalog** — In fiscal 2007, the Company distributed approximately 7 million catalogs in Coach stores in North America and Japan and mailed approximately 3 million catalogs to strategically selected North American households from its database of customers. Over the past few years, Coach has reduced catalog mailings in favor of more cost effective means of communication, notably emails. While direct mail sales comprise a small portion of Coach's net sales, Coach views its catalog as a key communications vehicle for the brand because it promotes store traffic, facilitates the shopping experience in Coach retail stores and builds brand awareness. As an integral component of our communications strategy, the graphics, models and photography are upscale and modern and present the product in an environment consistent with the Coach brand. The catalogs highlight selected products and serve as a reference for customers, whether ordering through the catalog, making in-store purchases or purchasing over the Internet.

## **Indirect Segment**

Coach began as a U.S. wholesaler to department stores and this segment remains important to our overall consumer reach. Today, we work closely with our partners, both domestic and international, to ensure a clear and consistent product presentation. The Indirect segment represented approximately 20% of total net sales in fiscal 2007, with U.S. Wholesale and International Wholesale representing approximately 12% and 5% of total net sales, respectively.

**U.S. Wholesale** — This channel offers access to Coach products to consumers who prefer shopping at department stores or who live in markets with no Coach store. While overall U.S. department store sales have not increased over the last few years, the

handbag and accessories category has remained strong, in large part due to the strength of the Coach brand. Net sales to U.S. wholesale customers grew 31% in fiscal 2007 from fiscal 2006.

Coach recognizes the continued importance of U.S. department stores as a distribution channel for premier accessories. Department stores also continue to devote increased square footage to Coach, providing an additional driver to this channel's growth. We continue to fine-tune our strategy to increase productivity and drive volume by enhancing presentation, primarily through the creation of more shop-in-shops, and the introduction of caseliner enhancements with proprietary Coach fixtures, while exiting lower performing doors and working with the department stores to re-allocate their Coach spending to higher volume locations. Coach has also improved wholesale product planning and allocation processes by custom tailoring assortments to better match the attributes of our department store consumers in each local market.

Coach's products are sold in approximately 900 wholesale locations in the U.S. and Canada. Our most significant U.S. wholesale customers are Macy's, Inc. (including Bloomingdale's), Dillard's, Nordstrom, Saks, Inc., Carson's and Lord and Taylor.

**International Wholesale** — This channel represents sales to international wholesale distributors and authorized retailers. Japanese tourists represent the largest portion of our customers' sales in this channel. However, we continue to drive growth by expanding our distribution to reach local consumers in emerging markets. Coach has developed relationships with a select group of distributors who sell Coach products through department stores and freestanding retail locations in 21 countries. Coach's current network of international distributors serves the following markets: Korea, the United States (primarily Hawaii and Guam), Taiwan, Hong Kong, Japan, Singapore, Saudi Arabia, Mexico, China, the Caribbean, Thailand, Malaysia, Australia, the United Arab Emirates, New Zealand, Indonesia and France. For locations not in freestanding stores, Coach has created shop-in-shops and other image enhancing environments to increase brand appeal and stimulate growth. Coach continues to improve productivity in this channel by opening larger image-enhancing

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locations, expanding existing stores and closing smaller, less productive stores. Coach's most significant international wholesale customers are the DFS Group, Lotte Group, Tasa Meng Corp., Shilla Group, Imaginex and Shinsegae International.

The following table shows the number of international wholesale locations at which Coach products are sold:

	Fiscal Year Ended		
	June 30, 2007	July 1, 2006	July 2, 2005
International freestanding stores	37	21	14
International department store locations	74	63	58
Other international locations	29	24	22
<b>Total international wholesale locations</b>	<b>140</b>	<b>108</b>	<b>94</b>

**Licensing** — In our licensing relationships, Coach takes an active role in the design process and controls the marketing and distribution of products under the Coach brand. The current licensing relationships as of June 30, 2007 are as follows:

Category	Licensing Partner	Introduction Date	Territory	License Expiration Date
Watches	Movado	Spring '98	U.S. and Japan	2008
Footwear	Jimlar	Spring '99	U.S.	2008
Eyewear	Marchon	Fall '03	Worldwide	2011

Products made under license are, in most cases, sold through all of the channels discussed above and, with Coach's approval, these licensees have the right to distribute Coach brand products selectively through several other channels: shoes in department store shoe salons, watches in selected jewelry stores and eyewear in selected optical retailers. These venues provide additional, yet controlled, exposure of the Coach brand. Coach's licensing partners pay royalties to Coach on their net sales of Coach branded products. However, such royalties are not material to the Coach business as they currently comprise less than 1% of Coach's total revenues. The licensing agreements generally give Coach the right to terminate the license if specified sales targets are not achieved.

**Marketing**

Coach's marketing strategy is to deliver a consistent message each time the consumer comes in contact with the Coach brand, through our communications and visual merchandising. The Coach image is created internally and executed by the creative marketing, visual merchandising and public relations teams. Coach also has a sophisticated consumer and market research capability, which helps us assess consumer attitudes and trends and gauge the likelihood of a product's success in the marketplace prior to its introduction.

In conjunction with promoting a consistent global image, Coach uses its extensive customer database and consumer knowledge to target specific products and communications to specific consumers to efficiently stimulate sales across all distribution channels.

Coach engages in several consumer communication initiatives, including direct marketing activities and national, regional and local advertising. In fiscal 2007, consumer contacts increased 4% to over 114 million. However, the Company continues to leverage marketing expenses by refining our marketing programs to increase productivity and optimize distribution. Total expenses related to consumer communications in fiscal 2007 were \$47 million, representing less than 2% of net sales.

Coach's wide range of direct marketing activities includes catalogs, brochures and email contacts, targeted to promote sales to consumers in their preferred shopping venue. In addition to building brand awareness, Coach catalogs and www.coach.com serve as effective brand communications vehicles by providing a showcase environment where consumers can browse through a strategic offering of the latest styles and colors, which drives store traffic.

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As part of Coach's direct marketing strategy, it uses its database consisting of approximately 12 million active North American households. Catalogs and email contacts are Coach's principal means of communication and are sent to selected households to stimulate consumer purchases and build brand awareness. The rapidly growing number of visitors to the [www.coach.com](http://www.coach.com) online store provides an opportunity to increase the size of this database.

The Company also runs national, regional and local advertising campaigns, primarily print and outdoor advertising, in support of its major selling seasons.

**Manufacturing**

All of our products are manufactured by independent manufacturers. However, we maintain control of the supply chain from design through manufacture. We are able to do this by qualifying all raw material suppliers and by maintaining sourcing offices in Hong Kong, China and South Korea that work closely with our independent manufacturers. Coach also operates a European sourcing and product development organization based in Florence, Italy that works closely with the New York design team. This broad-based, multi-country manufacturing strategy is designed to optimize the mix of cost, lead times and construction capabilities. We have increased the presence of our senior management at the manufacturers' facilities to enhance control over decision making and ensure the speed with which we bring new product to market is maximized.

These independent manufacturers support a broader mix of product types, materials and a seasonal influx of new, fashion oriented styles, which allows us to meet shifts in marketplace demand and changes in consumer preferences. During fiscal 2007, approximately 73% of Coach's total net sales were generated from products introduced within the fiscal year. As the collections are seasonal and planned to be sold in stores for short durations, our production quantities are limited which limits our exposure to excess and obsolete inventory.

All product sources, including independent manufacturers and licensing partners, must achieve and maintain Coach's high quality standards, which are an integral part of the Coach identity. One of Coach's keys to success lies in the rigorous selection of raw materials. Coach has longstanding relationships with purveyors of fine leathers and hardware. As Coach has moved its production to external sources, it has maintained control of the raw materials that are used in all of its products, wherever they are made. Compliance with quality control standards is monitored through on-site quality inspections at all independent manufacturing facilities.

Coach carefully balances its commitments to a limited number of "better brand" partners with demonstrated integrity, quality and reliable delivery. Our manufacturers are located in many countries, including China, the United States, India, Hungary, Indonesia, Italy, Korea, Mauritius, Singapore, Spain, Taiwan and Turkey. No one vendor provides more than 13% of Coach's total units. Before partnering with a vendor, Coach evaluates each facility by conducting a quality and business practice standards audit. Periodic evaluations of existing, previously approved facilities are conducted on a random basis. We believe that all of our manufacturing partners are in compliance with Coach's integrity standards.

**Distribution**

Coach operates a distribution and consumer service facility in Jacksonville, Florida. This automated, 560,000 square foot facility uses a bar code scanning warehouse management system. Coach's distribution center employees use handheld radio frequency scanners to read product bar codes, which allow them to more accurately process and pack orders, track shipments, manage inventory and generally provide better service to our customers. Coach's products are primarily shipped to Coach retail stores and wholesale customers via Federal Express and common carrier, and direct to consumers via Federal Express.

**Management Information Systems**

The foundation of Coach's information systems is its Enterprise Resource Planning system. This fully integrated system supports all aspects of finance and accounting, procurement, inventory control, sales and store replenishment. The system functions as a central repository for all of Coach's transactional information, resulting in increased efficiencies, improved inventory control and a better understanding of consumer demand. This system is fully scalable to accommodate rapid growth.

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Complementing its Enterprise Resource Planning system are several other system solutions, each of which Coach believes is well suited for its needs. The data warehouse system summarizes the transaction information and provides a single platform for all management reporting. The supply chain management system supports sales and inventory planning and reporting functions. Product fulfillment is facilitated by Coach's highly automated warehouse management system and electronic data interchange system, while the unique requirements of Coach's internet and catalog businesses are supported by Coach's order management system. Finally, the point-of-sale system supports all in-store transactions, distributes management reporting to each store, and collects sales and payroll information on a daily basis. This daily collection of store sales and inventory information results in early identification of business trends and provides a detailed baseline for store inventory replenishment. Updates and upgrades of these systems are made on a periodic basis in order to ensure that we constantly improve our functionality. All complementary systems are integrated with the central Enterprise Resource Planning system.

**Trademarks and Patents**

Coach owns all of the material trademark rights used in connection with the production, marketing and distribution of all of its products, both in the U.S. and in other countries in which the products are principally sold. Coach also owns and maintains

worldwide registrations for trademarks in all relevant classes of products in each of the countries in which Coach products are sold. Major trademarks include *Coach*, *Coach and lozenge design*, *Coach and tag design* and *Signature C design*. Coach is not dependent on any one particular trademark or design patent although Coach believes that the Coach name is important for its business. In addition, several of Coach's products are covered by design patents or patent applications. Coach aggressively polices its trademarks and trade dress, and pursues infringers both domestically and internationally. It also pursues counterfeiters domestically and internationally through leads generated internally, as well as through its network of investigators, the Coach hotline and business partners around the world.

Coach's trademarks in the United States will remain in existence for as long as Coach continues to use and renew them. Coach has no material patents.

### **Seasonality**

Because Coach products are frequently given as gifts, Coach has historically realized, and expects to continue to realize, higher sales and operating income in the second quarter of its fiscal year, which includes the holiday months of November and December. In addition, fluctuations in sales and operating income in any fiscal quarter are affected by the timing of seasonal wholesale shipments and other events affecting retail sales. However, over the past several years, we have achieved higher levels of growth in the non holiday quarters, which has reduced these seasonal fluctuations. We expect that these trends will continue.

### **Government Regulation**

Most of Coach's imported products are subject to existing or potential duties, tariffs or quotas that may limit the quantity of products that Coach may import into the U.S. and other countries or may impact the cost of such products. Coach has not been restricted by quotas in the operation of its business and customs duties have not comprised a material portion of the total cost of its products. In addition, Coach is subject to foreign governmental regulation and trade restrictions, including U.S. retaliation against certain prohibited foreign practices, with respect to its product sourcing and international sales operations.

### **Competition**

The premium handbag and accessories industry is highly competitive. The Company mainly competes with European luxury brands as well as private label retailers, including some of Coach's wholesale customers. Over the last several years the category has grown rapidly, encouraging the entry of new competitors as well as increasing the competition from existing competitors. However, the Company believes that as a market leader we benefit from this increased competition as it drives consumer interest in this brand loyal category.

The Company believes that there are several factors that differentiate us from our competitors, including but not limited to: distinct newness, innovation and quality of our products, ability to meet consumer's changing preferences and our superior customer service.

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### **Employees**

As of June 30, 2007, Coach employed approximately 10,100 people, including both full and part time employees. Of these employees, approximately 3,100 and 4,900 were full time and part time employees, respectively, in the retail field in North America and Japan. Approximately 50 of Coach's employees are covered by collective bargaining agreements. Coach believes that its relations with its employees are good, and it has never encountered a strike or work stoppage.

### **Financial Information about Geographic Areas**

Geographic information is presented in Note 13 to the Consolidated Financial Statements.

### **Available Information**

Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, current reports on Form 8-K, and all amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, are available free of charge on our website, located at [www.coach.com](http://www.coach.com), as soon as reasonably practicable after they are filed with or furnished to the Securities and Exchange Commission. These reports are also available on the Securities and Exchange Commission's website at [www.sec.gov](http://www.sec.gov). No information contained on any of our websites is intended to be included as part of, or incorporated by reference into, this Annual Report on Form 10-K.

The Company has included the Chief Executive Officer ("CEO") and Chief Financial Officer certifications regarding its public disclosure required by Section 302 of the Sarbanes-Oxley Act of 2002 as Exhibit 31.1 to this report on Form 10-K. Additionally, the Company filed with the New York Stock Exchange ("NYSE") the CEO's certification regarding the Company's compliance with the NYSE's Corporate Governance Listing Standards ("Listing Standards") pursuant to Section 303A.12(a) of the Listing Standards, which indicated that the CEO was not aware of any violations of the Listing Standards by the Company.

### **Item 1A. Risk Factors**

*You should consider carefully all of the information set forth or incorporated by reference in this document and, in particular, the following risk factors associated with the Business of Coach and forward-looking information in this document. Please also see "Special Note on Forward-Looking Information" at the beginning of this report. The risks described below are not the only ones we face. Additional risks not presently known to us or that we currently deem immaterial may also have an adverse effect on us. If any of the risks below actually occur, our business, results of operations, cash flows or financial condition could suffer.*

***The growth of our business depends on the successful execution of our growth strategies.***

Our growth depends on the continued success of existing products, as well as the successful design and introduction of new products. Our ability to create new products and to sustain existing products is affected by whether we can successfully anticipate



and respond to consumer preferences and fashion trends. The failure to develop and launch successful new products could hinder the growth of our business. Also, any delay in the development or launch of a new product could result in our not being the first to market, which could compromise our competitive position.

***Significant competition in our industry could adversely affect our business.***

We face intense competition in the product lines and markets in which we operate. Our competitors are European luxury brands as well as private label retailers, including some of Coach's wholesale customers. There is a risk that our competitors may develop new products that are more popular with our customers. We may be unable to anticipate the timing and scale of such product introductions by competitors, which could harm our business. Our ability to compete also depends on the strength of our brand, whether we can attract and retain key talent, and our ability to protect our trademarks and design patents. A failure to compete effectively could adversely affect our growth and profitability.

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***We face risks associated with operating in international markets.***

We operate on a global basis, with approximately 24% of our net sales coming from operations outside the U.S. However, sales to our international wholesale customers are denominated in U.S. dollars. While geographic diversity helps to reduce the Company's exposure to risks in any one country, we are subject to risks associated with international operations, including, but not limited to:

- changes in exchange rates for foreign currencies, which may adversely affect the retail prices of our products and result in decreased international consumer demand or increase our supply costs in those markets,
- political or economic instability or changing macroeconomic conditions in our major markets, and
- changes in foreign or domestic legal and regulatory requirements resulting in the imposition of new or more onerous trade restrictions, tariffs, embargoes, exchange or other government controls.

We monitor our foreign currency exposure in Japan to minimize the impact on earnings of foreign currency rate movements through foreign currency hedging of Coach Japan's U.S. dollar denominated inventory purchases. We cannot ensure, however, that these hedges will succeed in offsetting any negative impact of foreign currency rate movements.

***A downturn in the economy could affect consumer purchases of luxury items and adversely affect our business.***

Many factors affect the level of consumer spending in the premium handbag and accessories market, including, among others, general business conditions, interest rates, the availability of consumer credit, taxation and consumer confidence in future economic conditions. Consumer purchases of discretionary luxury items, such as Coach products, tend to decline during recessionary periods, when disposable income is lower. A downturn in the economies in which Coach sells its products may adversely affect Coach's sales.

***Our business is subject to the risks inherent in global sourcing activities.***

As a company engaged in sourcing on a global scale, we are subject to the risks inherent in such activities, including, but not limited to:

- availability of raw materials,
- compliance with labor laws and other foreign governmental regulations,
- disruptions or delays in shipments,
- loss or impairment of key manufacturing sites,
- product quality issues,
- political unrest, and
- natural disasters, acts of war or terrorism and other external factors over which we have no control.

While we have business continuity and contingency plans for our sourcing sites, significant disruption of manufacturing for any of the above reasons could interrupt product supply and, if not remedied in a timely manner, could have an adverse impact on our business.

***Our business is subject to increased costs due to excess inventories if we misjudge the demand for our products.***

If Coach misjudges the market for its products it may be faced with significant excess inventories for some products and missed opportunities for other products. In addition, because Coach places orders for products with its manufacturers before it receives wholesale customers' orders, it could experience higher excess inventories if wholesale customers order fewer products than anticipated.

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***Our operating results are subject to seasonal and quarterly fluctuations, which could adversely affect the market price of Coach common stock.***

Because Coach products are frequently given as gifts, Coach has historically realized, and expects to continue to realize, higher sales and operating income in the second quarter of its fiscal year, which includes the holiday months of November and December. In addition, fluctuations in sales and operating income in any fiscal quarter are affected by the timing of seasonal wholesale shipments and other events affecting retail sales. However, over the past several years, we have achieved higher levels of growth in the non holiday quarters, which has reduced these seasonal fluctuations. We expect that these trends will continue.

***Provisions in Coach’s charter and bylaws, Maryland law or its “poison pill” may delay or prevent an acquisition of Coach by a third party.***

Coach’s charter and bylaws and Maryland law contain provisions that could make it harder for a third party to acquire Coach without the consent of Coach’s Board of Directors. Coach’s charter permits its Board of Directors, without stockholder approval, to amend the charter to increase or decrease the aggregate number of shares of stock or the number of shares of stock of any class or series that Coach has the authority to issue. In addition, Coach’s Board of Directors may classify or reclassify any unissued shares of common stock or preferred stock and may set the preferences, rights and other terms of the classified or reclassified shares. Although Coach’s Board of Directors has no intention to do so at the present time, it could establish a series of preferred stock that could have the effect of delaying, deferring or preventing a transaction or a change in control that might involve a premium price for Coach’s common stock or otherwise be in the best interest of Coach’s stockholders.

On May 3, 2001 Coach declared a “poison pill” dividend distribution of rights to buy additional common stock to the holder of each outstanding share of Coach’s common stock. Subject to limited exceptions, these rights may be exercised if a person or group intentionally acquires 10% or more of Coach’s common stock or announces a tender offer for 10% or more of the common stock on terms not approved by the Coach Board of Directors. In this event, each right would entitle the holder of each share of Coach’s common stock to buy one additional common share of Coach stock at an exercise price far below the then-current market price. Subject to certain exceptions, Coach’s Board of Directors will be entitled to redeem the rights at \$0.0001 per right at any time before the close of business on the tenth day following either the public announcement that, or the date on which a majority of Coach’s Board of Directors becomes aware that, a person has acquired 10% or more of the outstanding common stock. As of the end of fiscal 2007, there were no shareholders whose common stock holdings exceeded the 10% threshold established by the rights plan.

Coach’s bylaws can only be amended by Coach’s Board of Directors. Coach’s bylaws also provide that nominations of persons for election to Coach’s Board of Directors and the proposal of business to be considered at a stockholders meeting may be made only in the notice of the meeting, by Coach’s Board of Directors or by a stockholder who is entitled to vote at the meeting and has complied with the advance notice procedures of Coach’s bylaws. Also, under Maryland law, business combinations, including issuances of equity securities, between Coach and any person who beneficially owns 10% or more of Coach’s common stock or an affiliate of such person are prohibited for a five-year period unless exempted in accordance with the statute. After this period, a combination of this type must be approved by two super-majority stockholder votes, unless some conditions are met or the business combination is exempted by Coach’s Board of Directors. Coach’s Board has exempted any business combination with us or any of our affiliates from the five-year prohibition and the super-majority vote requirements.

**Item 1B. Unresolved Staff Comments**

None.

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**Item 2. Properties**

The following table sets forth the location, use and size of Coach’s distribution, corporate and product development facilities as of June 30, 2007, substantially all of which are leased. The leases expire at various times through 2015, subject to renewal options.

Location	Use	Approximate Square Footage
Jacksonville, Florida	Distribution and consumer service	560,000
New York, New York	Corporate, sourcing and product development	275,000
Carlstadt, New Jersey	Corporate and product development	55,000
Tokyo, Japan	Coach Japan, corporate	20,000
Shenzhen, People’s Republic of China	Sourcing, quality control and product development	18,000
Florence, Italy	Sourcing and product development	16,000
Dongguan, People’s Republic of China	Sourcing, quality control and product development	6,000
Hong Kong	Sourcing and quality control	5,000
Seoul, South Korea	Sourcing	3,000

As of June 30, 2007, Coach also occupied 259 retail and 93 factory leased stores located in North America and 137 department store shop-in-shops, retail stores and factory stores in Japan. These leases expire at various times through 2020. Coach considers these properties to be in generally good condition and believes that its facilities are adequate for its operations and provide sufficient capacity to meet its anticipated requirements.

**Item 3. Legal Proceedings**

Coach is involved in various routine legal proceedings as both plaintiff and defendant incident to the ordinary course of its business, including proceedings to protect Coach’s intellectual property rights, litigation instituted by persons alleged to have been injured upon premises within Coach’s control and litigation with present or former employees.

As part of Coach's policing program for its intellectual property rights, from time to time, Coach files lawsuits in the U.S. and abroad alleging acts of trademark counterfeiting, trademark infringement, patent infringement, trade dress infringement, trademark dilution and/or state or foreign law claims. At any given point in time, Coach may have one or more of such actions pending. These actions often result in seizure of counterfeit merchandise and/or out of court settlements with defendants. From time to time, defendants will raise, either as affirmative defenses or as counterclaims, the invalidity or unenforceability of certain of Coach's intellectual properties.

Although Coach's litigation with present or former employees is routine and incidental to the conduct of Coach's business, as well as for any business employing significant numbers of U.S.-based employees, such litigation can result in large monetary awards when a civil jury is allowed to determine compensatory and/or punitive damages for actions claiming discrimination on the basis of age, gender, race, religion, disability or other legally protected characteristic or for termination of employment that is wrongful or in violation of implied contracts.

Coach believes that the outcome of all pending legal proceedings in the aggregate will not have a material adverse effect on Coach's business or consolidated financial statements.

Coach has not entered into any transactions that have been identified by the IRS as abusive or that have a significant tax avoidance purpose. Accordingly, we have not been required to pay a penalty to the IRS for failing to make disclosures required with respect to certain transactions that have been identified by the IRS as abusive or that have a significant tax avoidance purpose.

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

None.

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### Executive Officers and Directors

The following table sets forth information regarding each of Coach's executive officers and directors serving as of June 30, 2007:

Name	Age	Position(s) <sup>(1)</sup>
Lew Frankfort	61	Chairman, Chief Executive Officer and Director
Keith Monda	61	President, Chief Operating Officer and Director
Reed Krakoff	43	President, Executive Creative Director
Michael Tucci	46	President, North American Retail
Mike Devine	49	Executive Vice President, Chief Financial Officer and Chief Accounting Officer
Melanie Hughes	44	Senior Vice President, Human Resources
Carole Sadler	47	Senior Vice President, General Counsel and Secretary
Susan Kropf <sup>(2)(3)</sup>	58	Director
Gary Loveman <sup>(2)(3)</sup>	47	Director
Ivan Menezes <sup>(2)(3)</sup>	48	Director
Irene Miller <sup>(2)(3)</sup>	55	Director
Michael Murphy <sup>(2)(3)</sup>	70	Director
Jide Zeitlin <sup>(2)(3)</sup>	43	Director

(1) Coach's executive officers serve indefinite terms and may be appointed and removed by Coach's board of directors at any time. Coach's directors are elected at the annual stockholders meeting and serve terms of one year.

(2) Member of the audit committee.

(3) Member of the human resources and governance committee.

**Lew Frankfort** has been involved with the Coach business for more than 25 years. He has served as Chairman and Chief Executive Officer of Coach since November 1995. He has served as a member of Coach's Board of Directors since June 1, 2000, the date of incorporation. Mr. Frankfort served as Senior Vice President of Sara Lee Corporation from January 1994 to October 2000. Mr. Frankfort was appointed President and Chief Executive Officer of the Sara Lee Champion, Intimates & Accessories group in January 1994, and held this position through November 1995. From September 1991 through January 1994, Mr. Frankfort held the positions of Executive Vice President, Sara Lee Personal Products and Chief Executive Officer of Sara Lee Accessories. Mr. Frankfort was appointed President of Coach in July 1985, after Sara Lee acquired Coach, and held this position through September 1991. Mr. Frankfort joined Coach in 1979 as Vice President of New Business Development. Prior to joining Coach, Mr. Frankfort held various New York City government management positions and served as Commissioner, New York City Agency for Child Development. He also serves on the Board of Directors of Teach for America, a public-private partnership aimed at eliminating educational inequity in America, and is a member of the Board of Overseers at Columbia Business School. Mr. Frankfort holds a Bachelor of Arts degree from Hunter College and an M.B.A. in Marketing from Columbia University.

**Keith Monda** was appointed Executive Vice President and Chief Operating Officer of Coach in June 1998 and President of Coach in February 2002. He has served as a member of Coach's Board of Directors since June 1, 2000, the date of incorporation. Prior to joining Coach, Mr. Monda served as Senior Vice President, Finance & Administration and Chief Financial Officer of Timberland Company from December 1993 until May 1996, and was promoted to, and held the position of, Senior Vice President, Operations from May 1996 until January 1998. From May 1990 to December 1993, Mr. Monda served as Executive Vice President, Finance and Administration of J. Crew, Inc. Mr. Monda holds Bachelor of Science and Master of Arts degrees from Ohio State University.

**Reed Krakoff** was appointed President, Executive Creative Director in September 1999 after joining Coach as Senior Vice President and Executive Creative Director in December 1996. Prior to joining Coach, Mr. Krakoff served as Senior Vice President, Marketing, Design & Communications from January 1993 until December 1996, and as Head Designer, Sportswear from April 1992 until January 1993 at Tommy Hilfiger

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USA, Inc. From July 1988 through April 1992, Mr. Krakoff served as a Senior Designer in Design and Merchandising for Polo/Ralph Lauren. Mr. Krakoff holds an A.A.S. degree in Fashion Design from Parsons School of Design and a Bachelor of Arts degree in Economics and Art History from Tufts University.

**Michael Tucci** joined Coach as President, North American Retail, in January 2003. Mr. Tucci joined Coach from Gap, Inc., where he held the position of Executive Vice President, Gap, Inc. Direct from May 2002 until January 2003. He held the position of Executive Vice President of Gap Body from April 2000 until May 2002. From April 1999 to May 2000, Mr. Tucci served as Executive Vice President, Customer Store Experience, Gap Brand. Between May 1996 and April 1999, Mr. Tucci served as Executive Vice President for GAP Kids and Baby Gap. He had joined Gap in December 1994 as Vice President of Merchandising for Old Navy. Prior to joining Gap, he served as President of Aeropostale, a specialty store division of Macy's, which culminated his twelve-year career with the company that included senior buying and merchandising roles. He joined Macy's Executive Training Program from Trinity College, where he earned a Bachelor of Arts degree in English.

**Mike Devine** was appointed Senior Vice President and Chief Financial Officer of Coach in December 2001 and Executive Vice President in August 2007. Prior to joining Coach, Mr. Devine served as Chief Financial Officer and Vice President-Finance of Mothers Work, Inc. from February 2000 until November 2001. From 1997 to 2000, Mr. Devine was Chief Financial Officer of Strategic Distribution, Inc., a Nasdaq-listed industrial store operator. Previously, Mr. Devine was Chief Financial Officer at Industrial System Associates, Inc. from 1995 to 1997, and for the prior six years he was the Director of Finance and Distribution for McMaster-Carr Supply Co. He also serves as a member of the Board of Directors of NutriSystem, Inc. Mr. Devine holds a Bachelor of Science degree in Finance and Marketing from Boston College and an M.B.A. degree in Finance from the Wharton School of the University of Pennsylvania.

**Melanie Hughes** has served as Senior Vice President, Human Resources, of Coach since November 2006. Prior to joining Coach, Ms. Hughes served as Executive Vice President of Human Resources for the Media Division of Interpublic Group from April 2006 until October 2006. From January 2000 until July 2005, she was the Senior Vice President of Human Resources for Doubleclick. Ms. Hughes' earlier experience includes a variety of senior human resources roles at UBS Warburg, Gillette and Guinness PLC. She began her career in 1985 at Marks and Spencer in London. Ms. Hughes holds a Bachelor of Science degree in Psychology from Brunel University and an M.B.A. from INSEAD.

**Carole Sadler** has served as Senior Vice President, General Counsel and Secretary since May 2000. She joined Coach as Vice President, Chief Counsel in March 1997. From April 1991 until February 1997, Ms. Sadler was Vice President and Associate General Counsel of Saks Fifth Avenue. From September 1984 until March 1991, Ms. Sadler practiced law as a litigation associate in New York City, most recently at the firm of White & Case, and prior to that at Paskus Gordon & Mandel and Mound Cotton & Wollan. Ms. Sadler holds a Juris Doctor degree from American University, Washington College of Law, and a Bachelor of Arts degree, *cum laude*, in American Studies from Smith College.

**Susan Kropf** was elected to Coach's Board of Directors in June 2006. From 2001 to January, 2007, Ms. Kropf served as President and Chief Operating Officer of Avon Products, where she had day-to-day oversight of Avon's worldwide operations. Before that, she was executive vice president and chief operating officer, Avon North America and Global Business Operations, with responsibility for the company's North American operating business unit as well as global marketing, R&D, supply chain operations and information technology. Ms. Kropf also serves on the Boards of MeadWestvaco Corp., Sherwin Williams Co., and the Wallace Foundation. Ms. Kropf holds a Bachelor of Arts degree from St. John's University and an M.B.A. in finance from New York University.

**Gary Loveman** was elected to Coach's Board of Directors in January 2002. Mr. Loveman has served as Chairman of Harrah's Entertainment, Inc. since January 2005 and as its Chief Executive Officer and President since January 2003; he had served as President of Harrah's since April 2001 and as Chief Operating Officer of Harrah's since May 1998. He was a member of the three-executive Office of the President of Harrah's from May 1999 to April 2001 and was Executive Vice President from May 1998 to May 1999. From 1989 to 1998, Mr. Loveman was Associate Professor of Business Administration, Harvard University Graduate School of

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Business Administration, where his responsibilities included teaching M.B.A. and executive education students, research and publishing in the field of service management, and consulting and advising large service companies. Mr. Loveman also serves as a Director of Harrah's, on the Board of Trustees at Joslin Diabetes Center in Boston and on the Trust Board at Children's Hospital Boston. He holds a Bachelor of Arts degree in economics from Wesleyan University and a Ph.D. in economics from the Massachusetts Institute of Technology.

**Ivan Menezes** was elected to Coach's Board of Directors in February 2005. Mr. Menezes has served as President and Chief Executive Officer of Diageo North America, the world's leading premium drinks company, since January 2004, after having served as its President and Chief Operating Officer from July 2002, and as President of Diageo, Venture Markets since July 2000. Since

joining Diageo in 1997 he has held various progressively senior management positions. Before joining Diageo, he held senior marketing positions with Whirlpool Europe in Milan and was a principal with Booz Allen Hamilton, Inc., both in Chicago and in London. Mr. Menezes holds a Bachelor of Arts degree in economics from St Stephen's College, Delhi, a post graduate diploma from the Indian Institute of Management, Ahmedabad and an M.B.A. from Northwestern University's Kellogg School of Management.

**Irene Miller** was elected to Coach's Board of Directors in May 2001. Ms. Miller is Chief Executive Officer of Akim, Inc., an investment management and consulting firm, and until June 1997 was Vice Chairman and Chief Financial Officer of Barnes & Noble, Inc., the world's largest bookseller. She joined Barnes & Noble in 1991, became Chief Financial Officer in 1993 and Vice Chairman in 1995. From 1986 to 1990, Ms. Miller was an investment banker at Morgan Stanley & Co. Incorporated. Ms. Miller also serves as a Director of Barnes & Noble, Inc., Inditex, S.A. and TD Bank Financial Group. Ms. Miller holds a Bachelor of Science degree from the University of Toronto and a Master of Science degree from Cornell University.

**Michael Murphy** was elected to Coach's Board of Directors in September 2000. From 1994 to 1997, Mr. Murphy served as Vice Chairman and Chief Administrative Officer of Sara Lee Corporation. Mr. Murphy also served as a Director of Sara Lee from 1979 through October 1997. Mr. Murphy joined Sara Lee in 1979 as Executive Vice President and Chief Financial and Administrative Officer and, from 1993 until 1994, also served as Vice Chairman. Mr. Murphy is also a Director of Civic Federation, Big Shoulders Fund, Metropolitan Pier and Exposition Authority, Chicago Cultural Center Foundation, GATX Corporation and The Joffrey Ballet. He is also a member of the Board of Trustees of Northern Funds (a family of mutual funds). Mr. Murphy holds a Bachelor of Science degree in business administration from Boston College and an M.B.A. degree in finance from the Harvard Business School.

**Jide Zeitlin** was elected to Coach's Board of Directors in June 2006. Since December 2005, Mr. Zeitlin has served as founder of Independent Mobile Infrastructure (Pvt.) Limited, a privately held company that is focused on Indian telecommunications infrastructure. From 1996 until December 2005, Mr. Zeitlin was a partner at The Goldman Sachs Group, Inc.; he most recently held the post of Global Chief Operating Officer of the company's investment banking businesses, after joining the firm in 1983. Mr. Zeitlin is Chairman of the Board of Trustees of Amherst College, serves as a Director of Affiliated Managers Group, Inc. and is a member of several not-for-profit boards, including: Common Ground Community, Milton Academy, Montefiore Medical Center, Playwrights Horizons and Teach for America, as well as the Harvard Business School Visiting Committee. Mr. Zeitlin holds an A.B. degree in economics and English from Amherst College and an M.B.A. from Harvard University.

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**PART II**

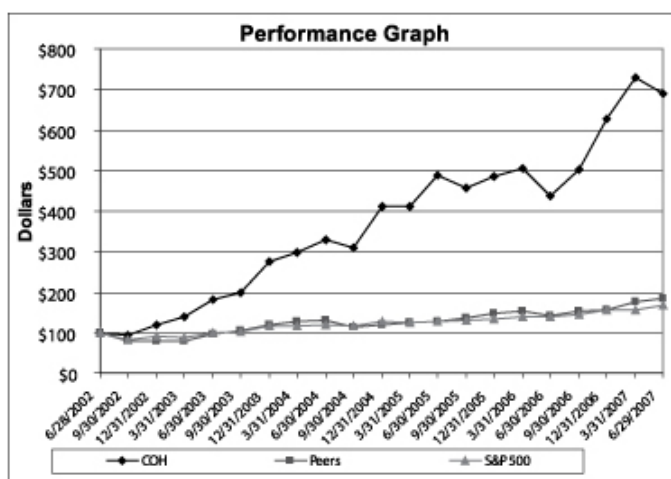
**Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

Refer to the information regarding the market for Coach's common stock, the quarterly market price information and the number of common shareholders of record appearing under the caption "Market and Dividend Information" included herein.

**Performance Graph**

The following graph compares the cumulative total stockholder return (assuming investment of dividends) of Coach's common stock with the cumulative total return of the S&P 500 Stock Index and the "peer group" companies listed below over the five-fiscal-year period from June 28, 2002 through June 29, 2007, the last trading day of Coach's most recent fiscal year. Coach's "peer group," as determined by management, consists of:

- Ann Taylor Stores Corporation,
- Kenneth Cole Productions, Inc.,
- Polo Ralph Lauren Corporation,
- Tiffany & Co.,
- Talbots, Inc., and
- Williams-Sonoma, Inc.



The graph assumes that \$100 was invested on June 28, 2002 at the per share closing price in each of Coach's common stock, the S&P 500 Stock Index and a "Peer Composite" index compiled by us tracking the peer group companies listed above, and that all dividends were reinvested. The stock performance shown in the graph is included in response to the SEC's requirements and is not intended to forecast or be indicative of future performance.

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**Item 6. Selected Financial Data (dollars and shares in thousands, except per share data)**

The selected historical financial data presented below as of and for each of the fiscal years in the five-year period ended June 30, 2007 have been derived from Coach's audited Consolidated Financial Statements. The financial data should be read in conjunction with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," the Consolidated Financial Statements and Notes thereto and other financial data included elsewhere herein.

	Fiscal Year Ended <sup>(1)</sup>				
	June 30, 2007	July 1, 2006	July 2, 2005	July 3, 2004	June 28, 2003
<b>Consolidated Statements of Income<sup>(2)</sup>:</b>					
Net sales	\$2,612,456	\$2,035,085	\$1,651,704	\$1,272,300	\$926,406
Gross profit	2,022,986	1,581,567	1,267,551	955,019	659,197
Selling, general and administrative expenses	1,029,589	866,860	731,891	578,820	454,491
Operating income	993,397	714,707	535,660	376,199	204,706
Interest income, net	41,273	32,623	15,760	3,192	1,059
Income from continuing operations	636,529	463,840	336,647	220,239	122,383
Income from continuing operations:					
Per basic share	\$ 1.72	\$ 1.22	\$ 0.89	\$ 0.59	\$ 0.34
Per diluted share	1.69	1.19	0.86	0.57	0.33
Weighted average basic shares outstanding	369,661	379,635	378,670	372,120	359,116
Weighted average diluted shares outstanding	377,356	388,495	390,191	385,558	371,684
<b>Consolidated Percentage of Net Sales Data<sup>(2)</sup>:</b>					
Gross margin	77.4%	77.7%	76.7%	75.1%	71.2%
Selling, general and administrative expenses	39.4%	42.6%	44.3%	45.5%	49.1%
Operating income	38.0%	35.1%	32.4%	29.6%	22.1%
Income from continuing operations	24.4%	22.8%	20.4%	17.3%	13.2%
<b>Consolidated Balance Sheet Data<sup>(2)</sup>:</b>					
Working capital	\$1,332,200	\$ 632,658	\$ 443,699	\$ 533,280	\$295,333
Total assets	2,449,512	1,626,520	1,370,157	1,060,279	640,871
Cash, cash equivalents and investments	1,185,816	537,565	505,116	564,443	229,176
Inventory	291,192	233,494	184,419	161,913	143,807
Revolving credit facility	—	—	12,292	1,699	26,471
Long-term debt	2,865	3,100	3,270	3,420	3,535
Stockholders' equity	1,910,354	1,188,734	1,055,920	796,036	436,536
<b>Coach Operated Store Data:</b>					
Total stores open at fiscal year-end:					
North American retail stores	259	218	193	174	156
North American factory stores	93	86	82	76	76
Coach Japan locations	137	118	103	100	93
Total store square footage at fiscal year-end:					
North American retail stores	672,737	562,553	490,925	431,617	363,310
North American factory stores	321,372	281,787	252,279	231,355	232,898
Coach Japan locations	229,862	194,375	161,632	119,291	102,242
Average store square footage at fiscal year-end:					
North American retail stores	2,597	2,581	2,544	2,481	2,329
North American factory stores	3,456	3,277	3,077	3,044	3,064
Coach Japan locations	1,678	1,647	1,569	1,193	1,099

(1) Coach's fiscal year ends on the Saturday closest to June 30. Fiscal years 2007, 2006, 2005 and 2003 were 52-week years, while fiscal year 2004 was a 53-week year.

(2) During fiscal 2007, the Company exited its corporate accounts business. See Note 3 to the Consolidated Financial Statements for further information.

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

The following discussion of Coach's financial condition and results of operations should be read together with Coach's financial statements and notes to those statements included elsewhere in this document.

## Executive Overview

Coach is a leading American marketer of fine accessories and gifts for men and women. Our product offerings include handbags, women's and men's accessories, footwear, outerwear, business cases, sunwear, watches, travel bags, jewelry and fragrance. Coach operates in two segments: Direct-to-Consumer and Indirect. The Direct-to-Consumer segment includes sales to consumers through Company-operated stores in North America and Japan, the Internet and Coach catalogs. The Indirect segment includes sales to wholesale customers in the U.S. and Asia as well as licensing revenue. As Coach's business model is based on multi-channel international distribution, our success does not depend solely on the performance of a single channel or geographic area.

In order to sustain growth within our global framework, we continue to focus on two key growth strategies: increased global distribution, with an emphasis on our direct retail distribution in North America and Japan, and improved productivity. To that end we are focused on four key initiatives:

- Build market share in the rapidly growing North American women's accessories market by leveraging our leadership position as a preferred brand for both self purchase and gifts. As part of this initiative, we continue to emphasize new usage occasions, such as weekend casual and evening. We also continue to introduce more sophisticated product to heighten our cachet, especially with our higher-end customers. Lastly, we continue to enhance the level of customer service in our stores by focusing on additional opportunities to deliver excellent customer service.
- Rapidly grow our North American retail store base by adding stores within existing markets, opening in new markets in the U.S. and by accelerating store openings in Canada. We plan to add about 40 retail stores in North America in each of the next several years and believe that North America can support about 500 retail stores in total, including up to 20 in Canada. In addition, we will continue to expand select, highly productive retail and factory locations.
- Expand market share with the Japanese consumer, driving growth in Japan primarily by opening new retail locations and expanding existing ones. We plan to add about 15 – 20 new locations in fiscal 2008 and believe that Japan can support about 180 locations in total. We will also continue to expand key locations.
- Raise brand awareness in emerging markets to build the foundation for substantial sales in the future. Specifically, Greater China, Korea and other emerging geographies are increasing in importance as the handbag and accessories category grows in these areas. In fiscal 2008, we intend to open approximately 30 net new locations, through distributors, in Greater China, Southeast Asia and the Middle East. This includes at least five more locations in major cities in mainland China, bringing the total number of locations in mainland China to at least 16.

In addition to the strategies outlined above, we continue to focus on improving our rate of profitability and delivering superior returns on investments. By leveraging expenses, our operating margin expansion will continue to outpace our sales growth, which will drive increased cash flows from operating activities.

## Fiscal 2007 Highlights

During fiscal 2007, an increase in sales, combined with an improvement in margins, continued to drive net income and earnings per share growth. The highlights of fiscal 2007 were:

- Net income from continuing operations increased 37.2% to \$636.5 million.
- Earnings per diluted share from continuing operations increased 41.3% to \$1.69 per diluted share.
- Net sales increased 28.4% to \$2.6 billion.
- Direct-to-consumer sales rose 30.5% to \$2.1 billion.

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- Comparable store sales in North America rose 22.3%, with retail stores up 16.4% and factory stores up 30.0%.
- Coach Japan sales, when translated into U.S. dollars, rose 15.9% driven by expanded distribution and mid-single-digit comparable store sales. These increases in sales reflect a 2.9% decrease due to currency translation.
- In North America, Coach opened 41 new retail stores and seven net new factory stores, bringing the total number of retail and factory stores to 259 and 93, respectively, at the end of fiscal 2007. We also expanded six retail stores and seven factory stores in North America.
- Coach Japan opened 19 net new locations, bringing the total number of locations at the end of fiscal 2007 to 137. In addition, we expanded nine locations.
- In mainland China, together with our distributors, Coach opened eight net stores.

In March 2007, the Company exited its corporate accounts business in order to better control the location and image of the brand where Coach product is sold. Through the corporate accounts business, Coach sold products primarily to distributors for gift-giving and incentive programs. The results of the corporate accounts business, previously included in the Indirect segment, have been segregated from continuing operations and reported as discontinued operations in the Consolidated Statements of Income for all periods presented.

## Fiscal 2007 Compared to Fiscal 2006

The following table summarizes results of operations for fiscal 2007 compared to fiscal 2006:

**Fiscal Year Ended**

	June 30, 2007		July 1, 2006		Variance	
	Amount	% of Net sales	Amount	% of Net sales	Amount	%
(dollars in millions, except per share data)						
Net sales	\$ 2,612.5	100.0%	\$ 2,035.1	100.0%	\$ 577.4	28.4%
Gross profit	2,023.0	77.4	1,581.6	77.7	441.4	27.9
Selling, general and administrative expenses	1,029.6	39.4	866.9	42.6	162.7	18.8
Operating income	993.4	38.0	714.7	35.1	278.7	39.0
Interest income, net	41.3	1.6	32.6	1.6	8.7	26.5
Provision for income taxes	398.1	15.2	283.5	13.9	114.7	40.4
Income from continuing operations	636.5	24.4	463.8	22.8	172.7	37.2
Income from discontinued operations, net of taxes	27.1	1.0	30.4	1.5	(3.3)	(10.8)
Net income	663.7	25.4	494.3	24.3	169.4	34.3
Net income per share:						
Basic:						
Continuing operations	\$ 1.72		\$ 1.22		\$ 0.50	40.9%
Discontinued operations	0.07		0.08		(0.01)	(8.4)
Net income	1.80		1.30		0.49	37.9
Diluted:						
Continuing operations	\$ 1.69		\$ 1.19		\$ 0.49	41.3%
Discontinued operations	0.07		0.08		(0.01)	(8.2)
Net income	1.76		1.27		0.49	38.2

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### Net Sales

The following table presents net sales by operating segment for fiscal 2007 compared to fiscal 2006:

	Fiscal Year Ended				
	Net Sales		Rate of Increase	Percentage of Total Net Sales	
	June 30, 2007	July 1, 2006		June 30, 2007	July 1, 2006
(dollars in millions)					
Direct-to-Consumer	\$ 2,101.8	\$ 1,610.7	30.5%	80.5%	79.1%
Indirect	510.7	424.4	20.3	19.5	20.9
Total net sales	\$ 2,612.5	\$ 2,035.1	28.4%	100.0%	100.0%

**Direct-to-Consumer** — Net sales increased by 30.5%, driven by increased sales from comparable stores, new stores and expanded stores. Comparable store sales measure sales performance at stores that have been open for at least 12 months. Coach excludes new locations from the comparable store base for the first year of operation. Similarly, stores that are expanded by 15% or more are also excluded from the comparable store base until the first anniversary of their reopening. Stores that are closed for renovations are removed from the comparable store base.

In North America, comparable store sales growth, sales from new stores and sales from expanded stores accounted for approximately \$233 million, \$142 million and \$31 million, respectively, of the net sales increase. In Japan, sales from new stores, comparable store sales growth and sales from expanded stores accounted for approximately \$46 million, \$20 million and \$8 million, respectively, of the net sales increase. Coach Japan's reported net sales were negatively impacted by approximately \$12 million as a result of foreign currency exchange. Sales growth in the Internet business accounted for the remaining sales increase. These sales increases were slightly offset by store closures and a decline in the direct marketing channel.

**Indirect** — Net sales increased by 20.3%, driven primarily by growth in the U.S. wholesale division, which contributed increased sales of approximately \$73 million, as compared to the prior year. This sales increase was partially offset by an approximately \$7 million decrease in net sales in the international wholesale division, as shipments to our customers were curbed in consideration of slowing Japanese travel trends in our markets and to ensure healthy inventory levels. Licensing revenue of approximately \$15 million and \$9 million in fiscal 2007 and fiscal 2006, respectively, is included in Indirect sales.

### Operating Income

Operating income increased 39.0% to \$993.4 million in fiscal 2007 as compared to \$714.7 million in fiscal 2006, driven by increases in net sales and gross profit, partially offset by an increase in selling, general and administrative expenses. Operating margin rose to 38.0% in fiscal 2007 from 35.1% in fiscal 2006. This 290 basis point improvement is attributable to increased net sales, as discussed above, and the leveraging of selling, general and administrative expenses.

The following chart illustrates our operating margin performance over the last two years:

	Operating Margin				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
Fiscal 2007	34.1%	42.3%	36.2%	37.6%	38.0%
Fiscal 2006	31.3%	40.8%	32.0%	34.3%	35.1%

Gross profit increased 27.9% to \$2.0 billion in fiscal 2007 compared to \$1.6 billion in fiscal 2006. Gross margin remained strong at 77.4% in fiscal 2007 compared to 77.7% in fiscal 2006. Gross margin was negatively impacted by channel mix, as Coach Japan grew more slowly than the business as a whole while our factory store channel grew faster, as well as the fluctuation in



currency translation rates. However, these negative impacts were partially offset by gains from product mix shifts, reflecting increased penetration of higher margin collections and supply chain initiatives. Coach's gross profit is dependent upon a variety of

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factors, including changes in the relative sales mix among distribution channels, changes in the mix of products sold, foreign currency exchange rates, and fluctuations in material costs. These factors, among others, may cause gross profit to fluctuate from year to year.

Selling, general and administrative ("SG&A") expenses comprise four categories: (1) selling; (2) advertising, marketing and design; (3) distribution and consumer service; and (4) administrative. Selling expenses include store employee compensation, store occupancy costs, store supply costs, wholesale account administration compensation and all Coach Japan operating expenses. These expenses are affected by the number of Coach and Coach Japan operated stores open during any fiscal period and the related proportion of retail and wholesale sales. Advertising, marketing and design expenses include employee compensation, media space and production, advertising agency fees, new product design costs, public relations, market research expenses and mail order costs. Distribution and consumer service expenses include warehousing, order fulfillment, shipping and handling, customer service and bag repair costs. Administrative expenses include compensation costs for the executive, finance, human resources, legal and information systems departments, as well as consulting and software expenses. SG&A expenses increase as Coach and Coach Japan operate more stores, although an increase in the number of stores generally results in the fixed portion of SG&A expenses being spread over a larger sales base.

During fiscal 2007, SG&A expenses increased 18.8% to \$1.0 billion, compared to \$866.9 million in fiscal 2006, driven primarily by increased selling expenses. However, as a percentage of net sales, SG&A expenses decreased to 39.4% during fiscal 2007, compared to 42.6% during fiscal 2006, as we continue to leverage our expense base on higher sales.

The following table presents the components of SG&A expenses and the percentage of sales that each component represented for fiscal 2007 compared to fiscal 2006:

	Fiscal Year Ended				
	SG&A Expenses		Rate of Increase (FY07 v. FY06)	Percentage of Total Net sales	
	June 30, 2007	July 1, 2006		June 30, 2007	July 1, 2006
	(dollars in millions)				
Selling	\$ 718.0	\$ 576.6	24.5%	27.5%	28.4%
Advertising, Marketing and Design	119.8	100.6	19.1	4.6	4.9
Distribution and Consumer Service	53.2	42.2	26.1	2.0	2.1
Administrative	138.6	147.5	(6.0)	5.3	7.2
Total SG&A Expenses	\$ 1,029.6	\$ 866.9	18.8%	39.4%	42.6%

The increase in selling expenses was primarily due to an increase in operating expenses of North America stores and Coach Japan. The increase in North America store expenses is attributable to increased variable expenses related to higher sales, new stores opened during the fiscal year and the incremental expense associated with having a full year of expenses related to stores opened in the prior year. The increase in Coach Japan operating expenses was primarily driven by increased variable expenses related to higher sales and new store operating expenses. However, the impact of foreign currency exchange rates decreased reported expenses by approximately \$6.1 million. The remaining increase in selling expenses was due to increased variable expenses to support sales growth in other channels.

The increase in advertising, marketing and design costs was primarily due to increased staffing costs and design expenditures as well as increased development costs for new product categories.

Distribution and consumer service expenses increased primarily as result of higher sales volumes. However, efficiency gains at the distribution and consumer service facility, partially offset by an increase in our direct-to-consumer shipments as a percentage of total shipments, led to a decrease in distribution and consumer service expenses as a percentage of net sales.

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The decrease in administrative expenses was primarily due to a decrease in share-based compensation expense and other employee staffing costs. However, fiscal 2006 expenses were reduced by \$2.0 million due to the receipt of business interruption proceeds related to our World Trade Center location. The Company did not receive any business interruption proceeds in fiscal 2007.

**Interest Income, Net**

Net interest income was \$41.3 million in fiscal 2007 compared to \$32.6 million in fiscal 2006. This increase was primarily due to higher returns on our investments as a result of higher interest rates and higher average cash and investment balances.

**Provision for Income Taxes**

The effective tax rate was 38.5% in fiscal 2007 compared to 37.9% in fiscal 2006. This increase is primarily attributable to incremental income being taxed at higher rates.

### Income from Continuing Operations

Income from continuing operations was \$636.5 million in fiscal 2007 compared to \$463.8 million in fiscal 2006. This 37.2% increase is attributable to increased net sales as well as significant operating margin improvement, as discussed above.

### Income from Discontinued Operations

Income from discontinued operations was \$27.1 million in fiscal 2007 compared to \$30.4 million in fiscal 2006. In fiscal 2007, net sales related to the corporate accounts business were \$66.5 million compared to \$76.4 million in fiscal 2006. The decrease in net sales and income is attributable to the exiting of the corporate accounts business during the third quarter of fiscal 2007.

### Fiscal 2006 Compared to Fiscal 2005

The following table summarizes results of operations for fiscal 2006 compared to fiscal 2005:

	Fiscal Year Ended					
	July 1, 2006		July 2, 2005		Variance	
	Amount	% of Net sales	Amount	% of Net sales	Amount	%
	(dollars in millions, except per share data)					
Net sales	\$ 2,035.1	100.0%	\$ 1,651.7	100.0%	\$ 383.4	23.2%
Gross profit	1,581.6	77.7	1,267.6	76.7	314.0	24.8
Selling, general and administrative expenses	866.9	42.6	731.9	44.3	135.0	18.4
Operating income	714.7	35.1	535.7	32.4	179.0	33.4
Interest income, net	32.6	1.6	15.8	1.0	16.9	107.0
Provision for income taxes	283.5	13.9	201.1	12.2	82.4	40.9
Minority interest	—	0.0	13.6	0.8	(13.6)	(100.0)
Income from continuing operations	463.8	22.8	336.6	20.4	127.2	37.8
Income from discontinued operations, net of taxes	30.4	1.5	22.0	1.3	8.5	38.6
Net income	494.3	24.3	358.6	21.7	135.7	37.8
Net income per share:						
Basic:						
Continuing operations	\$ 1.22		\$ 0.89		\$ 0.33	37.4%
Discontinued operations	0.08		0.06		0.02	38.2
Net income	1.30		0.95		0.35	37.5
Diluted:						
Continuing operations	\$ 1.19		\$ 0.86		\$ 0.33	38.4%
Discontinued operations	0.08		0.06		0.02	39.2
Net income	1.27		0.92		0.35	38.4

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### Net Sales

The following table presents net sales by operating segment for fiscal 2006 compared to fiscal 2005:

	Fiscal Year Ended				
	Net Sales		Rate of Increase	Percentage of Total Net sales	
	July 1, 2006	July 2, 2005		July 1, 2006	July 2, 2005
	(dollars in millions)				
Direct-to-Consumer	\$ 1,610.7	\$ 1,307.4	23.2%	79.1%	79.2%
Indirect	424.4	344.3	23.3	20.9	20.8
Total net sales	\$ 2,035.1	\$ 1,651.7	23.2%	100.0%	100.0%

**Direct-to-Consumer** — Net sales increased 23.2%, driven by increased sales from comparable stores, new stores and expanded stores.

In North America, comparable store sales growth, sales from new stores and sales from expanded stores accounted for approximately \$167 million, \$72 million and \$13 million, respectively, of the net sales increase. Comparable store sales in North America rose 20.7%, with retail stores up 12.3% and factory stores up 31.9%. In Japan, sales from new stores, comparable store sales growth and sales from expanded stores accounted for approximately \$41 million, \$32 million and \$11 million, respectively, of the net sales increase. Coach Japan's reported net sales were negatively impacted by approximately \$35 million as a result of foreign currency exchange. Sales growth in the Internet business accounted for the remaining sales increase. These sales increases were slightly offset by store closures and a decline in the direct marketing channel.

**Indirect** — Net sales increased 23.3%, driven by growth in the U.S. wholesale and international wholesale divisions, which contributed increased sales of approximately \$45 million and \$36 million, respectively, as compared to the prior year. Licensing revenue of approximately \$9 million and \$6 million in fiscal 2006 and fiscal 2005, respectively, is included in Indirect sales.

### Operating Income

Operating income increased 33.4% to \$714.7 million in fiscal 2006 as compared to \$535.7 million in fiscal 2005, driven by increases in net sales and gross profit, partially offset by an increase in SG&A expenses. Operating margin rose to 35.1% in fiscal 2006 from 32.4% in fiscal 2005. This 270 basis point improvement is attributable to increased net sales, as discussed above, and the leveraging of SG&A expenses.

The following chart illustrates our operating margin performance over the last two years:

	Operating Margin				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
Fiscal 2006	31.3%	40.8%	32.0%	34.3%	35.1%
Fiscal 2005	27.8%	38.7%	30.9%	29.9%	32.4%

Gross profit increased 24.8% to \$1.6 billion in fiscal 2006 as compared to \$1.3 billion in fiscal 2005. Gross margin increased 100 basis points to 77.7% in fiscal 2006 from 76.7% in fiscal 2005, as gains from supply chain initiatives and product mix shifts, reflecting increased penetration of higher margin collections, more than offset the impact of channel mix.

SG&A expenses increased 18.4% to \$866.9 million in fiscal 2006 from \$731.9 million in fiscal 2005, driven primarily by increased selling expenses. However, as a percentage of net sales, SG&A expenses decreased to 42.6% as compared to 44.3% during fiscal 2005, as we continue to leverage our expense base on higher sales.

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The following table presents the components of SG&A expenses and the percentage of net sales that each component represented for fiscal 2006 compared to fiscal 2005:

	Fiscal Year Ended				
	SG&A Expenses		Rate of Increase (FY06 v. FY05)	Percentage of Total Net sales	
	July 1, 2006	July 2, 2005		July 1, 2006	July 2, 2005
	(dollars in millions)				
Selling	\$ 576.6	\$ 492.7	17.0%	28.4%	29.8%
Advertising, Marketing and Design	100.6	78.8	27.7	4.9	4.8
Distribution and Consumer Service	42.2	36.0	17.2	2.1	2.2
Administrative	147.5	124.4	18.6	7.2	7.5
Total SG&A Expenses	<u>\$ 866.9</u>	<u>\$ 731.9</u>	18.4%	<u>42.6%</u>	<u>44.3%</u>

The increase in selling expenses was primarily due to an increase in operating expenses of North America stores and Coach Japan. The increase in North America store expenses is attributable to increased variable expenses related to higher sales, new stores opened during the fiscal year and the incremental expense associated with having a full year of expenses related to stores opened in the prior year. The increase in Coach Japan operating expenses was primarily driven by increased variable expenses related to higher sales and new store operating expenses. However, the impact of foreign currency exchange rates decreased reported expenses by approximately \$16 million. The remaining increase in selling expenses was due to increased variable expenses to support sales growth in other channels.

The increase in advertising, marketing and design costs was primarily due to increased staffing costs and increased design expenditures as well as increased development costs for new product categories.

Distribution and consumer service expenses increased primarily as a result of higher sales volumes. However, efficiency gains at the distribution and consumer service facility resulted in an improvement in these expenses as a percentage of net sales.

The increase in administrative expenses was primarily due to increased share-based compensation costs and other employee staffing costs. Fiscal 2006 and fiscal 2005 expenses were reduced by \$2.0 million and \$2.6 million, respectively, due to the receipt of business interruption proceeds related to our World Trade Center location.

### Interest Income, Net

Net interest income was \$32.6 million in fiscal 2006 as compared to \$15.8 million in fiscal 2005. This increase was primarily due to higher returns on investments as a result of higher interest rates.

### Provision for Income Taxes

The effective tax rate increased to 37.9% as compared to 36.5% in fiscal 2005. The increase is primarily attributable to the non-recurrence of a one time benefit that the Company recorded in the fourth quarter of fiscal 2005, related to the Company's buyout of Sumitomo's 50% interest in Coach Japan.

### Minority Interest

Minority interest expense, net of tax, was \$0 in fiscal 2006 compared to \$13.6 million, or 0.8% of net sales, in fiscal 2005. The purchase of Sumitomo's 50% interest in Coach Japan on July 1, 2005 eliminated minority interest as of the first quarter of fiscal 2006.

### Income from Continuing Operations

Income from continuing operations was \$463.8 million in fiscal 2006 compared to \$336.6 million in fiscal 2005. This 37.8% increase is attributable to increased net sales as well as significant operating margin improvement, as discussed above.

[TABLE OF CONTENTS](#)**Income from Discontinued Operations**

Income from discontinued operations was \$30.4 million in fiscal 2006 compared to \$22.0 million in fiscal 2005. In fiscal 2006, net sales related to the corporate accounts business were \$76.4 million compared to \$58.7 million in fiscal 2005. The Company exited the corporate accounts business during the third quarter of fiscal 2007.

**Financial Condition****Cash Flow**

Net cash provided by operating activities was \$779.1 million in fiscal 2007 compared to \$596.6 million in fiscal 2006. The \$182.5 million increase was primarily due to increased earnings of \$169.4 million. The changes in operating assets and liabilities were attributable to normal operating fluctuations.

Net cash used in investing activities was \$375.9 million in fiscal 2007 compared to \$181.0 million in fiscal 2006. The \$194.9 million increase in net cash used is attributable to a \$187.9 million increase in the net purchases of investments and a \$7.0 million increase in capital expenditures, related primarily to new and renovated retail stores in North America and Japan. Coach's future capital expenditures will depend on the timing and rate of expansion of our businesses, new store openings, store renovations and international expansion opportunities.

Net cash provided by financing activities was \$10.4 million in fiscal 2007 compared to a \$426.8 million use of cash in fiscal 2006. The change of \$437.2 million primarily resulted from a \$450.3 million decrease in funds expended to repurchase common stock in fiscal 2007 compared to fiscal 2006. In addition, there was a \$25.6 million increase in proceeds received from the exercise of stock options and a non-recurrence of \$12.3 million in repayments on the Japanese credit facility in the prior year. These increases were partially offset by a \$34.2 million decrease in excess tax benefit from share-based compensation and a \$16.7 million decrease related to an adjustment to reverse a portion of the excess tax benefit previously recognized from share-based compensation in the fourth quarter of fiscal 2006.

**Revolving Credit Facilities**

As of the end of fiscal 2007, the Company maintained a \$100 million unsecured revolving credit facility with certain lenders and Bank of America, N.A. as primary lender and administrative agent (the "Bank of America facility"). At Coach's request, the Bank of America facility was able to be expanded to \$125 million. Coach paid a commitment fee of 10 to 25 basis points on any unused amounts of the Bank of America facility and interest of LIBOR plus 45 to 100 basis points on any outstanding borrowings. The initial commitment fee was 15 basis points and the initial LIBOR margin was 62.5 basis points. At June 30, 2007, the commitment fee was 10 basis points and the LIBOR margin was 45 basis points, reflecting an improvement in our fixed-charge coverage ratio. The facility was scheduled to expire on October 16, 2007.

On July 26, 2007 (subsequent to the end of fiscal 2007), the Company renewed the Bank of America facility, extending the facility expiration to July 26, 2012. At Coach's request, the renewed Bank of America facility can be expanded to \$200 million. The facility can also be extended for two additional one-year periods, at Coach's request. Under the renewed Bank of America facility, Coach will pay a commitment fee of 6 to 12.5 basis points on any unused amounts and interest of LIBOR plus 20 to 55 basis points on any outstanding borrowings.

The Bank of America facility is available for seasonal working capital requirements or general corporate purposes and may be prepaid without penalty or premium. During fiscal 2007 and fiscal 2006 there were no borrowings under the Bank of America facility. Accordingly, as of June 30, 2007 and July 1, 2006, there were no outstanding borrowings under the Bank of America facility.

The Bank of America facility contains various covenants and customary events of default. Coach has been in compliance with all covenants since its inception.

To provide funding for working capital and general corporate purposes, Coach Japan has available credit facilities with several Japanese financial institutions. These facilities allow a maximum borrowing of 7.4 billion yen, or approximately \$60 million, at June 30, 2007. Interest is based on the Tokyo Interbank rate plus a margin of up to 50 basis points.

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During fiscal 2007 and fiscal 2006, the peak borrowings under the Japanese credit facilities were \$25.5 million and \$21.6 million, respectively. As of June 30, 2007 and July 1, 2006, there were no outstanding borrowings under the Japanese credit facilities.

**Common Stock Repurchase Program**

On October 20, 2006, the Coach Board of Directors approved an additional common stock repurchase program to acquire up to \$500 million of Coach's outstanding common stock. This authorization expires in June 2008. In connection with Coach's stock repurchase program, purchases of Coach stock may be made from time to time, subject to market conditions and at prevailing market prices, through open market purchases. Repurchased shares of common stock become authorized but unissued shares and may be issued in the future for general corporate and other purposes. The Company may terminate or limit the stock repurchase program at any time.

During fiscal 2007 and fiscal 2006, the Company repurchased and retired 5.0 million and 19.1 million shares of common stock at an average cost of \$29.99 and \$31.50 per share, respectively. As of June 30, 2007, \$500 million remained available for future repurchases under the existing program.

## Liquidity and Capital Resources

In fiscal 2007, total capital expenditures were \$140.9 million. In North America, Coach opened 41 new retail and seven net new factory stores and expanded six retail stores and seven factory stores. These new and expanded stores accounted for approximately \$70 million of the total capital expenditures. In addition, spending on department store renovations and distributor locations accounted for approximately \$9 million of the total capital expenditures. In Japan, we invested approximately \$17 million, primarily for the opening of 19 net new locations and nine store expansions. The remaining capital expenditures related to corporate systems and infrastructure. These investments were financed from on hand cash, operating cash flows and by using funds from our Japanese revolving credit facilities.

For the fiscal year ending June 28, 2008, the Company expects total capital expenditures to be approximately \$200 million. Capital expenditures will be primarily for new stores and expansions both in the U.S. and in Japan. We expect to open approximately 40 new North American retail stores, six new factory stores and 15-20 new locations in Japan, while continuing to invest in department store and distributor locations. In addition, we will invest in corporate infrastructure and expand our Jacksonville distribution center. These investments will be financed primarily from on hand cash and operating cash flows.

Coach experiences significant seasonal variations in its working capital requirements. During the first fiscal quarter Coach builds inventory for the holiday selling season, opens new retail stores and generates higher levels of trade receivables. In the second fiscal quarter its working capital requirements are reduced substantially as Coach generates consumer sales and collects wholesale accounts receivable. In fiscal 2007, Coach purchased approximately \$663 million of inventory, which was funded by on hand cash, operating cash flow and by borrowings under the Japanese revolving credit facilities.

Management believes that cash flow from continuing operations and on hand cash will provide adequate funds for the foreseeable working capital needs, planned capital expenditures and the common stock repurchase program. Any future acquisitions, joint ventures or other similar transactions may require additional capital. There can be no assurance that any such capital will be available to Coach on acceptable terms or at all. Coach's ability to fund its working capital needs, planned capital expenditures and scheduled debt payments, as well as to comply with all of the financial covenants under its debt agreements, depends on its future operating performance and cash flow, which in turn are subject to prevailing economic conditions and to financial, business and other factors, some of which are beyond Coach's control.

## Commitments

At June 30, 2007, the Company had letters of credit available of \$205 million, of which \$115.6 million were outstanding. These letters of credit, which expire at various dates through 2012, primarily collateralize the Company's obligation to third parties for the purchase of inventory. In addition, \$13.2 million relates to a letter of credit for the benefit of the Sara Lee Corporation ("Sara Lee"). Prior to Coach's spin off from Sara Lee, Sara Lee was a guarantor or a party to many of Coach's leases. Coach has agreed to make efforts to

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remove Sara Lee from all of its existing leases, and Sara Lee is not a guarantor or a party to any new or renewed leases. Coach has obtained a letter of credit for the benefit of Sara Lee in an amount approximately equal to the annual minimum rental payments under leases transferred to Coach by Sara Lee, but for which Sara Lee retains contingent liability. Coach is required to maintain this letter of credit until the annual minimum rental payments under the relevant leases are less than \$2.0 million. The initial letter of credit had a face amount of \$20.6 million, and we expect this amount to decrease annually as Coach's guaranteed obligations are reduced. Coach expects that it will be required to maintain the letter of credit for approximately 10 years.

## Contractual Obligations

As of June 30, 2007, Coach's long-term contractual obligations are as follows:

	Payments Due by Period				
	Total	Less than 1 Year	1 – 3 Years	3 – 5 Years	More than 5 Years
	(amounts in millions)				
Capital expenditure commitments <sup>(1)</sup>	\$ 2.5	\$ 2.5	\$ —	\$ —	\$ —
Inventory purchase obligations <sup>(2)</sup>	134.7	134.7	—	—	—
Long-term debt, including the current portion	3.1	0.2	0.6	0.8	1.5
Operating leases	683.8	89.0	175.8	162.5	256.5
<b>Total</b>	<b>\$ 824.1</b>	<b>\$ 226.4</b>	<b>\$ 176.4</b>	<b>\$ 163.3</b>	<b>\$ 258.0</b>

(1) Represents the Company's legally binding agreements related to capital expenditures.

(2) Represents the Company's legally binding agreements to purchase finished goods.

The table above excludes the following: amounts included in current liabilities, other than the current portion of long-term debt, in the Consolidated Balance Sheet at June 30, 2007 as these items will be paid within one year; long-term liabilities not requiring cash payments, such as deferred lease incentives; and cash contributions for the Company's pension plans. The Company intends to contribute approximately \$0.6 million to its pension plans during the next year.

Coach does not have any off-balance-sheet financing or unconsolidated special purpose entities. Coach's risk management policies prohibit the use of derivatives for trading purposes. The valuation of financial instruments that are marked-to-market are based upon independent third-party sources.

### **Long-Term Debt**

Coach is party to an Industrial Revenue Bond related to its Jacksonville, Florida distribution and consumer service facility. This loan has a remaining balance of \$3.1 million and bears interest at 4.5%. Principal and interest payments are made semiannually, with the final payment due in 2014.

### **Seasonality**

Because its products are frequently given as gifts, Coach has historically realized, and expects to continue to realize, higher sales and operating income in the second quarter of its fiscal year, which includes the holiday months of November and December. In addition, fluctuations in sales and operating income in any fiscal quarter are affected by the timing of seasonal wholesale shipments and other events affecting retail sales. However, over the past several years, we have achieved higher levels of growth in the non-holiday quarters, which has reduced these seasonal fluctuations. We expect these trends to continue.

### **Critical Accounting Policies and Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. Predicting future events is inherently an imprecise activity and, as such, requires the use of judgment. Actual results may vary from estimates in amounts that may be material to the financial statements. The development and selection of the Company's critical accounting policies and estimates are periodically reviewed with the Audit Committee of the Board of Directors.

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The accounting policies discussed below are considered critical because changes to certain judgments and assumptions inherent in these policies could affect the financial statements. For more information on Coach's accounting policies, please refer to the Notes to Consolidated Financial Statements.

### **Inventories**

The Company's inventories are reported at the lower of cost or market. Inventory costs include material, conversion costs, freight and duties and are determined by the first-in, first-out method, except for inventories of Coach Japan, for which cost is determined by the last-in, first-out method. The Company reserves for slow-moving and aged inventory based on historical experience, current product demand and expected future demand. A decrease in product demand due to changing customer tastes, buying patterns or increased competition could impact Coach's evaluation of its slow-moving and aged inventory and additional reserves might be required. At June 30, 2007, a 10% change in the reserve for slow-moving and aged inventory would have resulted in an insignificant change in inventory and cost of goods sold.

### **Goodwill and Other Intangible Assets**

The Company evaluates goodwill and other indefinite life intangible assets annually for impairment. In order to complete our impairment analysis, we must perform a valuation analysis which includes determining the fair value of the Company's reporting units based on discounted cash flows. This analysis contains uncertainties as it requires management to make assumptions and estimate the profitability of future growth strategies. The Company determined that there was no impairment in fiscal 2007, 2006 or 2005.

### **Long-Lived Assets**

Long-lived assets, such as property and equipment, are evaluated for impairment annually to determine if the carrying value of the assets is recoverable. The evaluation is based on a review of forecasted operating cash flows and the profitability of the related business. An impairment loss is recognized if the forecasted cash flows are less than the carrying amount of the asset. The Company did not record any impairment losses in fiscal 2007, 2006, or 2005. However, as the determination of future cash flows is based on expected future performance, impairment could result in the future if expectations are not met.

### **Revenue Recognition**

Sales are recognized at the point of sale, which occurs when merchandise is sold in an over-the-counter consumer transaction or, for the wholesale, Internet and catalog channels, upon shipment of merchandise, when title passes to the customer. Revenue associated with gift cards is recognized upon redemption. The Company estimates the amount of gift cards that will not be redeemed and records such amounts as revenue over the period of the performance obligation. Allowances for estimated uncollectible accounts, discounts and returns are provided when sales are recorded based upon historical experience and current trends. Royalty revenues are earned through license agreements with manufacturers of other consumer products that incorporate the Coach brand. Revenue earned under these contracts is recognized based upon reported sales from the licensee. At June 30, 2007, a 10% change in the allowances for estimated uncollectible accounts, discounts and returns would have resulted in an insignificant change in accounts receivable and net sales.

### **Share-Based Compensation**

The Company recognizes the cost of employee services received in exchange for awards of equity instruments, such as stock options, based on the grant-date fair value of those awards. The grant-date fair value of stock option awards is determined using the Black-Scholes option pricing model and involves several assumptions, including the expected term of the option and expected volatility. The expected term of options represents the period of time that the options granted are expected to be outstanding and is based on historical experience. Expected volatility is based on historical volatility of the Company's stock as well as the implied

volatility from publicly traded options on Coach's stock. Changes in the assumptions used to determine the Black-Scholes value could result in significant changes in the Black-Scholes value. A 10% change in the Black-Scholes value would result in an insignificant change in FY07 share-based compensation expense.

### Recent Accounting Pronouncements

In February 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") 155, "Accounting for Certain Hybrid Financial Instruments — an amendment of FASB Statements 133 and 140." SFAS 155 permits fair value measurement for any hybrid financial

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instrument that contains an embedded derivative that otherwise would require bifurcation. This statement is effective for all financial instruments acquired or issued after July 1, 2007. The Company does not expect the adoption of SFAS 155 to have a material impact on the Company's consolidated financial statements.

In June 2006, the FASB ratified the consensus reached on Emerging Issues Task Force ("EITF") Issue 06-3, "How Taxes Collected From Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That is, Gross versus Net Presentation)." EITF 06-3 requires disclosure of a company's accounting policy with respect to presentation of taxes collected on a revenue producing transaction between a seller and a customer. For taxes that are reported on a gross basis (included in revenues and costs), EITF 06-3 also requires disclosure of the amount of taxes included in the financial statements. EITF 06-3 was effective for the interim reporting period that began on December 31, 2006. As the Company did not modify its accounting policy of recording sales taxes collected on a net basis, the adoption of EITF 06-3 did not have an impact on the Company's consolidated financial statements.

In June 2006, the FASB issued FIN 48, "Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement 109," which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS 109, "Accounting for Income Taxes." FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 is effective for the fiscal year beginning on July 1, 2007. The Company is currently evaluating the impact of FIN 48 on the Company's consolidated financial statements.

In September 2006, the FASB issued SFAS 157, "Fair Value Measurements." SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. This statement is effective for the fiscal year beginning June 29, 2008. The Company does not expect the adoption of SFAS 157 to have a material impact on the Company's consolidated financial statements.

In September 2006, the FASB issued SFAS 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment of FASB Statements No. 87, 88, 106 and 132(R)." SFAS 158 requires an employer to recognize the funded status of a benefit plan, measured as the difference between plan assets at fair value and the projected benefit obligation, in its statement of financial position. SFAS 158 also requires an employer to measure defined benefit plan assets and obligations as of the date of the employer's fiscal year-end statement of financial position. This statement is effective as of the end of the fiscal year ended June 30, 2007, except for the requirement to measure plan assets and obligations as of the date of the employer's fiscal year-end statement of financial position, which is effective for the fiscal year ending June 27, 2009. The impact of adopting SFAS 158 is described in Note 12.

In September 2006, the SEC issued Staff Accounting Bulletin ("SAB") No. 108, "Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements." SAB 108 states that SEC registrants should use both a balance sheet approach and an income statement approach when quantifying and evaluating the materiality of a misstatement, contains guidance on correcting errors under the dual approach and provides transition guidance for correcting errors existing in prior years. SAB 108 is effective for annual financial statements covering the fiscal year ended June 30, 2007. The adoption of SAB 108 did not have an impact on the Company's consolidated financial statements.

In February 2007, the FASB issued SFAS 159, "The Fair Value Option for Financial Assets and Financial Liabilities — Including an amendment of FASB Statement No. 115." SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. This statement is effective for the fiscal year beginning June 29, 2008. The Company does not expect the adoption of SFAS 159 to have a material impact on the Company's consolidated financial statements.

### Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The market risk inherent in our financial instruments represents the potential loss in fair value, earnings or cash flows arising from adverse changes in interest rates or foreign currency exchange rates. Coach manages these exposures through operating and financing activities and, when appropriate, through the use of

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derivative financial instruments with respect to Coach Japan. The use of derivative financial instruments is in accordance with Coach's risk management policies. Coach does not enter into derivative transactions for speculative or trading purposes.

The following quantitative disclosures are based on quoted market prices obtained through independent pricing sources for the same or similar types of financial instruments, taking into consideration the underlying terms and maturities and theoretical pricing models. These quantitative disclosures do not represent the maximum possible loss or any expected loss that may occur, since actual results may differ from those estimates.

### **Foreign Currency Exchange**

Foreign currency exposures arise from transactions, including firm commitments and anticipated contracts, denominated in a currency other than the entity's functional currency, and from foreign-denominated revenues and expenses translated into U.S. dollars.

Substantially all of Coach's fiscal 2007 non-licensed product needs were purchased from independent manufacturers in countries other than the United States. These countries include China, India, Hungary, Indonesia, Italy, Korea, Mauritius, Singapore, Spain, Taiwan and Turkey. Additionally, sales are made through international channels to third party distributors. Substantially all purchases and sales involving international parties, excluding Coach Japan, are denominated in U.S. dollars and, therefore, are not subject to foreign currency exchange risk.

In Japan, Coach is exposed to market risk from foreign currency exchange rate fluctuations as a result of Coach Japan's U.S. dollar denominated inventory purchases. Coach Japan enters into certain foreign currency derivative contracts, primarily zero-cost collar options, to manage these risks. The foreign currency contracts entered into by the Company have durations no greater than 12 months. As of June 30, 2007 and July 1, 2006, open foreign currency forward contracts designated as hedges with a notional amount of \$111.1 million and \$114.8 million, respectively, were outstanding.

Coach is also exposed to market risk from foreign currency exchange rate fluctuations with respect to Coach Japan as a result of its \$231 million U.S. dollar denominated fixed rate intercompany loan from Coach. To manage this risk, on July 1, 2005, Coach Japan entered into a cross currency swap transaction, the terms of which include an exchange of a U.S. dollar fixed interest rate for a yen fixed interest rate. The loan matures in 2010, at which point the swap requires an exchange of yen and U.S. dollar based principals.

The fair values of open foreign currency derivatives included in current assets at June 30, 2007 and July 1, 2006 were \$23.3 million and \$2.6 million, respectively. The fair value of these contracts is sensitive to changes in yen exchange rates.

Coach believes that exposure to adverse changes in exchange rates associated with revenues and expenses of foreign operations, which are denominated in Japanese Yen and Canadian Dollars, are not material to the Company's consolidated financial statements.

### **Interest Rate**

Coach is exposed to interest rate risk in relation to its investments, revolving credit facilities and long-term debt.

The Company's investment portfolio is maintained in accordance with the Company's investment policy, which identifies allowable investments, specifies credit quality standards and limits the credit exposure of any single issuer. The primary objective of our investment activities is the preservation of principal while maximizing interest income and minimizing risk. We do not hold any investments for trading purposes. The Company's investment portfolio consists of U.S. government and agency securities as well as municipal government and corporate debt securities. As the Company has both the ability and intent to hold these securities until maturity, investments are classified as held-to-maturity and stated at amortized cost, except for auction rate securities, which are classified as available-for-sale. At June 30, 2007, the Company's short term investments consisted of \$628.9 million of auction rate securities. As auction rate securities' market price equals its fair value, there are no unrealized gains or losses associated with these investments.

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As of June 30, 2007, the Company did not have any outstanding borrowings on its revolving credit facilities and the Company does not expect to borrow against the facilities in the foreseeable future. However, the fair value of any outstanding borrowings in the future may be impacted by fluctuations in interest rates.

As of June 30, 2007, Coach's outstanding long-term debt, including the current portion, was \$3.1 million. A hypothetical 10% change in the interest rate applied to the fair value of debt would not have a material impact on earnings or cash flows of Coach.

### **Item 8. Financial Statements and Supplementary Data**

See "Index to Financial Statements," which is located on page [36](#) of this report.

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

None.

### **Item 9A. Controls and Procedures**

#### **Disclosure Controls and Procedures**

Based on the evaluation of the Company's disclosure controls and procedures, as that term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended, each of Lew Frankfort, the Chief Executive Officer of the Company, and Michael F. Devine, III, the Chief Financial Officer of the Company, has concluded that the Company's disclosure controls and procedures are effective as of June 30, 2007.

#### **Management's Report on Internal Control over Financial Reporting**

The Company's management is responsible for establishing and maintaining adequate internal controls over financial reporting. The Company's internal control system was designed to provide reasonable assurance to the Company's management and board of directors regarding the preparation and fair presentation of published financial statements. Management evaluated the effectiveness



of the Company's internal control over financial reporting using the criteria set forth by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission in *Internal Control-Integrated Framework*. Management, under the supervision and with the participation of the Company's Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of the Company's internal control over financial reporting as of June 30, 2007 and concluded that it is effective.

The Company's independent auditors have issued an audit report on management's assessment of the effectiveness of internal control over financial reporting and on the Company's internal control over financial reporting. This report appears on page [38](#).

#### **Changes in Internal Control over Financial Reporting**

There were no changes in internal control over financial reporting that occurred during the fourth fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

#### **Item 9B. Other Information**

None.

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## **PART III**

### **Item 10. Directors, Executive Officers and Corporate Governance**

The information set forth in the Proxy Statement for the 2007 Annual Meeting of Stockholders is incorporated herein by reference. The Proxy Statement will be filed with the Commission within 120 days after the end of the fiscal year covered by this Form 10-K pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended.

### **Item 11. Executive Compensation**

The information set forth in the Proxy Statement for the 2007 Annual Meeting of Stockholders is incorporated herein by reference. The Proxy Statement will be filed with the Commission within 120 days after the end of the fiscal year covered by this Form 10-K pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended.

### **Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

(a) Security ownership of management set forth in the Proxy Statement for the 2007 Annual Meeting of Stockholders is incorporated herein by reference.

(b) There are no arrangements known to the registrant that may at a subsequent date result in a change in control of the registrant.

The Proxy Statement will be filed with the Commission within 120 days after the end of the fiscal year covered by this Form 10-K pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended.

### **Item 13. Certain Relationships and Related Transactions, and Director Independence**

The information set forth in the Proxy Statement for the 2007 Annual Meeting of Stockholders is incorporated herein by reference. The Proxy Statement will be filed with the Commission within 120 days after the end of the fiscal year covered by this Form 10-K pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended.

### **Item 14. Principal Accountant Fees and Services**

The information required by this item is incorporated herein by reference to the section entitled "Matters Relating to Coach's Independent Auditors" in the Proxy Statement for the 2007 Annual Meeting of Stockholders.

## **PART IV**

### **Item 15. Exhibits and Financial Statement Schedules**

(a) Financial Statements and Financial Statement Schedules

See "Index to Financial Statements" which is located on page [36](#) of this report.

(b) Exhibits. See the exhibit index which is included herein.

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## **SIGNATURES**

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

**COACH, INC.**

Date: August 23, 2007

By: /s/ Lew Frankfort

Name: Lew Frankfort  
Title: Chairman and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated below on August 23, 2007.

<u>Signature</u>	<u>Title</u>
<u>/s/ Lew Frankfort</u>	Chairman, Chief Executive Officer and Director
<u>Lew Frankfort</u>	
<u>/s/ Keith Monda</u>	President, Chief Operating Officer and Director
<u>Keith Monda</u>	
<u>/s/ Michael F. Devine, III</u>	Executive Vice President and Chief Financial Officer
<u>Michael F. Devine, III</u>	(as principal financial officer and principal accounting officer of Coach)
<u>/s/ Susan Kropf</u>	Director
<u>Susan Kropf</u>	
<u>/s/ Gary Loveman</u>	Director
<u>Gary Loveman</u>	
<u>/s/ Ivan Menezes</u>	Director
<u>Ivan Menezes</u>	
<u>/s/ Irene Miller</u>	Director
<u>Irene Miller</u>	
<u>/s/ Michael Murphy</u>	Director
<u>Michael Murphy</u>	
<u>/s/ Jide Zeitlin</u>	Director
<u>Jide Zeitlin</u>	

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**  
**FORM 10-K**  
**FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2007**  
**COACH, INC.**  
**New York, New York 10001**

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<a href="#">Consolidated Statements of Income — For Fiscal Years Ended June 30, 2007, July 1, 2006 and July 2, 2005</a>	<a href="#">40</a>
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Financial Statement Schedules for the years ended June 30, 2007, July 1, 2006 and July 2, 2005:	
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All other schedules are omitted because they are not applicable or the required information is shown in the consolidated financial statements or notes thereto.

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of  
Coach, Inc.  
New York, New York

We have audited the accompanying consolidated balance sheets of Coach, Inc. and subsidiaries (the “Company”) as of June 30, 2007 and July 1, 2006, and the related consolidated statements of income, stockholders’ equity and cash flows for each of the three years in the period ended June 30, 2007. Our audits also included the consolidated financial statement schedule listed in the Index at Item 15. These consolidated financial statements and the consolidated financial statement schedule are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements and the consolidated financial statement schedule based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company at June 30, 2007 and July 1, 2006, and the consolidated results of their operations and their cash flows for each of the three years in the period ended June 30, 2007, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such consolidated financial statement schedule referred to above, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company’s internal control over financial reporting as of June 30, 2007, based on the criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated August 23, 2007 expressed an unqualified opinion on management’s assessment of the effectiveness of the Company’s internal control over financial reporting and an unqualified opinion on the effectiveness of the Company’s internal control over financial reporting.

/s/ Deloitte & Touche LLP

New York, New York  
August 23, 2007

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### **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of  
Coach, Inc.  
New York, New York

We have audited management’s assessment, included in the accompanying Management’s Report on Internal Control Over Financial Reporting, that Coach, Inc. and subsidiaries (the “Company”) maintained effective internal control over financial reporting as of June 30, 2007, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management’s assessment and an opinion on the effectiveness of the Company’s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management’s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company’s internal control over financial reporting is a process designed by, or under the supervision of, the company’s principal executive and principal financial officers, or persons performing similar functions, and effected by the company’s board of directors, management, and other personnel 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. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management’s assessment that the Company maintained effective internal control over financial reporting as of June 30, 2007, is fairly stated, in all material respects, based on the criteria established in Internal Control — Integrated Framework

issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of June 30, 2007, based on the criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and consolidated financial statement schedule as of and for the year ended June 30, 2007 of the Company and our report dated August 23, 2007 expressed an unqualified opinion on those consolidated financial statements and consolidated financial statement schedule.

/s/ Deloitte & Touche LLP

New York, New York  
August 23, 2007

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**COACH, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
**(amounts in thousands, except share data)**

	June 30, 2007	July 1, 2006
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 556,956	\$ 143,388
Short-term investments	628,860	394,177
Trade accounts receivable, less allowances of \$6,579 and \$6,000, respectively	107,814	84,361
Inventories	291,192	233,494
Deferred income taxes	68,305	78,019
Prepays and other current assets	87,069	41,043
<b>Total current assets</b>	<b>1,740,196</b>	<b>974,482</b>
Property and equipment, net	368,461	298,531
Goodwill	213,794	227,811
Indefinite life intangibles	11,865	12,007
Deferred income taxes	86,046	84,077
Other noncurrent assets	29,150	29,612
<b>Total assets</b>	<b>\$2,449,512</b>	<b>\$ 1,626,520</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities:		
Accounts payable	\$ 109,309	\$ 79,819
Accrued liabilities	298,452	261,835
Current portion of long-term debt	235	170
<b>Total current liabilities</b>	<b>407,996</b>	<b>341,824</b>
Deferred income taxes	36,448	31,655
Long-term debt	2,865	3,100
Other liabilities	91,849	61,207
<b>Total liabilities</b>	<b>539,158</b>	<b>437,786</b>
Commitments and contingencies (Note 8)		
Stockholders' Equity:		
Preferred stock: (authorized 25,000,000 shares; \$0.01 par value) none issued	—	—
Common stock: (authorized 1,000,000,000 shares; \$0.01 par value) issued and outstanding — 372,521,112 and 369,830,906 shares, respectively	3,725	3,698
Additional paid-in-capital	978,664	775,209
Retained earnings	940,757	417,087
Accumulated other comprehensive loss	(12,792)	(7,260)
<b>Total stockholders' equity</b>	<b>1,910,354</b>	<b>1,188,734</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$2,449,512</b>	<b>\$ 1,626,520</b>

*See accompanying Notes to Condensed Consolidated Financial Statements.*

**COACH, INC.**  
**CONSOLIDATED STATEMENTS OF INCOME**  
(amounts in thousands, except per share data)

	Fiscal Year Ended		
	June 30, 2007	July 1, 2006	July 2, 2005
Net sales	\$2,612,456	\$2,035,085	\$ 1,651,704
Cost of sales	589,470	453,518	384,153
Gross profit	2,022,986	1,581,567	1,267,551
Selling, general and administrative expenses	1,029,589	866,860	731,891
Operating income	993,397	714,707	535,660
Interest income, net	41,273	32,623	15,760
Income before provision for income taxes, minority interest and discontinued operations	1,034,670	747,330	551,420
Provision for income taxes	398,141	283,490	201,132
Minority interest, net of tax	—	—	13,641
Income from continuing operations	636,529	463,840	336,647
Income from discontinued operations, net of income taxes (Note 3)	27,136	30,437	21,965
<b>Net income</b>	<b>\$ 663,665</b>	<b>\$ 494,277</b>	<b>\$ 358,612</b>
Net income per share			
Basic			
Continuing operations	\$ 1.72	\$ 1.22	\$ 0.89
Discontinued operations	0.07	0.08	0.06
Net income	\$ 1.80	\$ 1.30	\$ 0.95
Diluted			
Continuing operations	\$ 1.69	\$ 1.19	\$ 0.86
Discontinued operations	0.07	0.08	0.06
Net income	\$ 1.76	\$ 1.27	\$ 0.92
Shares used in computing net income per share			
Basic	369,661	379,635	378,670
Diluted	377,356	388,495	390,191

*See accompanying Notes to Condensed Consolidated Financial Statements.*

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**COACH, INC.**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
(amounts in thousands)

	Total Stockholders' Equity	Preferred Stockholders' Equity	Common Stockholders' Equity	Additional Paid-in- Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income (Loss)	Shares of Common Stock
Balances at July 3, 2004	\$ 796,036	\$ —	\$ 3,792	\$ 420,718	\$ 369,331	\$ 2,195	\$ —	379,236
Net income	358,612	—	—	—	358,612	—	358,612	—
Shares issued for stock options and employee benefit plans	42,988	—	102	42,886	—	—	—	10,194
Share-based compensation	55,880	—	—	55,880	—	—	—	—
Excess tax benefit from share-based compensation	68,667	—	—	68,667	—	—	—	—
Repurchase of common stock	(264,971)	—	(110)	(21,889)	(242,972)	—	—	(11,000)
Changes in derivatives balances, net of tax	1,229	—	—	—	—	1,229	1,229	—
Translation adjustments	(2,331)	—	—	—	—	(2,331)	(2,331)	—
Minimum pension liability	(190)	—	—	—	—	(190)	(190)	—
Comprehensive income	—	—	—	—	—	—	357,320	—
Balances at July 2, 2005	1,055,920	—	3,784	566,262	484,971	903	—	378,430
Net income	494,277	—	—	—	494,277	—	494,277	—
Shares issued for stock options and employee benefit plans	78,444	—	105	78,339	—	—	—	10,456
Share-based compensation	69,190	—	—	69,190	—	—	—	—
Excess tax benefit from share-based compensation	99,337	—	—	99,337	—	—	—	—
Repurchase of common stock	(600,271)	—	(191)	(37,919)	(562,161)	—	—	(19,055)
Changes in derivatives balances, net of tax	(4,488)	—	—	—	—	(4,488)	(4,488)	—
Translation adjustments	(3,780)	—	—	—	—	(3,780)	(3,780)	—
Minimum pension liability	105	—	—	—	—	105	105	—
Comprehensive income	—	—	—	—	—	—	486,114	—
Balances at July 1, 2006	1,188,734	—	3,698	775,209	417,087	(7,260)	—	369,831
Net income	663,665	—	—	—	663,665	—	663,665	—
Shares issued for stock options and employee benefit plans	108,318	—	77	108,241	—	—	—	7,692
Share-based compensation	56,726	—	—	56,726	—	—	—	—

Excess tax benefit from share-based compensation	65,100	—	—	65,100	—	—		
Adjustment to excess tax benefit from share-based compensation	(16,658)	—	—	(16,658)	—	—		
Repurchase of common stock	(149,999)	—	(50)	(9,954)	(139,995)	—		(5,002)
Changes in derivatives balances, net of tax	4,708	—	—	—	—	4,708	4,708	
Translation adjustments	(9,944)	—	—	—	—	(9,944)	(9,944)	
Minimum pension liability	(58)	—	—	—	—	(58)	(58)	
Adjustment to initially apply SFAS 158, net of tax	(238)	—	—	—	—	(238)		
Comprehensive income							\$ 658,371	
Balances at June 30, 2007	\$ 1,910,354	\$ —	\$ 3,725	\$ 978,664	\$ 940,757	\$ (12,792)		372,521

See accompanying Notes to Consolidated Financial Statements.

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**COACH, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(amounts in thousands)**

	Fiscal Year Ended		
	June 30, 2007	July 1, 2006	July 2, 2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income	\$ 663,665	\$ 494,277	\$ 358,612
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation and amortization	80,887	65,115	50,400
Provision for bad debt	1,845	252	41
Minority interest	—	—	13,641
Share-based compensation	56,726	69,190	55,880
Excess tax benefit from share-based compensation	(65,100)	(99,337)	(68,667)
Decrease (increase) in deferred tax assets	7,745	(56,731)	(54,990)
(Decrease) increase in deferred tax liabilities	(1,107)	33,788	(8,428)
Other, net	(5,375)	(14,723)	3,881
Changes in operating assets and liabilities:			
Increase in trade accounts receivable	(25,298)	(19,214)	(9,716)
Increase in inventories	(57,698)	(49,075)	(22,506)
Increase in other assets	(33,463)	(6,130)	(14,885)
Increase in other liabilities	30,382	19,307	23,820
Increase in accounts payable	29,490	14,834	20,214
Increase in accrued liabilities	96,403	145,050	128,299
Net cash provided by operating activities	<u>779,102</u>	<u>596,603</u>	<u>475,596</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of property and equipment	(140,872)	(133,876)	(94,592)
Acquisition of joint venture	—	—	(228,431)
Proceeds from dispositions of property and equipment	156	237	18
Purchases of investments	(920,999)	(1,195,934)	(379,530)
Proceeds from maturities of investments	685,789	1,148,618	330,703
Net cash used in investing activities	<u>(375,926)</u>	<u>(180,955)</u>	<u>(371,832)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Repurchase of common stock	(149,999)	(600,271)	(264,971)
Distribution of earnings to joint venture shareholders	—	—	(57,403)
Repayment of joint venture partner contribution	—	—	(15,524)
Repayment of long-term debt	(170)	(150)	(115)
Borrowings on revolving credit facility	57,048	58,512	359,503
Repayments of revolving credit facility	(57,048)	(70,804)	(348,910)
Proceeds from exercise of stock options	112,119	86,550	46,835
Excess tax benefit from share-based compensation	65,100	99,337	68,667
Adjustment to excess tax benefit from share-based compensation	(16,658)	—	—
Net cash provided by (used in) financing activities	<u>10,392</u>	<u>(426,826)</u>	<u>(211,918)</u>
Increase (decrease) in cash and cash equivalents	413,568	(11,178)	(108,154)
Cash and cash equivalents at beginning of year	143,388	154,566	262,720
Cash and cash equivalents at end of year	<u>\$ 556,956</u>	<u>\$ 143,388</u>	<u>\$ 154,566</u>
Cash paid for income taxes	<u>\$ 370,189</u>	<u>\$ 205,451</u>	<u>\$ 162,702</u>
Cash paid for interest	<u>\$ 1,099</u>	<u>\$ 1,155</u>	<u>\$ 238</u>
Noncash investing activity — property and equipment obligations	<u>\$ 31,537</u>	<u>\$ 22,349</u>	<u>\$ —</u>

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**COACH, INC.**  
**Notes to Consolidated Financial Statements**  
**(dollars and shares in thousands, except per share data)**

**1. Nature of Operations**

Coach, Inc. (the “Company”) designs and markets high-quality, modern American classic accessories. The Company’s primary product offerings, manufactured by third-party suppliers, include handbags, women’s and men’s accessories, footwear, outerwear, business cases, sunwear, watches, travel bags, jewelry and fragrance. Coach’s products are sold through its Direct-to-Consumer segment, which includes Company-operated stores in North America and Japan, its online store and its catalogs, as well as through its Indirect segment, which includes department store locations in the United States, international department stores, freestanding retail locations and specialty retailers.

**2. Significant Accounting Policies****Fiscal Year**

The Company’s fiscal year ends on the Saturday closest to June 30. Unless otherwise stated, references to years in the financial statements relate to fiscal years. The fiscal years ended June 30, 2007 (“fiscal 2007”), July 1, 2006 (“fiscal 2006”) and July 2, 2005 (“fiscal 2005”) were each 52-week periods.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported amounts of revenues and expenses during the reporting period. The level of uncertainty in estimates and assumptions increases with the length of time until the underlying transactions are completed. Actual results could differ from estimates in amounts that may be material to the financial statements.

**Principles of Consolidation**

The consolidated financial statements include the accounts of the Company and all subsidiaries under the control of the Company, including Coach Japan, Inc. All significant intercompany transactions and balances are eliminated in consolidation.

**Cash and Cash Equivalents**

Cash and cash equivalents consist of cash balances and highly liquid investments with a maturity of less than 90 days at the date of purchase.

**Investments**

Investments consist of U.S. government and agency debt securities as well as municipal government and corporate debt securities. These securities are classified as held-to-maturity, as the Company has both the ability and the intent to hold these securities until maturity, except for auction rate securities, which are classified as available-for-sale. Investments classified as held-to-maturity are recorded at amortized cost. Premiums are amortized and discounts are accreted over the lives of the related securities as adjustments to interest income. Investments classified as available-for-sale are recorded at fair value with unrealized gains and losses recorded in other comprehensive income. Dividend and interest income are recognized when earned.

**Concentration of Credit Risk**

Financial instruments that potentially expose Coach to concentration of credit risk consist primarily of cash investments and accounts receivable. The Company places its cash investments with high-credit quality financial institutions and currently invests primarily in U.S. government and agency debt securities, municipal government and corporate debt securities, and bank money market funds placed with major banks and financial institutions. Accounts receivable is generally diversified due to the number of entities comprising Coach’s customer base and their dispersion across many geographical regions. The Company believes no significant concentration of credit risk exists with respect to these cash investments and accounts receivable.

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**COACH, INC.**  
**Notes to Consolidated Financial Statements**  
**(dollars and shares in thousands, except per share data)**

**2. Significant Accounting Policies – (continued)****Inventories**

Inventories consist primarily of finished goods. U.S. inventories are valued at the lower of cost (determined by the first-in, first-out method (“FIFO”)) or market. Inventories in Japan are valued at the lower of cost (determined by the last-in, first-out method (“LIFO”)) or market. At the end of fiscal 2007, inventories recorded at LIFO were \$3,251 higher than if they were valued at FIFO.

At the end of fiscal 2006, inventories recorded at LIFO were \$911 lower than if they were valued at FIFO. Inventories valued under LIFO amounted to \$49,301 and \$54,651 in fiscal 2007 and 2006, respectively. Inventory costs include material, conversion costs, freight and duties.

### **Property and Equipment**

Property and equipment are stated at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets. Machinery and equipment are depreciated over lives of five to seven years and furniture and fixtures are depreciated over lives of three to five years. Leasehold improvements are amortized over the shorter of their estimated useful lives or the related lease terms. Maintenance and repair costs are charged to earnings as incurred while expenditures for major renewals and improvements are capitalized. Upon the disposition of property and equipment, the cost and related accumulated depreciation are removed from the accounts.

### **Operating Leases**

The Company's leases for office space, retail stores and the distribution facility are accounted for as operating leases. The majority of the Company's lease agreements provide for tenant improvement allowances, rent escalation clauses and/or contingent rent provisions. Tenant improvement allowances are recorded as a deferred lease credit on the balance sheet and amortized over the lease term, which is consistent with the amortization period for the constructed assets. Rent expense is recorded when the Company takes possession of a store to begin its buildout, which generally occurs before the stated commencement of the lease term and is approximately 60 to 90 days prior to the opening of the store.

### **Goodwill and Other Intangible Assets**

Goodwill and indefinite life intangible assets are evaluated for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The Company performed an impairment evaluation in fiscal 2007, 2006 and 2005 and concluded that there was no impairment of its goodwill or indefinite life intangible assets.

### **Valuation of Long-Lived Assets**

Long-lived assets, such as property and equipment, are evaluated for impairment annually to determine if the carrying value of the assets is recoverable. The evaluation is based on a review of forecasted operating cash flows and the profitability of the related business. An impairment loss is recognized if the forecasted cash flows are less than the carrying amount of the asset. The Company performed an impairment evaluation in fiscal 2007, 2006 and 2005 and concluded that there was no impairment of its long-lived assets.

### **Revenue Recognition**

Sales are recognized at the point of sale, which occurs when merchandise is sold in an over-the-counter consumer transaction or, for the wholesale, Internet and catalog channels, upon shipment of merchandise, when title passes to the customer. Revenue associated with gift cards is recognized upon redemption. The Company estimates the amount of gift cards that will not be redeemed and records such amounts as revenue over the period of the performance obligation. Allowances for estimated uncollectible accounts, discounts and returns are provided when sales are recorded. Royalty revenues are earned through license agreements with

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### **COACH, INC.** **Notes to Consolidated Financial Statements** **(dollars and shares in thousands, except per share data)**

#### **2. Significant Accounting Policies – (continued)**

manufacturers of other consumer products that incorporate the Coach brand. Revenue earned under these contracts is recognized based upon reported sales from the licensee. Taxes collected from customers and remitted to governmental authorities are recorded on a net basis and therefore excluded from revenue.

#### **Advertising**

Advertising costs include expenses related to direct marketing activities, such as catalogs, as well as media and production costs. In fiscal 2007, 2006 and 2005, advertising expenses totaled \$47,287, \$35,887 and \$39,038, respectively, and are included in selling, general and administrative expenses. Advertising costs are expensed when the advertising first appears.

#### **Share-Based Compensation**

The Company measures the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. The grant-date fair value of the award is recognized as compensation expense over the vesting period.

#### **Shipping and Handling**

Shipping and handling costs incurred were \$28,142, \$19,927 and \$16,188 in fiscal years 2007, 2006 and 2005, respectively, and are included in selling, general and administrative expenses.

#### **Income Taxes**

The Company accounts for income taxes in accordance with SFAS 109, "Accounting for Income Taxes." Under SFAS 109, a deferred tax liability or asset is recognized for the estimated future tax consequences of temporary differences between the carrying



amounts of assets and liabilities in the financial statements and their respective tax bases. Coach does not provide for U.S. income taxes on the unremitted earnings of its foreign subsidiaries as the Company intends to permanently reinvest these earnings.

### **Minority Interest in Subsidiary**

Minority interest in the statements of income represents Sumitomo Corporation's share of the earnings in Coach Japan prior to the July 1, 2005 purchase of Sumitomo's 50% interest in Coach Japan.

### **Fair Value of Financial Instruments**

The Company has evaluated its Industrial Revenue Bond and believes, based on the interest rate, related term and maturity, that the fair value of such instrument approximates its carrying amount. As of June 30, 2007 and July 1, 2006, the carrying values of cash and cash equivalents, investments, trade accounts receivable, accounts payable and accrued liabilities approximated their values due to the short-term maturities of these accounts. See Note 6, "Investments," for the fair values of the Company's investments as of June 30, 2007 and July 1, 2006.

Coach Japan enters into foreign currency contracts that hedge certain U.S. dollar denominated inventory purchases and its fixed rate intercompany loan. These contracts qualify for hedge accounting and have been designated as cash flow hedges. The fair value of these contracts is recorded in other comprehensive income and recognized in earnings in the period in which the hedged item is also recognized in earnings. The fair value of the foreign currency derivative is based on its market value as determined by an independent party. However, considerable judgment is required in developing estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that Coach could settle in a current market exchange. The use of different market assumptions or methodologies could affect the estimated fair value.

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### **COACH, INC.** **Notes to Consolidated Financial Statements** **(dollars and shares in thousands, except per share data)**

## **2. Significant Accounting Policies – (continued)**

### **Foreign Currency**

The functional currency of the Company's foreign operations is the applicable local currency. Assets and liabilities are translated into U.S. dollars using the current exchange rates in effect at the balance sheet date, while revenues and expenses are translated at the weighted-average exchange rates for the period. The resulting translation adjustments are recorded as a component of accumulated other comprehensive income (loss) within stockholders' equity.

### **Net Income Per Share**

Basic net income per share is calculated by dividing net income by the weighted-average number of shares outstanding during the period. Diluted net income per share is calculated similarly but includes potential dilution from the exercise of stock options and stock awards.

### **Recent Accounting Pronouncements**

In February 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") 155, "Accounting for Certain Hybrid Financial Instruments — an amendment of FASB Statements 133 and 140." SFAS 155 permits fair value measurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. This statement is effective for all financial instruments acquired or issued after July 1, 2007. The Company does not expect the adoption of SFAS 155 to have a material impact on the Company's consolidated financial statements.

In June 2006, the FASB ratified the consensus reached on Emerging Issues Task Force ("EITF") Issue 06-3, "How Taxes Collected From Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That is, Gross versus Net Presentation)." EITF 06-3 requires disclosure of a company's accounting policy with respect to presentation of taxes collected on a revenue producing transaction between a seller and a customer. For taxes that are reported on a gross basis (included in revenues and costs), EITF 06-3 also requires disclosure of the amount of taxes included in the financial statements. EITF 06-3 was effective for the interim reporting period that began on December 31, 2006. As the Company did not modify its accounting policy of recording sales taxes collected on a net basis, the adoption of EITF 06-3 did not have an impact on the Company's consolidated financial statements.

In June 2006, the FASB issued FIN 48, "Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement 109," which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS 109, "Accounting for Income Taxes." FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 is effective for the fiscal year beginning on July 1, 2007. The Company is currently evaluating the impact of FIN 48 on the Company's consolidated financial statements.

In September 2006, the FASB issued SFAS 157, "Fair Value Measurements." SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. This statement is effective for the fiscal year beginning on July 1, 2007. The Company does not expect the adoption of SFAS 157 to have a material impact on the Company's consolidated financial statements.

In September 2006, the FASB issued SFAS 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment of FASB Statements No. 87, 88, 106 and 132(R)." SFAS 158 requires an employer to recognize the funded status of a benefit plan, measured as the difference between plan assets at fair value and the projected benefit obligation, in its statement of financial position. SFAS 158 also requires an employer to measure defined benefit plan assets and

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**COACH, INC.**  
**Notes to Consolidated Financial Statements**  
**(dollars and shares in thousands, except per share data)**

**2. Significant Accounting Policies – (continued)**

fiscal year ended June 30, 2007, except for the requirement to measure plan assets and obligations as of the date of the employer's fiscal year-end statement of financial position, which is effective for the fiscal year ending June 27, 2009. The impact of adopting SFAS 158 is described in Note 12.

In September 2006, the SEC issued Staff Accounting Bulletin ("SAB") No. 108, "Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements." SAB 108 states that SEC registrants should use both a balance sheet approach and an income statement approach when quantifying and evaluating the materiality of a misstatement, contains guidance on correcting errors under the dual approach and provides transition guidance for correcting errors existing in prior years. SAB 108 is effective for annual financial statements covering the fiscal year ended June 30, 2007. The adoption of SAB 108 did not have an impact on the Company's consolidated financial statements.

In February 2007, the FASB issued SFAS 159, "The Fair Value Option for Financial Assets and Financial Liabilities — Including an amendment of FASB Statement No. 115." SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. This statement is effective for the fiscal year beginning June 29, 2008. The Company does not expect the adoption of SFAS 159 to have a material impact on the Company's consolidated financial statements.

**3. Discontinued Operations**

In March 2007, the Company exited its corporate accounts business in order to better control the location and image of the brand where Coach product is sold. Through the corporate accounts business, Coach sold products primarily to distributors for gift-giving and incentive programs. The results of the corporate accounts business, previously included in the Indirect segment, have been segregated from continuing operations and reported as discontinued operations in the Consolidated Statements of Income for all periods presented. As the Company uses a centralized approach to cash management, interest income was not allocated to the corporate accounts business. The following table summarizes results of the corporate accounts business:

	Fiscal Year Ended		
	June 30, 2007	July 1, 2006	July 2, 2005
Net sales	\$ 66,463	\$ 76,416	\$ 58,719
Income before provision for income taxes	44,483	49,897	36,903
Income from discontinued operations	27,136	30,437	21,965

The consolidated balance sheet at June 30, 2007 includes approximately \$71 of accounts receivable, net and approximately \$2,254 of accrued liabilities, related to the corporate accounts business. The net book value of the fixed assets related to the corporate accounts business was \$0 prior to the exiting of the business. Accordingly, no gain or loss was recognized upon disposal of the fixed assets. The Consolidated Statement of Cash Flows includes the corporate accounts business for all periods presented.

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**COACH, INC.**  
**Notes to Consolidated Financial Statements**  
**(dollars and shares in thousands, except per share data)**

**4. Share-Based Compensation**

The Company maintains several share-based compensation plans which are more fully described below. The following table shows the total compensation cost charged against income for these plans and the related tax benefits recognized in the income statement:

	Fiscal Year Ended		
	June 30, 2007	July 1, 2006	July 2, 2005
Share-based compensation expense	\$ 56,726	\$ 69,190	\$ 55,880
Income tax benefit related to share-based compensation expense	22,071	27,191	21,793

The above amounts include \$486, \$1,290 and \$797 of share-based compensation expense and \$187, \$503 and \$311 of related income tax benefit related to discontinued operations in fiscal years 2007, 2006 and 2005, respectively.

**Coach Stock-Based Plans**

Coach maintains the 2000 Stock Incentive Plan, the 2000 Non-Employee Director Stock Plan and the 2004 Stock Incentive Plan to award stock options, shares and other forms of equity compensation to certain members of Coach management and the outside members of its Board of Directors. These plans were approved by Coach's stockholders. The exercise price of each stock option equals the market price of Coach's stock on the date of grant and generally has a maximum term of 10 years. Options generally vest ratably over three years. Share awards are restricted and subject to forfeiture until the retention period is completed. The retention period is generally three years.

For options granted under Coach's stock option plans prior to July 1, 2003, an active employee can receive a replacement stock option equal to the number of shares surrendered upon a stock-for-stock exercise. The exercise price of the replacement option equals 100% of the market value at the date of exercise of the original option and will remain exercisable for the remaining term of the original option. Replacement stock options generally vest six months from the grant date. Replacement stock options of 1,462, 5,378 and 7,029 were granted in fiscal 2007, 2006 and 2005, respectively.

### Stock Options

A summary of option activity under the Coach stock option plans as of June 30, 2007 and changes during the year then ended is as follows:

	Number of Options Outstanding	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (In Years)	Aggregate Intrinsic Value
Outstanding at July 1, 2006	30,817	\$ 23.48		
Granted	7,727	33.44		
Exercised	(8,272)	18.25		
Forfeited or expired	(896)	30.10		
Outstanding at June 30, 2007	<u>29,376</u>	\$ 27.36	6.70	\$ 589,214
Exercisable at June 30, 2007	<u>12,309</u>	\$ 24.67	5.09	\$ 279,613

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**COACH, INC.**  
**Notes to Consolidated Financial Statements**  
**(dollars and shares in thousands, except per share data)**

#### 4. Share-Based Compensation – (continued)

The following table summarizes information about stock options under the Coach option plans at June 30, 2007:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding at June 30, 2007	Weighted- Average Remaining Contractual Term (In Years)	Weighted- Average Exercise Price	Number Exercisable at June 30, 2007	Weighted- Average Exercise Price
\$2.00 – 5.00	557	3.84	\$ 4.09	557	\$ 4.09
\$5.01 – 10.00	891	5.15	6.39	891	6.39
\$10.01 – 20.00	7,679	6.55	15.78	3,806	15.78
\$20.01 – 30.00	7,293	8.01	29.30	1,589	27.81
\$30.01 – 40.00	11,517	6.39	34.21	5,303	34.82
\$40.01 – 50.00	1,349	5.16	46.26	163	42.30
\$50.01 – 51.56	90	9.80	50.40	—	—
	<u>29,376</u>	6.70	\$ 27.36	<u>12,309</u>	\$ 24.67

The fair value of each Coach option grant is estimated on the date of grant using the Black-Scholes option pricing model and the following weighted-average assumptions:

	Fiscal Year Ended		
	June 30, 2007	July 1, 2006	July 2, 2005
Expected term (years)	2.2	2.6	1.4
Expected volatility	29.9%	35.0%	29.2%
Risk-free interest rate	4.9%	4.2%	2.6%
Dividend yield	—%	—%	—%

The expected term of options represents the period of time that the options granted are expected to be outstanding and is based on historical experience. Expected volatility is based on historical volatility of the Company's stock as well as the implied volatility from publicly traded options on Coach's stock. The risk free interest rate is based on the zero-coupon U.S. Treasury issue as of the date of the grant. As Coach does not pay dividends, the dividend yield is 0%.

The weighted-average grant-date fair value of options granted during fiscal 2007, 2006 and 2005 was \$7.12, \$8.49 and \$3.10, respectively. The total intrinsic value of options exercised during fiscal 2007, 2006 and 2005 was \$191,950, \$232,507 and \$201,232, respectively. The total cash received from these option exercises was \$112,119, \$86,550 and \$46,835 in fiscal 2007, 2006 and 2005, respectively, and the actual tax benefit realized for the tax deductions from these option exercises was \$69,496, \$88,534 and \$78,480, respectively.

At June 30, 2007, \$77,948 of total unrecognized compensation cost related to non-vested stock option awards is expected to be recognized over a weighted-average period of 1.5 years.

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**COACH, INC.**  
**Notes to Consolidated Financial Statements**  
(dollars and shares in thousands, except per share data)

**4. Share-Based Compensation – (continued)****Share Awards**

The grant-date fair value of each Coach share award is equal to the fair value of Coach stock at the grant date. The weighted-average grant-date fair value of shares granted during fiscal 2007, 2006 and 2005 was \$35.09, \$34.17 and \$22.96, respectively. The following table summarizes information about nonvested shares as of and for the year ended June 30, 2007:

	Number of Non-Vested Shares	Weighted- Average Grant-Date Fair Value
Nonvested at July 1, 2006	1,329	\$ 22.06
Granted	332	35.09
Vested	(294)	17.30
Forfeited	(41)	30.62
Nonvested at June 30, 2007	<u>1,326</u>	<u>\$ 26.10</u>

The total fair value of shares vested during fiscal 2007, 2006 and 2005 was \$11,558, \$28,932 and \$5,829, respectively. At June 30, 2007, \$15,387 of total unrecognized compensation cost related to nonvested share awards is expected to be recognized over a weighted-average period of 1.5 years.

The Company recorded an adjustment in the first quarter of fiscal 2007 to reduce additional paid-in-capital by \$16,658, with a corresponding increase to current liabilities, due to an excess tax benefit from share-based compensation overstatement in the fourth quarter of fiscal 2006. This immaterial adjustment is reflected within the cash flows from financing activities of the Consolidated Statement of Cash Flows.

**Employee Stock Purchase Plan**

Under the Employee Stock Purchase Plan, full-time Coach employees are permitted to purchase a limited number of Coach common shares at 85% of market value. Under this plan, Coach sold 159, 162 and 159 shares to employees in fiscal 2007, 2006 and 2005, respectively. Compensation expense is calculated for the fair value of employees' purchase rights using the Black-Scholes model and the following weighted-average assumptions:

	Fiscal Year Ended		
	June 30, 2007	July 1, 2006	July 2, 2005
Expected term (years)	0.5	0.5	0.5
Expected volatility	30.1%	25.7%	27.6%
Risk-free interest rate	5.1%	3.7%	2.8%
Dividend yield	—%	—%	—%

The weighted-average fair value of the purchase rights granted during fiscal 2007, 2006 and 2005 was \$8.72, \$6.64 and \$6.24, respectively.

**Deferred Compensation**

Under the Coach, Inc. Executive Deferred Compensation Plan, executive officers and certain employees at or above the senior director level may elect to defer all or a portion of their annual bonus or annual base salary into the plan. Under the Coach, Inc. Deferred Compensation Plan for Non-Employee Directors, Coach's outside directors may similarly defer their director's fees. Amounts deferred under these plans may, at the participants' election, be either represented by deferred stock units, which represent the right to receive shares of Coach common stock on the distribution date elected by the participant, or placed in an interest-bearing

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**COACH, INC.**  
**Notes to Consolidated Financial Statements**  
(dollars and shares in thousands, except per share data)

**4. Share-Based Compensation – (continued)**

account to be paid on such distribution date. The amounts accrued under these plans at June 30, 2007 and July 1, 2006 were \$1,922 and \$3,622, respectively, and are included within total liabilities in the consolidated balance sheets.

The following table summarizes share and exercise price information about Coach's equity compensation plans as of June 30, 2007:

	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants or Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans
Equity compensation plans approved by security holders	30,702	\$ 26.18	25,242
Equity compensation plans not approved by security holders	46	6.84	250
<b>Total</b>	<b>30,748</b>		<b>25,492</b>

## 5. Leases

Coach leases certain office, distribution and retail facilities. The lease agreements, which expire at various dates through 2020, are subject, in some cases, to renewal options and provide for the payment of taxes, insurance and maintenance. Certain leases contain escalation clauses resulting from the pass-through of increases in operating costs, property taxes and the effect on costs from changes in consumer price indices. Certain rentals are also contingent upon factors such as sales.

Rent-free periods and scheduled rent increases are recorded as components of rent expense on a straight-line basis over the related terms of such leases. Contingent rentals are recognized when the achievement of the target (i.e., sales levels), which triggers the related payment, is considered probable. Rent expense for the Company's operating leases consisted of the following:

	Fiscal Year Ended		
	June 30, 2007	July 1, 2006	July 2, 2005
Minimum rentals	\$ 83,006	\$ 77,376	\$ 73,283
Contingent rentals	24,452	16,380	12,101
<b>Total rent expense</b>	<b>\$ 107,458</b>	<b>\$ 93,756</b>	<b>\$ 85,384</b>

Future minimum rental payments under noncancelable operating leases are as follows:

Fiscal Year	Amount
2008	\$ 88,966
2009	89,344
2010	86,515
2011	83,904
2012	78,582
Subsequent to 2012	256,538
<b>Total minimum future rental payments</b>	<b>\$ 683,849</b>

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### COACH, INC. Notes to Consolidated Financial Statements (dollars and shares in thousands, except per share data)

#### 5. Leases – (continued)

Certain operating leases provide for renewal for periods of five to ten years at their fair rental value at the time of renewal. In the normal course of business, operating leases are generally renewed or replaced by new leases.

#### 6. Investments

The Company's investments consist of U.S. government and agency debt securities as well as municipal government and corporate debt securities. As the Company has both the ability and the intent to hold these securities until maturity, investments are classified as held-to-maturity and stated at amortized cost, except for auction rate securities, which are classified as available-for-sale. As of June 30, 2007 and July 1, 2006, available-for-sale securities were \$628,860 and \$253,650. The remaining investments as of July 1, 2006 were held-to-maturity. The following table shows the amortized cost, fair value, and unrealized gains and losses of the Company's investments:

	Fiscal Year Ended					
	June 30, 2007			July 1, 2006		
	Amortized Cost	Fair Value	Unrealized Loss	Amortized Cost	Fair Value	Unrealized Loss
<b>Short-term investments:</b>						
U.S. government and agency securities	\$ 25,000	\$ 25,000	\$ —	\$ 49,986	\$ 49,641	\$ (345)
Corporate debt securities	206,675	206,675	—	198,191	197,529	(662)
Municipal securities	397,185	397,185	—	146,000	146,000	—
<b>Short-term investments</b>	<b>\$628,860</b>	<b>\$628,860</b>	<b>\$ —</b>	<b>\$394,177</b>	<b>\$393,170</b>	<b>\$ (1,007)</b>

As of June 30, 2007 and July 1, 2006, all held-to-maturity investments had maturities of less than one year. Auction rate securities are included in short-term investments as they are intended to meet the short-term working capital needs of the Company and the Company can sell or roll them over at each 7, 28 or 35 day auction cycle.

#### 7. Debt

##### Revolving Credit Facilities

As of the end of fiscal 2007, the Company maintained a \$100,000 unsecured revolving credit facility with certain lenders and Bank of America, N.A. as primary lender and administrative agent (the "Bank of America facility"). At Coach's request, the Bank of America facility was able to be expanded to \$125,000. Coach paid a commitment fee of 10 to 25 basis points on any unused amounts of the Bank of America facility and interest of LIBOR plus 45 to 100 basis points on any outstanding borrowings. The initial commitment fee was 15 basis points and the initial LIBOR margin was 62.5 basis points. At June 30, 2007, the commitment fee was 10 basis points and the LIBOR margin was 45 basis points, reflecting an improvement in our fixed-charge coverage ratio. The facility was scheduled to expire on October 16, 2007.

On July 26, 2007 (subsequent to the end of fiscal 2007), the Company renewed the Bank of America facility, extending the facility expiration to July 26, 2012. At Coach's request, the renewed Bank of America facility can be expanded to \$200,000. The facility can also be extended for two additional one-year periods, at Coach's request. Under the renewed Bank of America facility, Coach will pay a commitment fee of 6 to 12.5 basis points on any unused amounts and interest of LIBOR plus 20 to 55 basis points on any outstanding borrowings.

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**7. Debt – (continued)**

The Bank of America facility is available for seasonal working capital requirements or general corporate purposes and may be prepaid without penalty or premium. During fiscal 2007 and fiscal 2006 there were no borrowings under the Bank of America facility. Accordingly, as of June 30, 2007 and July 1, 2006, there were no outstanding borrowings under the Bank of America facility.

The Bank of America facility contains various covenants and customary events of default. Coach has been in compliance with all covenants since its inception.

To provide funding for working capital and general corporate purposes, Coach Japan entered into credit facilities with several Japanese financial institutions. These facilities allow a maximum borrowing of 7.4 billion yen, or approximately \$60,000, at June 30, 2007. Interest is based on the Tokyo Interbank rate plus a margin of up to 50 basis points.

During fiscal 2007 and fiscal 2006, the peak borrowings under the Japanese credit facilities were \$25,518 and \$21,568, respectively. As of June 30, 2007 and July 1, 2006, outstanding borrowings under the Japanese credit facilities were \$0.

**Long-Term Debt**

Coach is party to an Industrial Revenue Bond related to its Jacksonville, Florida facility. This loan bears interest at 4.5%. Principal and interest payments are made semi-annually, with the final payment due in 2014. As of June 30, 2007 and July 1, 2006, the remaining balance on the loan was \$3,100 and \$3,270, respectively. Future principal payments under the Industrial Revenue Bond are as follows:

Fiscal Year	Amount
2008	\$ 235
2009	285
2010	335
2011	385
2012	420
Subsequent to 2012	1,440
<b>Total</b>	<b>\$ 3,100</b>

**8. Commitments and Contingencies**

At June 30, 2007 and July 1, 2006, the Company had letters of credit available of \$205,000 and \$155,000, of which \$115,575 and \$91,855, respectively, were outstanding. Of these amounts, \$13,236 and \$15,057, respectively, relate to the letter of credit obtained in connection with leases transferred to the Company by the Sara Lee Corporation, for which Sara Lee retains contingent liability. Coach expects that it will be required to maintain the letter of credit for approximately 10 years. The remaining letters of credit, which expire at various dates through 2012, primarily collateralize the Company's obligation to third parties for the purchase of inventory.

Coach is a party to employment agreements with certain key executives which provide for compensation and other benefits. The agreements also provide for severance payments under certain circumstances. The Company's employment agreements with Lew Frankfort, Chairman and Chief Executive Officer, Reed Krakoff, President and Executive Creative Director and Keith Monda, President and Chief Operating Officer run through August 2011. The Company's employment agreements with Michael Tucci, President, North America Retail Division and Michael F. Devine, III, Executive Vice President and Chief Financial Officer run through June 30, 2010.

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**8. Commitments and Contingencies – (continued)**

In addition to the employment agreements described above, other contractual cash obligations as of June 30, 2007 included \$134,690 related to inventory purchase obligations and \$2,482 related to capital expenditure purchase obligations.

In the ordinary course of business, Coach is a party to several pending legal proceedings and claims. Although the outcome of such items cannot be determined with certainty, Coach's general counsel and management are of the opinion that the final outcome will not have a material effect on Coach's cash flow, results of operations or financial position.

**9. Derivative Instruments and Hedging Activities**

In the ordinary course of business, Coach uses derivative financial instruments to hedge foreign currency exchange risk. Coach does not enter into derivative transactions for speculative or trading purposes.

Substantially all purchases and sales involving international parties are denominated in U.S. dollars, which limits the Company's exposure to foreign currency exchange rate fluctuations. However, the Company is exposed to market risk from foreign currency exchange rate fluctuations with respect to Coach Japan as a result of Coach Japan's U.S. dollar-denominated inventory purchases. Coach Japan enters into certain foreign currency derivative contracts, primarily zero-cost collar options, to manage these risks. These transactions are in accordance with the Company's risk management policies. As of June 30, 2007 and July 1, 2006, \$111,057 and \$114,825 of foreign currency forward contracts were outstanding. These foreign currency contracts entered into by the Company have durations no greater than 12 months. The effective portion of unrealized gains and losses on cash flow hedges are deferred as a component of accumulated other comprehensive income (loss) and recognized as a component of cost of sales when the related inventory is sold.

Coach is also exposed to market risk from foreign currency exchange rate fluctuations with respect to Coach Japan as a result of its \$231,000 U.S. dollar denominated fixed rate intercompany loan from Coach. To manage this risk, on July 1, 2005, Coach Japan entered into a cross currency swap transaction, the terms of which include an exchange of a U.S. dollar fixed interest rate for a yen fixed interest rate. The loan matures in 2010, at which point the swap requires an exchange of yen and U.S. dollar based principals.

The fair values of open foreign currency derivatives included in current assets at June 30, 2007 and July 1, 2006 were \$23,329 and \$2,578, respectively. Hedging activity affected accumulated other comprehensive income (loss), net of tax, as follows:

	Fiscal Year Ended	
	June 30, 2007	July 1, 2006
Balance at beginning of period	\$ (3,547)	\$ 941
Gains, net transferred to earnings	(2,724)	(3,543)
Change in fair value, net of tax expense	7,432	(945)
Balance at end of period	<u>\$ 1,161</u>	<u>\$ (3,547)</u>

The Company expects that \$4,637 of net derivative gains included in accumulated other comprehensive income (loss) at June 30, 2007 will be reclassified into earnings within the next 12 months. This amount will vary due to fluctuations in the yen exchange rate.

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**10. Goodwill and Other Intangible Assets**

The changes in the carrying amount of goodwill for the years ended June 30, 2007 and July 1, 2006 are as follows:

	Direct-to- Consumer	Indirect	Total
Balance at July 2, 2005	\$ 237,195	\$ 1,516	\$ 238,711
Coach Japan acquisition adjustment	(2,666)	—	(2,666)
Foreign exchange impact	(8,234)	—	(8,234)
Balance at July 1, 2006	226,295	1,516	227,811
Foreign exchange impact	(14,017)	—	(14,017)
Balance at June 30, 2007	<u>\$ 212,278</u>	<u>\$ 1,516</u>	<u>\$ 213,794</u>

The total carrying amount of intangible assets not subject to amortization is as follows:

	June 30, 2007	July 1, 2006
Trademarks	\$ 9,788	\$ 9,788
Workforce	2,077	2,219
Total Indefinite Life Intangible Assets	<u>\$ 11,865</u>	<u>\$ 12,007</u>

The \$142 decrease in the carrying amount of these intangible assets is due to currency translation.

**11. Income Taxes**

The provisions for income taxes computed by applying the U.S. statutory rate to income before taxes as reconciled to the actual provisions were:

	Fiscal Year Ended					
	June 30, 2007		July 1, 2006		July 2, 2005	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
Income before provision for income taxes, minority interest and discontinued operations:						
United States	\$ 936,413	90.5%	\$ 663,084	88.7%	\$ 498,545	90.4%
Foreign	98,257	9.5	84,246	11.3	52,875	9.6
Total income before provision for income taxes, minority interest and discontinued operations:	\$ 1,034,670	100.0%	\$ 747,330	100.0%	\$ 551,420	100.0%
Tax expense at U.S. statutory rate	\$ 362,135	35.0%	\$ 261,565	35.0%	\$ 192,997	35.0%
State taxes, net of federal benefit	38,910	3.8	27,164	3.6	29,287	5.3
Reversal of deferred U.S. taxes on foreign earnings	—	0.0	—	0.0	(16,247)	(2.9)
Foreign income subject to reduced tax rates	(13,892)	(1.3)	(11,548)	(1.5)	(4,458)	(0.8)
Other, net	10,988	1.0	6,309	0.8	(447)	(0.1)
Taxes at effective worldwide rates	\$ 398,141	38.5%	\$ 283,490	37.9%	\$ 201,132	36.5%

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**11. Income Taxes – (continued)**

Current and deferred tax provisions (benefits) were:

	Fiscal Year Ended					
	June 30, 2007		July 1, 2006		July 2, 2005	
	Current	Deferred	Current	Deferred	Current	Deferred
Federal	\$323,087	\$ (5,352)	\$245,203	\$ (19,381)	\$172,491	\$ (46,981)
Foreign	16,025	4,227	7,555	8,321	28,228	1,276
State	56,745	3,409	47,922	(6,130)	57,738	(11,620)
Total current and deferred tax provisions (benefits)	\$395,857	\$ 2,284	\$300,680	\$ (17,190)	\$258,457	\$ (57,325)

The following are the components of the deferred tax provisions (benefits) occurring as a result of transactions being reported in different years for financial and tax reporting:

	Fiscal Year Ended		
	June 30, 2007	July 1, 2006	July 2, 2005
<b>Deferred tax provisions (benefits)</b>			
Depreciation	\$ (5,699)	\$ 906	\$ (9,546)
Employee benefits	(209)	811	(2,945)
Advertising accruals	(1,012)	(508)	2
Nondeductible reserves	13,065	(11,209)	(25,888)
Earnings of foreign subsidiaries	—	—	(9,226)
Other, net	(3,861)	(7,190)	(9,722)
Total deferred tax provisions (benefits)	\$ 2,284	\$ (17,190)	\$ (57,325)

The deferred tax assets and liabilities at the respective year-ends were as follows:

	Fiscal Year Ended	
	June 30, 2007	July 1, 2006
<b>Deferred tax assets</b>		
Reserves not deductible until paid	\$ 101,658	\$ 116,374
Pension and other employee benefits	10,685	10,502
Property, plant and equipment	25,580	20,606
Net operating loss	11,514	7,156
Other	4,914	7,458
Total deferred tax assets	\$ 154,351	\$ 162,096
<b>Deferred tax liabilities</b>		
Equity adjustments	\$ 4,703	\$ 3,107
Goodwill	34,859	17,823
Other	481	20,222
Total deferred tax liabilities	\$ 40,043	\$ 41,152



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**COACH, INC.**  
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**11. Income Taxes – (continued)**

Significant judgment is required in determining the worldwide provision for income taxes, and there are many transactions for which the ultimate tax outcome is uncertain. It is the Company's policy to establish provisions for taxes that may become payable in future years as a result of an examination by tax authorities. The Company establishes the provisions based upon management's assessment of exposure associated with permanent tax differences and tax credits. The provisions are analyzed periodically and adjustments are made as events occur that warrant adjustments to those provisions.

**12. Retirement Plans****Defined Contribution Plan**

Coach maintains the Coach, Inc. Savings and Profit Sharing Plan, which is a defined contribution plan. Employees who meet certain eligibility requirements and are not part of a collective bargaining agreement may participate in this program. The annual expense incurred by Coach for this defined contribution plan was \$9,365, \$7,714 and \$8,621 in fiscal 2007, 2006 and 2005, respectively.

**Defined Benefit Plans**

Coach sponsors a noncontributory defined benefit plan, The Coach, Inc. Supplemental Pension Plan, (the "U.S. Plan") for individuals who are part of collective bargaining arrangements in the U.S. The U.S. Plan provides benefits based on years of service. Coach Japan sponsors a defined benefit plan for individuals who meet certain eligibility requirements. This plan provides benefits based on employees' years of service and earnings. The Company uses a March 31 measurement date for its defined benefit retirement plans.

In September 2006, the FASB issued SFAS 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment of FASB Statements No. 87, 88, 106 and 132(R)." SFAS 158 requires an employer to recognize the funded status of a benefit plan, measured as the difference between plan assets at fair value and the projected benefit obligation, in its statement of financial position. SFAS 158 also requires an employer to measure defined benefit plan assets and obligations as of the date of the employer's fiscal year-end statement of financial position. This statement is effective as of the end of the fiscal year ended June 30, 2007, except for the requirement to measure plan assets and obligations as of the date of the employer's fiscal year-end statement of financial position, which is effective for the fiscal year ending June 27, 2009. The following table shows the incremental effect of adopting SFAS 158 on individual line items within the Consolidated Balance Sheet as of June 30, 2007:

	Balance Before SFAS 158 Adoption	SFAS 158 Adoption Adjustment	Balance After SFAS 158 Adoption
<b>Amounts Recognized in the Consolidated Balance Sheet:</b>			
Deferred tax assets	\$ 85,883	\$ 163	\$ 86,046
Total assets	2,449,349	163	2,449,512
Other liabilities	91,448	401	91,849
Total liabilities	538,757	401	539,158
Accumulated other comprehensive loss, net of tax	(12,554)	(238)	(12,792)
Total stockholders' equity	1,910,592	(238)	1,910,354

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**12. Retirement Plans – (continued)**

	Fiscal Year Ended	
	June 30, 2007	July 1, 2006
<b>Change in Benefit Obligation</b>		
Benefit obligation at beginning of year	\$ 6,723	\$ 5,798
Service cost	721	357
Interest cost	353	333
Actuarial loss (gain)	508	(59)

Prior service cost	—	755
Foreign exchange impact	(92)	(25)
Benefits paid	(395)	(436)
Benefit obligation at end of year	<u>\$ 7,818</u>	<u>\$ 6,723</u>
<b>Change in Plan Assets</b>		
Fair value of plan assets at beginning of year	\$ 4,880	\$ 3,852
Actual return on plan assets	252	241
Employer contributions	231	1,223
Benefits paid	(395)	(436)
Fair value of plan assets at end of year	<u>\$ 4,968</u>	<u>\$ 4,880</u>
<b>Funded status</b>		
Funded status at end of year	\$ (2,850)	\$ (1,843)
Unrecognized net actuarial loss	N/A	2,286
Net amount recognized	N/A	<u>\$ 443</u>
<b>Amounts recognized in the Consolidated Balance Sheets</b>		
Accrued benefit cost	N/A	\$ (1,507)
Accumulated other comprehensive income	N/A	1,950
Net amount recognized	N/A	<u>\$ 443</u>
Current liabilities	\$ (123)	N/A
Noncurrent liabilities	(2,727)	N/A
Net amount recognized	<u>\$ (2,850)</u>	N/A
<b>Amounts recognized in Accumulated Other Comprehensive Income (Loss) consist of</b>		
Net actuarial loss	\$ 2,494	N/A
Accumulated benefit obligation	\$ 7,417	\$ 6,497
<b>Information for pension plans with an accumulated benefit obligation in excess of plan assets</b>		
Projected benefit obligation	\$ 7,818	\$ 6,723
Accumulated benefit obligation	7,417	6,497
Fair value of plan assets	4,968	4,880
<b>Weighted-average assumptions used to determine benefit obligations</b>		
Discount rate	5.02%	5.42%
Rate of compensation increase	2.60%	3.00%

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**12. Retirement Plans – (continued)**

	Fiscal Year Ended		
	June 30, 2007	July 1, 2006	July 2, 2005
<b>Components of net periodic benefit cost</b>			
Service cost	\$ 721	\$ 357	\$ 14
Interest cost	353	333	308
Expected return on plan assets	(307)	(255)	(181)
Amortization of net actuarial loss	217	313	190
Net periodic benefit cost	<u>\$ 984</u>	<u>\$ 748</u>	<u>\$ 331</u>
<b>Weighted-average assumptions used to determine net periodic benefit cost</b>			
Discount rate	5.42%	5.25%	6.00%
Expected long term return on plan assets	6.50%	6.75%	6.75%
Rate of compensation increase <sup>(1)</sup>	3.00%	3.00%	N/A

(1) Fiscal 2005 did not include the Coach Japan, Inc. plan. As the U.S. Plan provides benefits based on years of service only, the rate of compensation increase assumption was not applicable in fiscal 2005.

To develop the expected long-term rate of return on plan assets assumption, the Company considered the current level of expected returns on risk-free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected long-term rate of return on plan assets assumption for the portfolio. This resulted in the selection of the 6.50% assumption for the fiscal year ended June 30, 2007.

During fiscal 2008, approximately \$257 of actuarial loss will be amortized from accumulated other comprehensive income (loss) into net periodic benefit cost.

In the Company's U.S. Plan, funds are contributed to a trust in accordance with regulatory limits. The weighted-average asset allocations of the U.S. Plan, by asset category, as of the measurement dates, are as follows:

Asset Category	Plan Assets	
	Fiscal 2007	Fiscal 2006
Domestic equities	65.3%	61.3%
International equities	4.1	6.8
Fixed income	27.3	28.5
Cash equivalents	3.3	3.4
Total	100.0%	100.0%

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**12. Retirement Plans – (continued)**

The goals of the investment program are to fully fund the obligation to pay retirement benefits in accordance with the Coach, Inc. Supplemental Pension Plan and to provide returns which, along with appropriate funding from Coach, maintain an asset/liability ratio that is in compliance with all applicable laws and regulations and assures timely payment of retirement benefits. The target allocation range of percentages for each major category of plan assets are as follows:

	Minimum	Maximum
Equity securities	30%	70%
Fixed income	25%	55%
Cash equivalents	5%	25%

The equity securities category includes common stocks and co-mingled funds of approved securities. The target allocation of securities is a maximum of 5% of equity assets in any one individual common or preferred stock and a maximum of 15% in any one mutual fund.

Coach expects to contribute \$448 to its U.S. Plan during the year ending June 28, 2008. Coach Japan expects to contribute \$123 for benefit payments during the year ending June 28, 2008. The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

Fiscal Year	Pension Benefits
2008	\$ 451
2009	480
2010	548
2011	656
2012	694
2013 – 2017	3,791

**13. Segment Information**

The Company operates its business in two reportable segments: Direct-to-Consumer and Indirect. The Company's reportable segments represent channels of distribution that offer similar merchandise, service and marketing strategies. Sales of Coach products through Company-operated stores in North America and Japan, the Internet and the Coach catalog constitute the Direct-to-Consumer segment. The Indirect segment includes sales of Coach products to other retailers and royalties earned on licensed products. In deciding how to allocate resources and assess performance, Coach's executive officers regularly evaluate the sales and operating income of these segments. Operating income is the gross margin of the segment less direct expenses of the segment. Unallocated corporate expenses include production variances, general marketing, administration and information systems, as well as distribution and consumer service expenses.

During the third quarter of fiscal 2007, the Company exited its corporate accounts business. The results of the corporate accounts business, previously included in the Indirect segment, have been segregated from continuing operations and reported as discontinued operations in the Consolidated Statements of Income for all periods presented.

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**13. Segment Information – (continued)**

	Direct-to-Consumer	Indirect	Corporate Unallocated	Total
<b>Fiscal 2007</b>				

Net sales	\$2,101,740	\$ 510,716	\$ —	\$ 2,612,456
Operating income (loss)	953,981	316,327	(276,911)	993,397
Income (loss) before provision for income taxes, minority interest and discontinued operations	953,981	316,327	(235,638)	1,034,670
Depreciation and amortization expense	55,634	7,199	18,054	80,887
Total assets	913,909	114,423	1,421,180	2,449,512
Additions to long-lived assets	95,217	13,374	43,755	152,346
<b>Fiscal 2006</b>				
Net sales	\$1,610,691	\$ 424,394	\$ —	\$ 2,035,085
Operating income (loss)	717,326	261,571	(264,190)	714,707
Income (loss) before provision for income taxes, minority interest and discontinued operations	717,326	261,571	(231,567)	747,330
Depreciation and amortization expense	43,177	5,506	16,432	65,115
Total assets	743,034	91,247	792,239	1,626,520
Additions to long-lived assets	87,576	8,747	59,902	156,225
<b>Fiscal 2005</b>				
Net sales	\$1,307,425	\$ 344,279	\$ —	\$ 1,651,704
Operating income (loss)	548,520	204,642	(217,502)	535,660
Income (loss) before provision for income taxes, minority interest and discontinued operations	548,520	204,642	(201,742)	551,420
Depreciation and amortization expense	37,275	4,362	8,763	50,400
Total assets	646,788	69,569	653,800	1,370,157
Additions to long-lived assets	70,801	4,778	19,013	94,592

The following is a summary of the common costs not allocated in the determination of segment performance:

	Fiscal Year Ended		
	June 30, 2007	July 1, 2006	July 2, 2005
Production variances	\$ 21,203	\$ 14,659	\$ 11,028
Advertising, marketing and design	(108,760)	(91,443)	(70,234)
Administration and information systems	(138,552)	(147,491)	(124,357)
Distribution and customer service	(50,802)	(39,915)	(33,939)
Total corporate unallocated	<u>\$ (276,911)</u>	<u>\$ (264,190)</u>	<u>\$ (217,502)</u>

#### Geographic Area Information

As of June 30, 2007, Coach operated 254 retail stores and 93 factory stores in the United States, five retail stores in Canada and 137 department store shop-in-shops, retail stores and factory stores in Japan. Coach also operates distribution, product development and quality control locations in the United States, Italy, Hong Kong, China and South Korea. Geographic revenue information is based on the location of our customer. Geographic long-lived asset information is based on the physical location of the assets at the end of each period.

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#### 13. Segment Information – (continued)

	United States	Japan	Other International <sup>(1)</sup>	Total
<b>Fiscal 2007</b>				
Net sales	\$ 1,996,129	\$ 492,748	\$ 123,579	\$ 2,612,456
Long-lived assets	334,889	282,888	5,493	623,270
<b>Fiscal 2006</b>				
Net sales	\$ 1,497,869	\$ 420,509	\$ 116,707	\$ 2,035,085
Long-lived assets	266,190	298,087	3,684	567,961
<b>Fiscal 2005</b>				
Net sales	\$ 1,194,451	\$ 372,326	\$ 84,927	\$ 1,651,704
Long-lived assets	314,919	288,338	2,995	606,252

(1) Other International sales reflect shipments to third-party distributors, primarily in East Asia, and sales from Coach-operated stores in Canada.

#### 14. Business Interruption Insurance

In the fiscal year ended June 29, 2002, Coach's World Trade Center location was completely destroyed as a result of the September 11<sup>th</sup> terrorist attack. Inventory and fixed asset loss claims were filed with the Company's insurers and these losses were fully recovered. Losses covered under the Company's business interruption insurance program were also filed with the insurers. During the second quarter of fiscal 2006, the Company reached a final settlement with its insurance carriers related to losses covered under the business interruption insurance program. Accordingly, the Company did not receive any proceeds in fiscal 2007

and does not expect to receive any additional business interruption proceeds related to the World Trade Center location in the future. During fiscal 2006 and 2005, Coach received payments of \$2,025 and \$2,644, respectively, under its business interruption coverage. These amounts are included as a reduction to selling, general and administrative expenses.

## 15. Earnings Per Share

The following is a reconciliation of the weighted-average shares outstanding and calculation of basic and diluted earnings per share:

	Fiscal Year Ended		
	June 30, 2007	July 1, 2006	July 2, 2005
Income from continuing operations	\$ 636,529	\$ 463,840	\$ 336,647
Total weighted-average basic shares	369,661	379,635	378,670
Dilutive securities:			
Employee benefit and share award plans	980	1,666	2,784
Stock option programs	6,715	7,194	8,737
Total weighted-average diluted shares	377,356	388,495	390,191
Earnings from continuing operations per share:			
Basic	\$ 1.72	\$ 1.22	\$ 0.89
Diluted	\$ 1.69	\$ 1.19	\$ 0.86

At June 30, 2007, options to purchase 99 shares of common stock were outstanding but not included in the computation of diluted earnings per share, as these options' exercise prices, ranging from \$50.00 to \$51.56, were greater than the average market price of the common shares.

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### COACH, INC. Notes to Consolidated Financial Statements (dollars and shares in thousands, except per share data)

#### 15. Earnings Per Share – (continued)

At July 1, 2006, options to purchase 13,202 shares of common stock were outstanding but not included in the computation of diluted earnings per share, as these options' exercise prices, ranging from \$31.28 to \$36.86, were greater than the average market price of the common shares.

At July 2, 2005, options to purchase 1,093 shares of common stock were outstanding but not included in the computation of diluted earnings per share, as these options' exercise prices, ranging from \$29.75 to \$32.79, were greater than the average market price of the common shares.

#### 16. Stock Repurchase Program

The Coach Board of Directors approved common stock repurchase programs as follows:

Date Share Repurchase Programs Were Publicly Announced	Total Dollar Amount Approved	Expiration Date of Plan
September 17, 2001	\$ 80,000	September 2004
January 30, 2003	\$ 100,000	January 2006
August 12, 2004	\$ 200,000	August 2006
May 11, 2005	\$ 250,000	May 2007
May 9, 2006	\$ 500,000	June 2007
October 20, 2006	\$ 500,000	June 2008

Purchases of Coach's common stock will be made from time to time, subject to market conditions and at prevailing market prices, through open market purchases. Repurchased shares of common stock will become authorized but unissued shares and may be issued in the future for general corporate and other purposes. The Company may terminate or limit the stock repurchase program at any time.

During fiscal 2007, 2006 and 2005, the Company repurchased and retired 5,002, 19,055 and 11,000 shares of common stock at an average cost of \$29.99, \$31.50 and \$24.09 per share, respectively. As of June 30, 2007, Coach had \$500,000 remaining in the stock repurchase program.

#### 17. Supplemental Balance Sheet Information

The components of certain balance sheet accounts are as follows:

	June 30, 2007	July 1, 2006
<b>Property and equipment</b>		
Land	\$ 27,954	\$ 27,954
Machinery and equipment	12,007	14,187
Furniture and fixtures	143,442	136,730
Leasehold improvements	267,935	270,232
Construction in progress	148,191	66,240
Less: accumulated depreciation	(231,068)	(216,812)
Total property and equipment, net	\$ 368,461	\$ 298,531
<b>Accrued liabilities</b>		

Income and other taxes	\$ 56,486	\$ 69,017
Payroll and employee benefits	90,435	78,215
Capital expenditures	32,459	21,243
Operating expenses	119,072	93,360
Total accrued liabilities	<u>\$ 298,452</u>	<u>\$ 261,835</u>

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**COACH, INC.**  
**Notes to Consolidated Financial Statements**  
(dollars and shares in thousands, except per share data)

**17. Supplemental Balance Sheet Information – (continued)**

	June 30, 2007	July 1, 2006
<b>Other liabilities</b>		
Deferred lease incentives	\$ 75,839	\$ 55,038
Other	16,010	6,169
Total other liabilities	<u>\$ 91,849</u>	<u>\$ 61,207</u>
<b>Accumulated other comprehensive loss</b>		
Cumulative translation adjustments	\$ (12,450)	\$ (2,506)
Unrealized gains (losses) on cash flow hedging derivatives, net of taxes of \$(796) and \$2,365	1,161	(3,547)
SFAS 158 adjustment and minimum pension liability, net of taxes of \$981 and \$743	(1,503)	(1,207)
Accumulated other comprehensive loss	<u>\$ (12,792)</u>	<u>\$ (7,260)</u>

**18. Shareholder Rights Plan**

On May 3, 2001, Coach declared a “poison pill” dividend distribution of rights to buy additional common stock, to the holder of each outstanding share of Coach’s common stock.

Subject to limited exceptions, these rights may be exercised if a person or group intentionally acquires 10% or more of the Company’s common stock or announces a tender offer for 10% or more of the common stock on terms not approved by the Coach Board of Directors. In this event, each right would entitle the holder of each share of Coach’s common stock to buy one additional common share of the Company at an exercise price far below the then-current market price. Subject to certain exceptions, Coach’s Board of Directors will be entitled to redeem the rights at \$0.0001 per right at any time before the close of business on the tenth day following either the public announcement that, or the date on which a majority of Coach’s Board of Directors becomes aware that, a person has acquired 10% or more of the outstanding common stock. As of the end of fiscal 2007, there were no shareholders whose common stock holdings exceeded the 10% threshold established by the rights plan.

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**COACH, INC.**  
**Notes to Consolidated Financial Statements**  
(dollars and shares in thousands, except per share data)

**19. Quarterly Financial Data (Unaudited)**

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
<b>Fiscal 2007<sup>(1)(2)</sup></b>				
Net sales	\$ 529,421	\$ 805,603	\$ 625,303	\$ 652,129
Gross profit	406,005	621,295	486,410	509,276
Income from continuing operations	115,239	214,497	147,390	159,403
Income from discontinued operations	10,377	12,976	2,574	1,209
Net income	125,616	227,473	149,964	160,612
Basic earnings per common share:				
Continuing operations	0.31	0.58	0.40	0.43
Discontinued operations	0.03	0.04	0.01	0.00
Net income	0.34	0.62	0.41	0.43
Diluted earnings per common share:				
Continuing operations	0.31	0.57	0.39	0.42
Discontinued operations	0.03	0.03	0.01	0.00
Net income	0.34	0.61	0.40	0.42
<b>Fiscal 2006<sup>(1)(2)</sup></b>				
Net sales	\$ 433,964	\$ 619,830	\$ 479,718	\$ 501,573
Gross profit	330,096	481,753	376,199	393,519
Income from continuing operations	87,860	161,513	101,672	112,795
Income from discontinued operations	5,755	12,661	7,174	4,847
Net income	93,615	174,174	108,846	117,642
Basic earnings per common share:				
Continuing operations	0.23	0.42	0.26	0.30
Discontinued operations	0.02	0.03	0.02	0.01
Net income	0.25	0.46	0.28	0.31
Diluted earnings per common share:				

Continuing operations	0.23	0.41	0.26	0.29
Discontinued operations	0.01	0.03	0.02	0.01
Net income	0.24	0.45	0.28	0.31
<b>Fiscal 2005<sup>(1)(2)</sup></b>				
Net sales	\$ 329,950	\$ 510,297	\$ 403,462	\$ 407,995
Gross profit	247,864	387,107	315,463	317,117
Income from continuing operations	55,556	118,394	76,218	86,479
Income from discontinued operations	5,425	8,509	4,654	3,377
Net income	60,981	126,903	80,872	89,856
<b>Basic earnings per common share:</b>				
Continuing operations	0.15	0.31	0.20	0.23
Discontinued operations	0.01	0.02	0.01	0.01
Net income	0.16	0.33	0.21	0.24
<b>Diluted earnings per common share:</b>				
Continuing operations	0.14	0.30	0.19	0.22
Discontinued operations	0.01	0.02	0.01	0.01
Net income	0.16	0.32	0.21	0.23

- (1) During the third quarter of fiscal 2007, the Company exited its corporate accounts business. The results of the corporate accounts business, previously included in the Indirect segment, have been segregated from continuing operations and reported as discontinued operations in the Consolidated Statements of Income for all periods presented. Accordingly, the information below differs from amounts previously reported as follows: in the first and second quarter of fiscal 2007, net sales were reduced by \$24,430 and \$30,784, respectively, and gross profit was reduced by \$18,675 and \$23,181, respectively; in the first, second, third and fourth quarters of fiscal 2006, net sales were reduced by \$14,987, \$30,506, \$18,141 and \$12,782, respectively, and gross profit was reduced by \$11,265, \$22,923, \$13,570 and \$9,554, respectively; in the first, second, third and fourth quarters of fiscal 2005, net sales were reduced by \$14,115, \$21,462, \$12,477 and \$10,665, respectively, and gross profit was reduced by \$10,310, \$15,861, \$9,210 and \$7,839, respectively.
- (2) The sum of the quarterly earnings per share may not equal the full-year amount, as the computations of the weighted-average number of common basic and diluted shares outstanding for each quarter and the full year are performed independently.

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**COACH, INC.**  
**Market and Dividend Information**

Coach's common stock is listed on the New York Stock Exchange and is traded under the symbol "COH." The following table sets forth, for the fiscal periods indicated, the high and low closing prices per share of Coach's common stock as reported on the New York Stock Exchange Composite Tape.

	Fiscal Year Ended 2007	
	High	Low
Quarter ended:		
September 30, 2006	\$ 34.65	\$ 25.58
December 30, 2006	44.28	34.20
March 31, 2007	50.96	43.82
June 30, 2007	53.79	46.10
Closing price at June 29, 2007	\$47.39	
	Fiscal Year Ended 2006	
	High	Low
Quarter ended:		
October 1, 2005	\$ 36.22	\$ 30.25
December 31, 2005	36.64	28.94
April 1, 2006	36.97	31.75
July 1, 2006	35.35	27.75
Closing price at June 30, 2006	\$29.90	
	Fiscal Year Ended 2005	
	High	Low
Quarter ended:		
October 2, 2004	\$ 23.03	\$ 18.06
January 1, 2005	28.53	19.83
April 2, 2005	29.75	26.41
July 2, 2005	33.92	25.22
Closing price at July 1, 2005	\$33.55	

As of August 17, 2007, there were 2,724 holders of record of Coach's common stock.

Coach has never declared or paid any cash dividends on its common stock. Coach currently intends to retain future earnings, if any, for use in its business and is presently not planning to pay regular cash dividends in its common stock. Any future determination to pay cash dividends will be at the discretion of Coach's Board of Directors and will be dependent upon Coach's financial condition, operating results, capital requirements and such other factors as the Board of Directors deems relevant.

**COACH, INC.**  
**Schedule II — Valuation and Qualifying Accounts**  
**For the Fiscal Years Ended June 30, 2007, July 1, 2006 and July 2, 2005**  
**(amounts in thousands)**

	Balance at Beginning of Year	Provision Charged to Costs and Expenses	Write-offs/ Allowances Taken	Balance at End of Year
<b>Fiscal 2007</b>				
Allowance for bad debts	\$ 1,644	\$ 1,381	\$ (110)	\$ 2,915
Allowance for returns	4,356	4,752	(5,444)	3,664
Total	<u>\$ 6,000</u>	<u>\$ 6,133</u>	<u>\$ (5,554)</u>	<u>\$ 6,579</u>
<b>Fiscal 2006</b>				
Allowance for bad debts	\$ 1,665	\$ 29	\$ (50)	\$ 1,644
Allowance for returns	2,459	6,572	(4,675)	4,356
Total	<u>\$ 4,124</u>	<u>\$ 6,601</u>	<u>\$ (4,725)</u>	<u>\$ 6,000</u>
<b>Fiscal 2005</b>				
Allowance for bad debts	\$ 1,804	\$ 100	\$ (239)	\$ 1,665
Allowance for returns	3,652	4,303	(5,496)	2,459
Total	<u>\$ 5,456</u>	<u>\$ 4,403</u>	<u>\$ (5,735)</u>	<u>\$ 4,124</u>

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**COACH, INC.**  
**EXHIBITS TO FORM 10-K**

(a) Exhibit Table (numbered in accordance with Item 601 of Regulation S-K)

Exhibit No.	Description
3.1	Amended and Restated Bylaws of Coach, Inc., dated May 3, 2001, which is incorporated herein by reference from Exhibit 3.1 to Coach's Current Report on Form 8-K filed on May 9, 2001
3.2	Articles Supplementary of Coach, Inc., dated May 3, 2001, which is incorporated herein by reference from Exhibit 3.2 to Coach's Current Report on Form 8-K filed on May 9, 2001
3.3	Articles of Amendment of Coach, Inc., dated May 3, 2001, which is incorporated herein by reference from Exhibit 3.3 to Coach's Current Report on Form 8-K filed on May 9, 2001
3.4	Articles of Amendment of Coach, Inc., dated May 3, 2002, which is incorporated by reference from Exhibit 3.4 to Coach's Annual Report on Form 10-K for the fiscal year ended June 29, 2002
3.5	Articles of Amendment of Coach, Inc., dated February 1, 2005, which is incorporated by reference from Exhibit 99.1 to Coach's Current Report on Form 8-K filed on February 2, 2005
4.1	Amended and Restated Rights Agreement, dated as of May 3, 2001, between Coach, Inc. and Mellon Investor Services LLC, which is incorporated by reference from Exhibit 4.1 to Coach's Annual Report on Form 10-K for the fiscal year ended July 2, 2005
4.2	Specimen Certificate for Common Stock of Coach, which is incorporated herein by reference from Exhibit 4.1 to Coach's Registration Statement on Form S-1 (Registration No. 333-39502)
10.1	Revolving Credit Agreement by and between Coach, certain lenders and Bank of America, N.A.
10.5	Lease Indemnification and Reimbursement Agreement between Sara Lee and Coach, which is incorporated herein by reference from Exhibit 2.10 to Coach's Registration Statement on Form S-1 (Registration No. 333-39502)
10.6	Coach, Inc. 2000 Stock Incentive Plan, which is incorporated by reference from Exhibit 10.10 to Coach's Annual Report on Form 10-K for the fiscal year ended June 28, 2003
10.7	Coach, Inc. Executive Deferred Compensation Plan, which is incorporated by reference from Exhibit 10.11 to Coach's Annual Report on Form 10-K for the fiscal year ended June 28, 2003
10.8	Coach, Inc. Performance-Based Annual Incentive Plan, which is incorporated by reference from Appendix A to the Registrant's Definitive Proxy Statement for the 2005 Annual Meeting of Stockholders, filed on September 28, 2005
10.9	Coach, Inc. 2000 Non-Employee Director Stock Plan, which is incorporated by reference from Exhibit 10.13 to Coach's Annual Report on Form 10-K for the fiscal year ended June 28, 2003
10.10	Coach, Inc. Non-Qualified Deferred Compensation Plan for Outside Directors, which is incorporated by reference from Exhibit 10.14 to Coach's Annual Report on Form 10-K for the fiscal year ended June 28, 2003
10.11	Coach, Inc. 2001 Employee Stock Purchase Plan, which is incorporated by reference from Exhibit 10.15 to Coach's Annual Report on Form 10-K for the fiscal year ended June 29, 2002
10.12	Jacksonville, FL Lease Agreement, which is incorporated herein by reference from Exhibit 10.6 to Coach's Registration Statement on Form S-1 (Registration No. 333-39502)
10.13	New York, NY Lease Agreement, which is incorporated herein by reference from Exhibit 10.7 to Coach's Registration Statement on Form S-1 (Registration No. 333-39502)
10.14	Coach, Inc. 2004 Stock Incentive Plan, which is incorporated by reference from Appendix A to the Registrant's Definitive Proxy Statement for the 2004 Annual Meeting of Stockholders, filed on September 29, 2004
10.15	Employment Agreement dated June 1, 2003 between Coach and Lew Frankfort, which is incorporated by reference from Exhibit 10.20 to Coach's Annual Report on Form 10-K for the fiscal



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<b>Exhibit No.</b>	<b>Description</b>
10.16	Employment Agreement dated June 1, 2003 between Coach and Reed Krakoff, which is incorporated by reference from Exhibit 10.21 to Coach's Annual Report on Form 10-K for the fiscal year ended June 28, 2003
10.17	Employment Agreement dated June 1, 2003 between Coach and Keith Monda, which is incorporated by reference from Exhibit 10.22 to Coach's Annual Report on Form 10-K for the fiscal year ended June 28, 2003
10.18	Amendment to Employment Agreement, dated August 22, 2005, between Coach and Lew Frankfort, which is incorporated by reference from Exhibit 10.23 to Coach's Annual Report on Form 10-K for the fiscal year ended July 2, 2005
10.19	Amendment to Employment Agreement, dated August 22, 2005, between Coach and Reed Krakoff, which is incorporated by reference from Exhibit 10.23 to Coach's Annual Report on Form 10-K for the fiscal year ended July 2, 2005
10.20	Amendment to Employment Agreement, dated August 22, 2005, between Coach and Keith Monda, which is incorporated by reference from Exhibit 10.23 to Coach's Annual Report on Form 10-K for the fiscal year ended July 2, 2005
10.21	Employment Agreement dated November 8, 2005 between Coach and Michael Tucci, which is incorporated by reference from Exhibit 10.1 to Coach's Quarterly Report on Form 10-Q for the period ended December 31, 2005
10.22	Employment Agreement dated November 8, 2005 between Coach and Michael F Devine, III, which is incorporated by reference from Exhibit 10.2 to Coach's Quarterly Report on Form 10-Q for the period ended December 31, 2005
21.1	List of Subsidiaries of Coach
23.1	Consent of Deloitte & Touche LLP
31.1	Rule 13(a)-14(a)/15(d)-14(a) Certifications
32.1	Section 1350 Certifications

**REVOLVING CREDIT  
AGREEMENT**

Dated as of July 26, 2007

among

**COACH, INC.,**

**THE LENDERS LISTED ON SCHEDULE I HERETO**

and

**BANK OF AMERICA, N.A.,** as Administrative Agent

and

**HSBC BANK USA, NATIONAL ASSOCIATION,** as Syndication Agent

and

**JPMORGAN CHASE BANK, N.A.,** as Documentation Agent

with

**BANC OF AMERICA SECURITIES LLC,** as Arranger

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**REVOLVING CREDIT  
AGREEMENT**

This **REVOLVING CREDIT AGREEMENT** is made as of July 26, 2007, by and among COACH, INC. (the "**Borrower**"), a Maryland corporation having its principal place of business at 516 West 34<sup>th</sup> Street, New York, New York 10001, BANK OF AMERICA, N.A, a national banking association ("**Bank of America**"), the other lending institutions listed on Schedule 1 and Bank of America, as administrative agent (the "**Administrative Agent**") for itself and such other lending institutions.

**1. DEFINITIONS AND RULES OF INTERPRETATION.**

**1.1 Definitions.** The following terms shall have the meanings set forth in this Section 1 or elsewhere in the provisions of this Credit Agreement referred to below:

Act. See Section 16.14.

Adjustment Date. With respect to any quarter, the second Business Day following the Administrative Agent's receipt of the Compliance Certificate required to be delivered pursuant to Section 8.3(c) for such quarter; provided, however, that in the event that the Borrower fails to deliver any Compliance Certificate to the Administrative Agent within the time period set forth in Section 8.3(c), the Adjustment Date shall be the second Business Day following the date on which such Compliance Certificate was required to be delivered pursuant to Section 8.3(c).

Administrative Agent. Bank of America, N.A., a national banking association organized and existing under the laws of the United States of America, acting as administrative agent for the Lenders and each other Person appointed as the successor Administrative Agent in accordance with Section 14.9.

Administrative Agent's Fee. See Section 5.2.

Administrative Agent's Office. The Administrative Agent's office located at 2001 Clayton Rd, Concord, CA 94520, or at such other location as the Administrative Agent may designate from time to time.

Administrative Agent's Special Counsel. Bingham McCutchen LLP or such other counsel as may be approved by the Administrative Agent.

Administrative Questionnaire. An administrative questionnaire in a form supplied by the Administrative Agent.

Affiliate. Any Person that would be considered to be an affiliate of any other Person under Rule 144(a) of the Rules and Regulations of the Securities and Exchange Commission, as in effect on the date hereof, if such other Person were issuing securities.

Applicable Margin. Subject to the last paragraph of this definition and with respect to each period commencing on an Adjustment Date through the date immediately preceding the next Adjustment Date (each a "Rate Adjustment Period"), the Applicable Margin with respect to Base Rate Loans, Eurodollar Rate Loans, Standby Letter of Credit Fees, Documentary Letter of Credit Fees or Commitment Fees, as the case may be, shall be the applicable margin set forth below for each such category with respect to the Fixed Charge Ratio, as determined for the Reference Period of the Borrower and its Subsidiaries ending on the last day of the fiscal quarter of the Borrower and its Subsidiaries ended immediately prior to the applicable Rate Adjustment Period.

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Level	Fixed Charge Ratio	Base Rate Loans	Eurodollar Rate Loans	Standby Letter of Credit Fees	Documentary Letter of Credit Fees	Commitment Fee
I	Greater than or equal to 7.50:1.00	0.000%	0.200%	0.200%	0.100%	0.060%
II	Less than 7.50:1.00 but greater than or equal to 6.50:1.00	0.000%	0.300%	0.300%	0.150%	0.070%
III	Less than 6.50:1.00 but greater than or equal to 5.50:1.00	0.000%	0.350%	0.350%	0.175%	0.080%
IV	Less than 5.50:1.00 but greater than or equal to 4.00:1.00	0.000%	0.400%	0.400%	0.200%	0.090%
V	Less than 4.00:1.00	0.000%	0.550%	0.550%	0.275%	0.125%

During the period commencing on the Closing Date through the date immediately preceding the first Adjustment Date to occur after the fiscal quarter ending on or about June 30, 2007, the Applicable Margin with respect to the Loans outstanding and the Letter of Credit Fees and the Commitment Fee payable shall be the Applicable Margin set forth in Level I above. Notwithstanding the foregoing, (a) if the Borrower fails to deliver any Compliance Certificate required under Section 8.3(c) hereof, then, for the period commencing on the next Adjustment Date to occur subsequent to such failure through the date immediately following the date on which such Compliance Certificate is delivered, the Applicable Margin shall be the Applicable Margin set forth in Level V above, and (b) at all times while an Event of Default shall have occurred and be continuing, the Applicable Margin to be included in the calculations set forth in Section 5.11 shall be the Applicable Margin set forth in Level V above. In the event either the Borrower or the Administrative Agent determines, in good faith, that the calculation of the Fixed Charge Ratio on which the Applicable Margin for any particular period was determined is inaccurate and, as a consequence thereof, the Applicable Margin was lower than it would have been, the Borrower shall immediately deliver to the Administrative Agent a correct Compliance Certificate for such period. The Administrative Agent shall determine and notify the Borrower of the amount of interest or fees, as applicable, that would have been due in respect of any outstanding Obligations during such period had the Applicable Margin been calculated based on the correct Fixed Charge Ratio, and the Borrower shall promptly pay to the Administrative Agent the difference between that amount and the amount actually paid in respect of such period. In the event either the Borrower or the Administrative Agent determines, in good faith, that the calculation of the Fixed Charge Ratio on which the Applicable Margin for any particular period was determined is inaccurate and, as a consequence thereof, the Applicable Margin was higher than it would have been, the Borrower shall immediately deliver to the Administrative Agent a correct Compliance Certificate for such period. The Administrative Agent shall determine and notify the existing Lenders who were party to the Credit Agreement during the applicable period for which such higher Applicable Margin was paid of the amount of interest or fees, as applicable, that would have been due in respect of any outstanding Obligations during such period had the Applicable Margin been calculated based on the correct Fixed Charge Ratio, and such Lenders shall promptly reimburse the Borrower by paying to the Administrative Agent the difference between that amount and the amount actually paid in respect of such period; provided, that in no event shall the Administrative Agent be responsible for any amounts for which the Borrower is not so reimbursed by such Lenders.

Applicable Pension Legislation. At any time, any pension or retirement benefits legislation (be it national, federal, provincial, territorial or otherwise) then applicable to the Borrower or any of its Subsidiaries.

Arrangement Fee. See Section 5.1.

Arranger. Banc of America Securities LLC.

Assignment and Acceptance. An assignment and acceptance agreement entered into by a Lender and an assignee (with the consent of any party whose consent is required by Section 15.1) and accepted by the Administrative Agent, in substantially the form of Exhibit D or any other form approved by the Administrative Agent.

Auto-Renewal Letter of Credit. See Section 4.1.2.

Balance Sheet Date. June 28, 2006.

Bank of America. Bank of America, N.A., a national banking association, in its individual capacity.

Base Rate. For any day a fluctuating rate per annum equal to the higher of (a) the rate of interest in effect for such day as publicly announced from time to time by Bank of America as its "prime rate" and (b) the Federal Funds Rate plus one-half of one percent (0.5%). The "prime rate" is a rate set by Bank of America based upon various factors including Bank of America's costs and desired return, general economic conditions and other factors, and is used as a reference point for pricing some loans, which may be priced at, above, or below such announced rate. Any change in such rate announced by Bank of America shall take effect at the opening of business on the day specified in the public announcement of such change.

Base Rate Loans. Revolving Credit Loans bearing interest calculated by reference to the Base Rate.

BBA LIBOR. See definition of "Eurodollar Rate".

Borrower. As defined in the preamble hereto.

Borrower Materials. See Section 8.3.

Business Day. Any day on which banking institutions in the state of New York or the state where the Administrative Agent's Office is located, are open for the transaction of banking business and, in the case of Eurodollar Rate Loans, also a day which is a Eurodollar Business Day.

Capital Expenditures. Amounts paid or Indebtedness incurred by the Borrower or any of its Subsidiaries in connection with (i) additions to property, plant and equipment and other capital expenditures of the Borrower or any of its Subsidiaries that are (or would be required to be) set forth in a consolidated statement of cash flows of the Borrower for such period prepared in accordance with GAAP, and (ii) without duplication, obligations with respect to Capitalized Leases and Synthetic Leases (had the Synthetic Lease been treated for accounting purposes as a Capitalized Lease) incurred by the Borrower or any of its Subsidiaries during such period.

Capitalized Leases. Leases under which the Borrower or any of its Subsidiaries is the lessee or obligor, the discounted future rental payment obligations under which are required to be capitalized on the balance sheet of the lessee or obligor in accordance with GAAP.

Capital Stock. Any and all shares, interests, participations or other equivalents (however designated) of capital stock of a corporation, any and all equivalent ownership interests in a Person (other than a corporation) and any and all warrants, rights or options to purchase any of the foregoing.

CERCLA. The Comprehensive Environmental Response, Compensation and Liability Act of 1980 as amended.

Change of Control. An event or series of events by which any person or group of persons (within the meaning of Section 13 or 14 of the Securities Exchange Act of 1934) shall have acquired beneficial ownership (within the meaning of Rule 13d-3 promulgated by the Securities and Exchange Commission under said Act), directly or indirectly, of twenty percent (20%) or more of the outstanding shares of Capital Stock of the Borrower; or, during any period of twelve consecutive calendar months, individuals who were directors of the Borrower on the first day of such period (together with any new directors whose election by such board or whose nomination for election by the shareholders of the Borrower was approved by a vote of a majority of the directors still in office who were either directors at the beginning of such period or whose election or nomination for election was previously so approved) shall cease to constitute a majority of the board of directors of the Borrower.

CJI. Coach Japan, Inc., a Subsidiary of the Borrower.

Closing Date. The first date on which the conditions set forth in Section 11 have been satisfied and any Revolving Credit Loans are to be made or any Letter of Credit is to be issued hereunder.

Code. The Internal Revenue Code of 1986.

Commitment. With respect to each Lender, the amount set forth on Schedule 1 hereto as the amount of such Lender's commitment to make Revolving Credit Loans to, and to participate in the issuance, extension, amendment and renewal of Letters of Credit for the account of, the Borrower, as the same may be reduced from time to time; or if such commitment is terminated pursuant to the provisions hereof, zero.

Commitment Fee. See Section 2.2.

Commitment Percentage. With respect to each Lender, the percentage set forth on Schedule 1 hereto as such Lender's percentage of the aggregate Commitments of all of the Lenders.

Compliance Certificate. See Section 8.3(c).

Consolidated or consolidated. With reference to any term defined herein, shall mean that term as applied to the accounts of the Borrower and its Subsidiaries, consolidated in accordance with GAAP.

Consolidated EBIT. Consolidated Net Income, plus, to the extent deducted in determining Consolidated Net Income, consolidated income taxes and Consolidated Total Interest Expense, in each case as determined in accordance with GAAP.

Consolidated EBITDA. With respect to any fiscal period, an amount equal to the sum of (a) Consolidated EBIT for such period plus (b) consolidated depreciation and consolidated amortization for such period as determined in accordance with GAAP.

Consolidated EBITDAR. With respect to any fiscal period, an amount equal to the sum of (a) Consolidated EBITDA for such period plus (b) Rental Expense for such period as determined in accordance with GAAP.

Consolidated Net Income. The consolidated net income (or loss) of the Borrower and its Subsidiaries determined in accordance with GAAP.

Consolidated Total Assets. All assets of the Borrower and its Subsidiaries determined on a consolidated basis in accordance with GAAP.

Consolidated Total Interest Expense. For any period, interest expense (without deduction of interest income) of the Borrower and its Subsidiaries, determined on a consolidated basis in accordance with GAAP.

Conversion Request. A notice given by the Borrower to the Administrative Agent of the Borrower's election to convert or continue a Loan in accordance with Section 2.7.

Credit Agreement. This Revolving Credit Agreement, including the Schedules and Exhibits hereto.

Debtor Relief Laws. The Bankruptcy Code of the United States, and all other liquidation, conservatorship, bankruptcy, assignment for the benefit of creditors, moratorium, rearrangement, receivership, insolvency, reorganization or similar debtor relief Laws of the United States or other applicable jurisdictions from time to time in effect and affecting the rights of creditors generally.

Default. See Section 13.1.

Delinquent Lender. See Section 14.5.3.

Distribution. The declaration or payment of any dividend on or in respect of any shares of any class of Capital Stock of the Borrower, other than dividends payable solely in shares of common stock of the Borrower; the purchase, redemption, defeasance, retirement or other acquisition of, or sinking fund or other similar payment in respect of, any shares of any class of Capital Stock of the Borrower, directly or indirectly through a Subsidiary of the Borrower or otherwise; the return of capital by the Borrower to its shareholders as such; or any other distribution on or in respect of any shares of any class of Capital Stock of the Borrower.

Documentary Letter of Credit Fee. See Section 4.2.

Dollars or \$. Dollars in lawful currency of the United States of America.

Domestic Lending Office. Initially, the office of each Lender designated as such in Schedule 1 hereto; thereafter, such other office of such Lender, if any, located within the United States that will be making or maintaining Base Rate Loans.

Drawdown Date. The date on which any Revolving Credit Loan is made or is to be made, and the date on which any Revolving Credit Loan is converted or continued in accordance with Section 2.7.

Eligible Assignee. Any of (a) a commercial bank or other financial institution; (b) a Lender Affiliate; and (c) if, but only if, any Default or Event of Default has occurred and is continuing, any other bank, insurance company, commercial finance company or other financial institution or other Person approved by the Administrative Agent.

Employee Benefit Plan. Any employee benefit plan, whether single-employer or multiple-employer, within the meaning of Section 3(3) of ERISA maintained or contributed to by the Borrower or any ERISA Affiliate, other than a Guaranteed Pension Plan or a Multiemployer Plan.

Environmental Laws. Any judgment, decree, order, law, license, rule or regulation pertaining to environmental matters, including without limitation, those arising under the Resource Conservation and Recovery Act, CERCLA, the Superfund Amendments and Reauthorization Act of 1986, the Federal Clean Water Act, the Federal Clean Air Act, the Toxic Substances Control Act, or any state, local or foreign law, statute, regulation, ordinance, order or decree relating to health, safety or the environment.

EPA. See Section 7.16(b).

ERISA. The Employee Retirement Income Security Act of 1974.

ERISA Affiliate. Any Person which is treated as a single employer with the Borrower under Section 414(b) or (c) of the Code.

ERISA Reportable Event. A reportable event with respect to a Guaranteed Pension Plan within the meaning of Section 4043 of ERISA and the regulations promulgated thereunder.

Eurocurrency Reserve Rate. For any day with respect to a Eurodollar Rate Loan, the maximum rate (expressed as a decimal) at which any bank subject thereto would be required to maintain reserves under Regulation D of the Board of Governors of the Federal Reserve System (or any successor or similar regulations relating to such reserve requirements) against "Eurocurrency Liabilities" (as that term is used in Regulation D), if such liabilities were outstanding. The Eurocurrency Reserve Rate shall be adjusted automatically on and as of the effective date of any change in the Eurocurrency Reserve Rate.

Eurodollar Business Day. Any day on which commercial banks are open for international business (including dealings in Dollar deposits) in London or such other Eurodollar interbank market as may be selected by the Administrative Agent in its sole discretion acting in good faith.

Eurodollar Lending Office. Initially, the office of each Lender designated as such in Schedule 1 hereto; thereafter, such other office of such Lender, if any, that shall be making or maintaining Eurodollar Rate Loans.

Eurodollar Rate. For any Interest Period the rate per annum equal to the British Bankers Association LIBOR Rate ("BBA LIBOR"), as published by Reuters (or other commercially available source providing quotations of BBA LIBOR as designated by the Administrative Agent from time to time) at approximately 11:00 a.m., London time, two Business Days prior to the commencement of such Interest Period, for Dollar deposits (for delivery on the first day of such Interest Period) with a term equivalent to such Interest Period. If such rate is not available at such time for any reason, then the "Eurodollar Rate" for such Interest Period shall be the rate per annum determined by the Administrative Agent to be the rate at which deposits in Dollars for delivery on the first day of such Interest Period in same day funds in the approximate amount of the Eurodollar Rate Loan being made, continued or converted and with a term equivalent to such Interest Period would be offered by Bank of America's London Branch to major banks in the London interbank eurodollar market at their request at approximately 11:00 a.m. (London time) two Business Days prior to the commencement of such Interest Period.

Eurodollar Rate Loans. Revolving Credit Loans bearing interest calculated by reference to the Eurodollar Rate.

Event of Default. See Section 13.1.

Executive Order. See Section 7.19.

Extension Request. See Section 2.1(c).

Federal Funds Rate. For any day, the rate per annum equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the Business Day next succeeding such day; provided that (a) if such day is not a Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Business Day as so published on the next succeeding Business Day, and (b) if no such rate is so published on such next succeeding Business Day, the Federal Funds Rate for such day shall be the average rate charged to Bank of America on such day on such transactions as determined by the Administrative Agent.

Fee Letter. The fee letter dated April 24, 2007, among the Borrower, the Administrative Agent and the Arranger.

Fees. Collectively, the Commitment Fee, the Letter of Credit Fees, the Administrative Agent's Fee, the Arrangement Fee and any other fee agreed to be paid by the Borrower pursuant to or in connection with this Credit Agreement.

FERC. See Section 7.11.

Financial Affiliate. A Subsidiary of the bank holding company controlling any Lender, which Subsidiary is engaging in any of the activities permitted by Section 4(e) of the Bank Holding Company Act of 1956 (12 U.S.C. Section 1843).

First Extension Request. See Section 2.1(c).

Fixed Charge Ratio. As at any date of determination, the ratio of (a) the sum of Consolidated EBITDAR minus Capital Expenditures for the Reference Period ending on such date, to (b) the sum of Consolidated Total Interest Expense plus Rental Expense for such Reference Period.

Fixed Rate. With respect to any Swing Line Loan, the fixed rate of interest quoted by the Swing Line Lender on any date or whenever the Borrower requests a Swing Line Loan, which rate the Swing Line Lender is willing to charge with respect to a Swing Line Loan made by it.

Fixed Rate Loans. A Swing Line Loan bearing interest at the Fixed Rate for a period of time agreed to by the Borrower and the Swing Line Lender pursuant to Section 2.5(c).

Foreign Assets Control Regulations. See Section 7.19.

GAAP or generally accepted accounting principles. (a) When used in Section 10, whether directly or indirectly through reference to a capitalized term used therein, means (i) principles that are consistent with the principles promulgated or adopted by the Financial Accounting Standards Board and its predecessors, in effect for the fiscal year ended on the Balance Sheet Date, and (ii) to the extent consistent with such principles, the accounting practice of the Borrower reflected in its financial statements for the year ended on the Balance Sheet Date, and (b) when used in general, other than as provided above, means principles that are consistent with the principles promulgated or adopted by the Financial Accounting Standards Board and its predecessors, which are applicable to the circumstances as of the date of determination, consistently applied.

Governing Documents. With respect to any Person, its certificate or articles of incorporation, its by-laws and all shareholder agreements, voting trusts and similar arrangements applicable to any of its Capital Stock.

Governmental Authority. Any foreign, federal, state, regional, local, municipal or other government, or any department, commission, board, bureau, agency, public authority or instrumentality thereof, or any court or arbitrator.

Guaranteed Pension Plan. Any employee pension benefit plan within the meaning of Section 3(2) of ERISA maintained or contributed to by the Borrower or any ERISA Affiliate the benefits of which are guaranteed on termination in full or in part by the PBGC pursuant to Title IV of ERISA, other than a Multiemployer Plan.

Guarantors. Collectively, each Significant Subsidiary of the Borrower existing on the Closing Date and each other Person which is required to be or becomes a guarantor from time to time pursuant to Section 8.11 hereof.

Guaranty(ies). Collectively, the guaranties dated as of the date required by Section 8.11 from each Person required to become a Guarantor pursuant to Section 8.11 in favor of the Administrative Agent and the Lenders, in each case of the payment and performance of the Obligations, and in the form attached hereto as Exhibit E.

Hazardous Substances. Any hazardous waste, as defined by 42 U.S.C. §6903(5), any hazardous substances as defined by 42 U.S.C. §9601(14), any pollutant or contaminant as defined by 42 U.S.C. §9601(33) and any toxic substances, oil or hazardous materials or other chemicals or substances regulated by any Environmental Laws.

Honor Date. See Section 4.1.3.

Indebtedness. As to any Person and whether recourse is secured by or is otherwise available against all or only a portion of the assets of such Person and whether or not contingent, but without duplication:

- (a) every obligation of such Person for money borrowed,
- (b) every obligation of such Person evidenced by bonds, debentures, notes or other similar instruments, including obligations incurred in connection with the acquisition of property, assets or businesses,
- (c) every reimbursement obligation of such Person with respect to letters of credit, bankers' acceptances or similar facilities issued for the account of such Person,



(d) every obligation of such Person issued or assumed as the deferred purchase price of property or services (including securities repurchase agreements but excluding trade accounts payable or accrued liabilities arising in the ordinary course of business which are not overdue or which are being contested in good faith),

(e) every obligation of such Person under any Capitalized Lease,

(f) every obligation of such Person under any Synthetic Lease,

(g) all sales by such Person of (i) accounts or general intangibles for money due or to become due, (ii) chattel paper, instruments or documents creating or evidencing a right to payment of money or (iii) other receivables (collectively “receivables”), whether pursuant to a purchase facility or otherwise, other than in connection with the disposition of the business operations of such Person relating thereto or a disposition of defaulted receivables for collection and not as a financing arrangement, and together with any obligation of such Person to pay any discount, interest, fees, indemnities, penalties, recourse, expenses or other amounts in connection therewith,

(h) every obligation of such Person under any forward contract, futures contract, swap, option or other financing agreement or arrangement (including, without limitation, caps, floors, collars and similar agreements), the value of which is dependent upon interest rates, currency exchange rates, commodities or other indices (a “derivative contract”),

(i) every obligation in respect of Indebtedness of any other entity (including any partnership in which such Person is a general partner) to the extent that such Person is liable therefor as a result of such Person's ownership interest in or other relationship with such entity, except to the extent that the terms of such Indebtedness provide that such Person is not liable therefor and such terms are enforceable under applicable law, and

(j) every obligation, contingent or otherwise, of such Person guaranteeing, or having the economic effect of guarantying or otherwise acting as surety for, any obligation of a type described in any of clauses (a) through (i) of another Person, in any manner, whether directly or indirectly.

Ineligible Securities. Securities which may not be underwritten or dealt in by member banks of the Federal Reserve System under Section 16 of the Banking Act of 1933 (12 U.S.C. Section 24, Seventh), as amended.

Interest Payment Date. (a) As to any Base Rate Loan, the first Business Day of the next succeeding calendar quarter with respect to interest accrued during such calendar quarter, including, without limitation, the calendar quarter which includes the Drawdown Date of such Base Rate Loan; (b) as to any Eurodollar Rate Loan in respect of which the Interest Period is (i) 3 months or less, the last day of such Interest Period and (ii) more than 3 months, the date that is 3 months from the first day of such Interest Period and, in addition, the last day of such Interest Period; and (c) as to any Swing Line Loan which is also a Fixed Rate Loan, on the first day of the next succeeding calendar quarter with respect to interest accrued during such calendar quarter.

Interest Period. With respect to each Revolving Credit Loan, (a) initially, the period commencing on the Drawdown Date of such Loan and ending on the last day of one of the periods set forth below, as selected by the Borrower in a Loan Request or as otherwise required by the terms of this Credit Agreement (i) for any Base Rate Loan, the last day of the calendar quarter; (ii) for any Fixed Rate Loan, the period (not to exceed ten (10) days) requested by the Borrower and agreed to by the Swing Line Lender pursuant to Section 2.5(c); and (iii) for any Eurodollar Rate Loan, 1, 2, 3, or 6 months; and (b) thereafter, each period commencing on the last day of the next preceding Interest Period applicable to such Revolving Credit Loan and ending on the last day of one of the periods set forth above, as selected by the Borrower in a Conversion Request; provided that all of the foregoing provisions relating to Interest Periods are subject to the following:

(A) if any Interest Period with respect to a Eurodollar Rate Loan would otherwise end on a day that is not a Eurodollar Business Day, that Interest Period shall be extended to the next succeeding Eurodollar Business Day unless the result of such extension would be to carry such Interest Period into another calendar month, in which event such Interest Period shall end on the immediately preceding Eurodollar Business Day;

(B) if any Interest Period with respect to a Base Rate Loan would end on a day that is not a Business Day, that Interest Period shall end on the next succeeding Business Day;

(C) if the Borrower shall fail to give notice as provided in Section 2.7, the Borrower shall be deemed to have requested a conversion of the affected Eurodollar Rate Loan to a Base Rate Loan and the continuance of all Base Rate Loans as Base Rate Loans on the last day of the then current Interest Period with respect thereto;

(D) any Interest Period relating to any Eurodollar Rate Loan that begins on the last Eurodollar Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall end on the last Eurodollar Business Day of a calendar month; and

(E) any Interest Period that would otherwise extend beyond the Revolving Credit Loan Maturity Date shall end on the Revolving Credit Loan Maturity Date.

International Standby Practices. With respect to any standby Letter of Credit, the International Standby Practices (ISP98), International Chamber of Commerce Publication No. 590, or any successor code of standby letter of credit practices among banks adopted by the Issuing Lender in the ordinary course of its business as a standby letter of credit issuer and in effect at the time of issuance of such Letter of Credit.

Investments. All expenditures made and all liabilities incurred (contingently or otherwise) for the acquisition of stock or Indebtedness of, or for loans, advances, capital contributions or transfers of property to, or in respect of any guaranties (or other commitments as described under Indebtedness), or obligations of, any Person.

Issuing Lender. With respect to standby Letters of Credit, Bank of America, and with respect to documentary Letters of Credit, any Lender acceptable to the Administrative Agent and the Borrower. As used herein, the term Issuing Lender shall refer, as the context requires, to the Issuing Lender issuing, extending, renewing or amending any particular Letter of Credit or collectively to each and every Lender which acts as an Issuing Lender hereunder.

Issuer Documents. With respect to any Letter of Credit, the Letter of Credit Application, and any other document, agreement and instrument entered into by the Issuing Lender and the Borrower (or any Subsidiary) or in favor of the Issuing Lender and relating to such Letter of Credit.

Joint Venture. Any joint venture or other entity in which the Borrower or a Subsidiary has an interest which is not a Subsidiary.

Lender Affiliate. (a) With respect to any Lender, (i) an Affiliate of such Lender or (ii) for all purposes hereof other than the definition of “Eligible Assignee”, any entity (whether a corporation, partnership, limited liability company, trust or legal entity) that is engaged in making, purchasing, holding or otherwise investing in bank loans and similar extensions of credit in the ordinary course of its business and is administered or managed by such Lender or an Affiliate of such Lender, and (b) following a Default or an Event of Default, with respect to any Lender that is a fund which invests in bank loans and similar extensions of credit, any other entity (whether a corporation, partnership, limited liability company, trust or other legal entity) that is a fund that invests in bank loans and similar extensions of credit and is managed by the same investment advisor as such Lender or by an Affiliate of such investment advisor.

Lenders. Bank of America and the other lending institutions listed on Schedule 1 hereto and any other Person who becomes an assignee of any rights and obligations of a Lender pursuant to Section 15.

Letter of Credit. See Section 4.1.1.

Letter of Credit Advance. An advance made by the Issuing Lender or any Lender pursuant to Section 4.1.3.

Letter of Credit Application. See Section 4.1.1.

Letter of Credit Expiration Date. The day that is seven days prior to the Revolving Credit Loan Maturity Date then in effect (or, if such day is not a Business Day, the next preceding Business Day).

Letter of Credit Fee. See Section 4.2.

Letter of Credit Participation. Each Lender’s obligation to severally reimburse the Issuing Lender on demand for the amount of each draft paid by the Issuing Lender under each Letter of Credit to the extent such amount is not reimbursed by the Borrower pursuant to Section 4.1.3.

Lien. Any mortgage, deed of trust, security interest, pledge, hypothecation, assignment, attachment, deposit arrangement, encumbrance, lien (statutory, judgment or otherwise), or other security agreement or preferential arrangement of any kind or nature whatsoever (including any conditional sale or other title retention agreement, any Capitalized Lease, any Synthetic Lease, any financing lease involving substantially the same economic effect as any of the foregoing and the filing of any financing statement under the UCC or comparable law of any jurisdiction).

Loan Documents. This Credit Agreement, the Notes, the Letter of Credit Applications, the Letters of Credit, the Guaranties and the Fee Letter.

Loan Request. See Section 2.6.

Loans. The Revolving Credit Loans.

Material Adverse Effect. With respect to any change or effect, a material adverse change in, or a material adverse effect on, as the case may be, (i) business, properties, condition (economic, financial or otherwise), assets, operations or income of the Borrower, individually, or the Borrower and its Subsidiaries, taken as a whole, (ii) the ability of the Borrower or any Guarantor to perform its obligations under any Loan Document to which it is a party, or (iii) the ability of the Administrative Agent or any Lender to enforce the Loan Documents.

Maximum Drawing Amount. The maximum aggregate amount that the beneficiaries may at any time draw under outstanding Letters of Credit, as such aggregate amount may be reduced from time to time pursuant to the terms of the Letters of Credit.

Moody's. Moody's Investors Services, Inc.

Multiemployer Plan. Any multiemployer plan within the meaning of Section 3(37) of ERISA maintained or contributed to by the Borrower or any ERISA Affiliate.

Non-Renewal Notice Date. See Section 4.1.2.

Notes. The Revolving Credit Notes.

Obligations. All indebtedness, obligations and liabilities of any of the Borrower and its Subsidiaries to any of the Lenders (including the Swing Line Lender), any Issuing Lender and the Administrative Agent arising or incurred under this Credit Agreement or any of the other Loan Documents or in respect of any of the Loans made or Reimbursement Obligations incurred or any Note, Letter of Credit Application, Letter of Credit or other instrument at any time evidencing any thereof, whether any of such indebtedness, obligations or liabilities (a) arise or are incurred individually or collectively, directly or indirectly, jointly or severally, absolutely or contingently, (b) arise by contract, operation of law or otherwise, (c) are matured or unmatured, liquidated or unliquidated, secured or unsecured, or (d) exist on the date of this Credit Agreement or arise thereafter.

outstanding. With respect to the Loans, the aggregate unpaid principal thereof as of any date of determination.

PBGC. The Pension Benefit Guaranty Corporation created by Section 4002 of ERISA and any successor entity or entities having similar responsibilities.

Permitted Liens. Liens permitted by Section 9.2.

Person. Any individual, corporation, limited liability company partnership, limited liability partnership, trust, other unincorporated association, business, or other legal entity, and any Governmental Authority.

Platform. See Section 8.3.

Prior Credit Agreement. That certain Revolving Credit Agreement by and among the Borrower, Bank of America (successor in interest to Fleet National Bank), the Lenders and the Administrative Agent dated as of October 16, 2003, as amended.

Public Lender. See Section 8.3.

Real Estate. All real property at any time owned or leased (as lessee or sublessee of such leasehold interest) by the Borrower or any of its Subsidiaries.

Record. The grid attached to a Note, or the continuation of such grid, or any other similar record, including computer records, maintained by any Lender with respect to any Loan referred to in such Note.

Reference Period. As of any date of determination, the period of four (4) consecutive fiscal quarters of the Borrower and its Subsidiaries ending on the last day of any fiscal quarter, treated as a single accounting period.

Register. See Section 15.3.

Reimbursement Obligation. The Borrower's obligation to reimburse the Issuing Lender and the Lenders on account of any drawing under any Letter of Credit as provided in Section 4.1.3.

Related Parties. With respect to any Person, such Person's Affiliates and the partners, directors, officers, employees, agents and advisors of such Person and of such Person's Affiliates.

Rental Expense. All rental expenses of the Borrower or any of its Subsidiaries during any applicable fiscal period with respect to Rental Obligations, determined on a consolidated basis in accordance with GAAP.

Rental Obligations. All obligations of the Borrower or any of its Subsidiaries under any rental agreements or leases of real or personal property, other than (a) obligations that can be terminated by the giving of notice without liability to the Borrower or such Subsidiary in excess of the liability for rent due as of the date on which such notice is given and under which no penalty or premium is paid as a result of any such termination, and (b) obligations in respect of any Capitalized Leases or any Synthetic Leases.

Replacement Lender. See Section 2.1(c).

Required Lenders. As of any date, the Lender(s) holding greater than fifty percent (50%) of the outstanding principal amount of the Revolving Credit Notes on such date; and if no such principal is outstanding, the Lender(s) whose aggregate Commitment(s) constitute(s) greater than fifty percent (50%) of the Total Commitment.

Restricted Payment. In relation to the Borrower and its Subsidiaries, any (a) Distribution, or (b) payment by the Borrower or its Subsidiaries (i) to the Borrower's or any such Subsidiary's shareholders (or other equity holders), in each case, other than to the Borrower, or (ii) to any Affiliate of the Borrower or any Subsidiary or any Affiliate of the Borrower's or such Subsidiary's shareholders (or other equity holders), in each case, other than to the Borrower.

Revolving Credit Loan Maturity Date. July 26, 2012, as the same may be extended pursuant to Section 2.1(c).

Revolving Credit Loans. Revolving credit loans (including the Swing Line Loans) made or to be made by the Lenders or the Administrative Agent to the Borrower pursuant to Section 2.

Revolving Credit Note Record. A Record with respect to a Revolving Credit Note.

Revolving Credit Notes. See Section 2.4.

Sale and Leaseback. See Section 9.6.

Second Extension Request. See Section 2.1(c).

Settlement. The making or receiving of payments, in immediately available funds, by the Lenders, to the extent necessary to cause each Lender's actual share of the outstanding amount of Revolving Credit Loans (after giving effect to any Loan Request) to be equal to such Lender's Commitment Percentage of the outstanding amount of such Revolving Credit Loans (after giving effect to any Loan Request), in any case where, prior to such event or action, the actual share is not so equal.

Settlement Amount. See Section 2.9.1.

Settlement Date. (a) The Drawdown Date relating to any Loan Request, (b) the date which is no more than ten (10) days after the making of a Swing Line Loan pursuant to Section 2.6.2, (d) at the option of the Administrative Agent, on any Business Day following a day on which the account officers of the Administrative Agent active upon the Borrower's account become aware of the existence of an Event of Default, (e) any day on which any conversion of a Base Rate Loan to a Eurodollar Rate Loan occurs, or (f) any Business Day on which (i) the amount of outstanding Revolving Credit Loans decreases and (ii) the amount of the Administrative Agent's Revolving Credit Loans outstanding equals zero Dollars (\$0).

Settling Lender. See Section 2.9.1.

Significant Subsidiary. The domestic Subsidiaries listed on Schedule 7.17(b) of the Credit Agreement and any other domestic Subsidiary, which, at any date of determination, either alone or together with the Subsidiaries of such Subsidiary, meets either of the following conditions: (a) as of the end of the most recent fiscal year of the Borrower, the total assets of such Subsidiary represented 10% or more of the Consolidated Total Assets of the Borrower and its Subsidiaries, or (b) for the most recent fiscal year of the Borrower, the net income before taxes of such Subsidiary represented 10% or more of the consolidated net income before taxes of the Borrower and its Subsidiaries, all as set forth on the most recently available consolidated and consolidating financial statements of the Borrower for such fiscal year.

S&P. Standard & Poor's Ratings Group.

Standby Letter of Credit Fee. See Section 4.2.

Subsidiary. At any time and from time to time, any corporation, association, partnership, limited liability company, joint venture or other business entity of which the Borrower and/or any Subsidiary of the Borrower, directly or indirectly at such time, either (a) owns or controls more than fifty percent (50%) of the Voting Stock, or (b) is entitled to share in more than fifty percent (50%) of the profits and losses, however determined.

Swing Line Lender. Bank of America.

Swing Line Loans. Revolving Credit Loans made by Bank of America pursuant to Section 2.6.2.

Synthetic Lease. Any lease of goods or other property, whether real or personal, which is treated as an operating lease under GAAP and as a loan or financing for U.S. income tax purposes.

Total Commitment. The sum of the Commitments of the Lenders, as in effect from time to time.

Trading with the Enemy Act. See Section 7.19.

Type. As to any Revolving Credit Loan which is not a Swing Line Loan, its nature as a Base Rate Loan or a Eurodollar Rate Loan.

**Uniform Customs.** With respect to any Letter of Credit, the Uniform Customs and Practice for Documentary Credits (1993 Revision), International Chamber of Commerce Publication No. 500 or any successor version thereto adopted by the Issuing Lender in the ordinary course of its business as a letter of credit issuer and in effect at the time of issuance of such Letter of Credit.

**Unpaid Reimbursement Obligation.** Any Reimbursement Obligation for which the Borrower does not reimburse the Administrative Agent, the Issuing Lender and the Lenders on the date specified in, and in accordance with, Section 4.1.3.

**Voting Stock.** Stock or similar interests, of any class or classes (however designated), the holders of which are at the time entitled, as such holders, to vote for the election of a majority of the directors (or persons performing similar functions) of the corporation, association, trust or other business entity involved, whether or not the right so to vote exists by reason of the happening of a contingency.

## **1.2 Rules of Interpretation.**

(a) A reference to any document or agreement shall include such document or agreement as amended, modified or supplemented from time to time in accordance with its terms and the terms of this Credit Agreement.

(b) The singular includes the plural and the plural includes the singular.

(c) A reference to any law includes any amendment or modification to such law.

(d) A reference to any Person includes its permitted successors and permitted assigns.

(e) Accounting terms not otherwise defined herein have the meanings assigned to them by GAAP applied on a consistent basis by the accounting entity to which they refer.

(f) The words “include”, “includes” and “including” are not limiting.

(g) All terms not specifically defined herein or by GAAP, which terms are defined in the Uniform Commercial Code as in effect in the State of New York, have the meanings assigned to them therein, with the term “instrument” being that defined under Article 9 of the Uniform Commercial Code.

(h) Reference to a particular “Section” refers to that section of this Credit Agreement unless otherwise indicated.

(i) The words “herein”, “hereof”, “hereunder” and words of like import shall refer to this Credit Agreement as a whole and not to any particular section or subdivision of this Credit Agreement.

(j) Unless otherwise expressly indicated, in the computation of periods of time from a specified date to a later specified date, the word “from” means “from and including,” the words “to” and “until” each mean “to but excluding,” and the word “through” means “to and including.”

**1.3 Letter of Credit Amounts.** Unless otherwise specified herein, the amount of a Letter of Credit at any time shall be deemed to be the stated amount of such Letter of Credit in effect at such time; provided, however, that with respect to any Letter of Credit that, by its terms or the terms of any Issuer Document related thereto, provides for one or more automatic increases in the stated amount thereof, the amount of such Letter of Credit shall be deemed to be the maximum stated amount of such Letter of Credit after giving effect to all such increases, whether or not such maximum stated amount is in effect at such time.

2. **THE REVOLVING CREDIT FACILITY.**

2.1 **Commitment to Lend.**

(a) Subject to the terms and conditions set forth in this Credit Agreement, each of the Lenders severally agrees to lend to the Borrower and the Borrower may borrow, repay, and reborrow from time to time from the Closing Date up to but not including the Revolving Credit Loan Maturity Date upon notice by the Borrower to the Administrative Agent given in accordance with Section 2.6, such sums as are requested by the Borrower up to a maximum aggregate amount outstanding (after giving effect to all amounts requested) at any one time equal to such Lender's Commitment minus such Lender's Commitment Percentage of the sum of the Maximum Drawing Amount and all Unpaid Reimbursement Obligations, provided that the sum of the outstanding amount of the Revolving Credit Loans (after giving effect to all amounts requested), including the Swing Line Loans, plus the Maximum Drawing Amount and all Unpaid Reimbursement Obligations shall not at any time exceed the Total Commitment at such time. The Revolving Credit Loans shall be made pro rata in accordance with each Lender's Commitment Percentage. Each request for a Revolving Credit Loan hereunder shall constitute a representation and warranty by the Borrower that the conditions set forth in Section 11 and Section 12, in the case of the initial Revolving Credit Loans to be made on the Closing Date, and Section 12, in the case of all other Revolving Credit Loans, have been satisfied on the date of such request.

(b) Limited Increase In Total Commitment. Unless a Default or Event of Default has occurred and is continuing, the Borrower may request, on one or more occasions, that the Total Commitment in effect on the date of such request be increased by up to \$100,000,000, provided, however, that (i) the aggregate amount of any and all increases pursuant to this Section 2.1(b) shall not exceed \$100,000,000, (ii) any Lender which is a party to this Credit Agreement prior to such increase shall have the right to elect to fund its pro rata share of the increase and any additional amounts allocated by the Administrative Agent, thereby increasing its Commitment hereunder, but no Lender shall be required to do so, (iii) in the event that it becomes necessary to include one or more new Lenders to provide additional funding under this Section 2.1(b) in order to enable such increase in the Total Commitment to occur, such new Lender must be reasonably acceptable to the Administrative Agent and the Borrower, (iv) the Lenders' Commitment Percentages shall be correspondingly adjusted, (v) each new Lender shall make all (if any) such payments to the other Lenders as may be necessary to result in the sum of the Revolving Credit Loans to be made by such new Lender plus such new Lender's proportionate share of the Maximum Drawing Amount and all Unpaid Reimbursement Obligations being equal to such new Lender's Commitment Percentage (as then in effect) of the aggregate principal amount of the sum of all Revolving Credit Loans outstanding to the Borrower as of such date plus the Maximum Drawing Amount and all Unpaid Reimbursement Obligations as of such date), and (vi) Revolving Credit Notes issued or amended and such other changes shall be made to the Loan Documents, as shall be necessary to reflect any such increase in the Total Commitment. Any such increase in the Total Commitment (whether by \$100,000,000 or by a lesser amount) shall require, among other things, the satisfaction of such conditions precedent as the Administrative Agent may require, including, without limitation, the obtaining by any applicable Lender of requisite internal approvals, the Administrative Agent's receipt of evidence of applicable corporate authorization and other corporate documentation from the Borrower and the legal opinion of counsel to the Borrower, each in form and substance satisfactory to the Administrative Agent and such Lenders as are participating in such increase. The Borrower shall prepay Revolving Credit Loans outstanding on the effective date of any such increase (and any additional amounts required pursuant to Section 5.10) to the extent necessary to keep the outstanding Revolving Credit Loans ratable with any revised Commitment Percentages arising from any nonratable increase in the Commitments under this Section.



(c) Extension of Revolving Credit Loan Maturity Date. The Borrower may, provided that no Default or Event of Default has occurred and is continuing, by written notice delivered to the Administrative Agent no later than (i) ninety days (90) days prior to July 26, 2012, request that the Revolving Credit Loan Maturity Date be extended to a date one year after the then existing Revolving Credit Loan Maturity Date (the "First Extension Request") and (ii) provided that the Required Lenders shall have consented to the First Extension Request and the Borrower shall have otherwise complied with the conditions set forth in this Section 2.1(c), ninety (90) days prior to July 26, 2013, request that the Revolving Credit Loan Maturity Date be extended to a date one year after the then existing Revolving Credit Loan Maturity Date as extended pursuant to the First Extension Request (the "Second Extension Request") and, together with the First Extension Request each individually, an "Extension Request" and collectively, the "Extension Requests"). The Administrative Agent shall notify the Lenders of each such Extension Request promptly after receipt thereof, and request each Lender to notify the Administrative Agent of its determination to consent or not to consent to each such Extension Request. If the Required Lenders consent to the First Extension Request by so notifying the Administrative Agent in writing no later than thirty (30) Business Days after notice of such Extension Request, the Revolving Credit Loan Maturity Date shall be extended to July 26, 2013 with respect to such consenting Lenders. If the Required Lenders consent to the Second Extension Request by so notifying the Administrative Agent in writing no later than thirty (30) Business Days after notice of such Extension Request, the Revolving Credit Loan Maturity Date shall be extended to July 26, 2014 with respect to such consenting Lenders. The determination with respect to each Extension Request shall be in the sole discretion of each Lender. Any Lender which fails to give written notice of its consent or non-consent within such period shall be deemed not to have consented to any Extension Request hereunder (a "Dissent"); provided that the Borrower may, within sixty (60) days of such Dissent, obtain a replacement lender satisfactory to the Administrative Agent (the "Replacement Lender") to assume the dissenting Lender's Loans and Commitments by (i) requesting the non-dissenting Lenders acquire and assume all of the dissenting Lender's Loans and Commitments, as provided herein, but no such Lenders shall be under an obligation to do so; or (ii) designating a Replacement Lender reasonably satisfactory to the Administrative Agent. If no satisfactory Replacement Lender shall be obtained, and/or none of the non-dissenting Lenders shall agree to acquire and assume all of the dissenting Lender's Loans and Commitments, then the Borrower shall repay the full amount of the outstanding Obligations owing to such dissenting Lender on the then existing Revolving Credit Loan Maturity Date with respect to such dissenting Lender. If any satisfactory Replacement Lender shall be obtained, and/or any of the non-dissenting Lenders shall agree to acquire and assume all of the dissenting Lender's Loans and Commitment, then such dissenting Lender shall, so long as no Event of Default shall have occurred and be continuing, assign, in accordance with Section 15, all of its Commitment, Loans, or Notes and other rights and obligations under this Credit Agreement and all other Loan Documents to such Replacement Lender or non-dissenting Lenders, as the case may be, in exchange for payment of the principal amount so assigned and all interest and fees accrued on the amount so assigned, plus all other Obligations then due and payable to the dissenting Lender; provided, however, that (i) such assignment shall be without recourse, representation or warranty and shall be on terms and conditions reasonably satisfactory to such dissenting Lender and such Replacement Lender and/or non-dissenting Lenders, as the case may be, and (ii) prior to any such assignment, the Borrower shall have paid to such dissenting Lender all amounts properly demanded and unreimbursed hereunder, if applicable. Upon the effective date of such assignment, the Borrower shall issue replacement Notes in favor of such Replacement Lender and/or non-dissenting Lenders, as the case may be, and such institution shall become a "Lender" for all purposes under this Credit Agreement and the other Loan Documents. Any extension of the Revolving Credit Loan Maturity Date shall require, among other things, the satisfaction of such conditions as the Administrative Agent may reasonably require, including: (A) all representations of the Borrower and its Subsidiaries shall be true and correct on and as of the effective date of such extension; (B) no Default or Event of Default shall have occurred and be continuing on the date of such extension; (C) since delivery to the Administrative Agent of the Borrower's most recent audited financial statements pursuant to Section 8.3, there shall not have occurred any event or condition that has had or could reasonably be expected, either individually or in the aggregate, to have a Material Adverse Effect; and (D) on the then existing Revolving Credit Loan Maturity Date prior to such extension, the Borrower shall prepay the outstanding amount of any Loans made available by any non-dissenting Lender to the extent necessary to keep the Commitments ratable among such non-dissenting Lenders.

**2.2 Commitment Fee.** The Borrower agrees to pay to the Administrative Agent for the accounts of the Lenders in accordance with their respective Commitment Percentages a commitment fee (the “Commitment Fee”) calculated at the rate per annum of the Applicable Margin with respect to the Commitment Fee as in effect from time to time on the actual daily amount during each calendar quarter or portion thereof from the date hereof to the Revolving Credit Loan Maturity Date by which the Total Commitment minus the sum of the Maximum Drawing Amount and all Unpaid Reimbursement Obligations exceeds the outstanding amount of Revolving Credit Loans (other than Swing Line Loans which shall not be considered usage for purposes of this calculation only) during such calendar quarter. The Commitment Fee shall be payable quarterly in arrears on the first day of each calendar quarter for the immediately preceding calendar quarter commencing on the first such date following the date hereof, with a final payment on the Revolving Credit Loan Maturity Date or any earlier date on which the Commitments shall terminate.

**2.3 Reduction of Total Commitment.** The Borrower shall have the right at any time and from time to time upon three (3) Business Days prior written notice to the Administrative Agent to reduce by \$5,000,000 or an integral multiple thereof or to terminate entirely the Total Commitment, whereupon the Commitments of the Lenders shall be reduced pro rata in accordance with their respective Commitment Percentages of the amount specified in such notice or, as the case may be, terminated. Promptly after receiving any notice of the Borrower delivered pursuant to this Section 2.3, the Administrative Agent will notify the Lenders of the substance thereof. Upon the effective date of any such reduction or termination, the Borrower shall pay to the Administrative Agent for the respective accounts of the Lenders the full amount of any Commitment Fee then accrued on the amount of the reduction. No reduction or termination of the Commitments may be reinstated.

**2.4 The Revolving Credit Notes.** The Revolving Credit Loans shall be evidenced by separate promissory notes of the Borrower in substantially the form of Exhibit A hereto (each a “Revolving Credit Note”), dated as of the Closing Date (or such other date on which a Lender may become a party hereto in accordance with Section 15 hereof) and completed with appropriate insertions. One Revolving Credit Note shall be payable to the order of each Lender in a principal amount equal to such Lender’s Commitment or, if less, the outstanding amount of all Revolving Credit Loans made by such Lender, plus interest accrued thereon, as set forth below. The Borrower irrevocably authorizes each Lender to make or cause to be made, at or about the time of the Drawdown Date of any Revolving Credit Loan or at the time of receipt of any payment of principal on such Lender’s Revolving Credit Note, an appropriate notation on such Lender’s Revolving Credit Note Record reflecting the making of such Revolving Credit Loan or (as the case may be) the receipt of such payment. The outstanding amount of the Revolving Credit Loans set forth on such Lender’s Revolving Credit Note Record shall be prima facie evidence, absent manifest error, of the principal amount thereof owing and unpaid to such Lender, but the failure to record, or any error in so recording, any such amount on such Lender’s Revolving Credit Note Record shall not limit or otherwise affect the obligations of the Borrower hereunder or under any Revolving Credit Note to make payments of principal of or interest on any Revolving Credit Note when due.

**2.5 Interest on Revolving Credit Loans.** Except as otherwise provided in Section 5.11,

(a) Each Revolving Credit Loan which is a Base Rate Loan shall bear interest for the period commencing with the Drawdown Date thereof and ending on the last day of the Interest Period with respect thereto at the rate per annum equal to the Base Rate plus the Applicable Margin with respect to Base Rate Loans as in effect from time to time.

(b) Each Revolving Credit Loan which is a Eurodollar Rate Loan shall bear interest for the period commencing with the Drawdown Date thereof and ending on the last day of the Interest Period with respect thereto at the rate per annum equal to the Eurodollar Rate determined for such Interest Period plus the Applicable Margin with respect to Eurodollar Rate Loans as in effect from time to time.

(c) Each Swing Line Loan shall bear interest from the period commencing with the Drawdown Date thereof and ending on the last day of the Interest Period with respect thereto at a rate per annum equal to, at the Borrower's option (i) the Base Rate plus the Applicable Margin with respect to Base Rate Loans in effect from time to time, and (ii) the Fixed Rate, which interest shall be paid on each Interest Payment Date for Swing Line Loans for the account of the Swing Line Lender. Interest periods for Swing Line Loans which are also Fixed Rate Loans shall be for a period of ten (10) days or less. The Borrower shall give the Swing Line Lender notice no later than 1:00 p.m. on the last day of the Interest Period that is a Fixed Rate Loan of its intention to repay such Swing Line Loan or to refund such Swing Line Loan with a Revolving Credit Loan which is not a Swing Line Loan in accordance with Section 2.9. In the event that the Borrower fails to give such notice, such Swing Line Loan shall, on the last day of such Interest Period cease to be a Fixed Rate Loan.

The Borrower promises to pay interest on each Revolving Credit Loan in arrears on each Interest Payment Date with respect thereto.

**2.6 Requests for Revolving Credit Loans.**

**2.6.1 General.** The Borrower shall give to the Administrative Agent written notice in the form of Exhibit B hereto (or telephonic notice confirmed promptly in a writing in the form of Exhibit B hereto) of each Revolving Credit Loan requested hereunder (a "Loan Request") (a) by no later than 12:00 p.m. (New York time) on the proposed Drawdown Date of any Base Rate Loan and (b) by no later than 12:00 noon (New York time) no less than three (3) Eurodollar Business Days prior to the proposed Drawdown Date of any Eurodollar Rate Loan. Each such notice shall specify (i) the principal amount of the Revolving Credit Loan requested, (ii) the proposed Drawdown Date of such Revolving Credit Loan, (iii) the Interest Period for such Revolving Credit Loan and (iv) the Type of such Revolving Credit Loan. Promptly upon receipt of any such notice, the Administrative Agent shall notify each of the Lenders thereof. Each Loan Request shall be irrevocable and binding on the Borrower and shall obligate the Borrower to accept the Revolving Credit Loan requested from the Lenders on the proposed Drawdown Date. With respect to Eurodollar Rate Loans, each Loan Request shall be in a minimum aggregate amount of \$1,000,000 or an integral multiple of \$500,000 in excess thereof, and with respect to Base Rate Loans, each Loan Request shall be in a minimum aggregate amount of \$500,000 or an integral multiple of \$100,000 in excess thereof.

**2.6.2** **Swing Line.** Notwithstanding the notice and minimum amount requirements set forth in Section 2.6.1 but otherwise in accordance with the terms and conditions of this Credit Agreement, the Swing Line Lender may, at the Borrower's request and in the Swing Line Lender's sole discretion and without conferring with the Lenders, make Revolving Credit Loans (each, a "Swing Line Loan") to the Borrower in an amount requested by the Borrower provided, that (a) each such Swing Line Loan shall be in a minimum aggregate amount of \$1,000,000 or an integral multiple of \$100,000 in excess thereof, and (b) the aggregate outstanding amount of all Swing Line Loans made by the Swing Line Lender pursuant to this Section 2.6.2 shall not exceed \$20,000,000 at any one time. The Borrower hereby requests and authorizes the Swing Line Lender to make from time to time such Swing Line Loans as may be so requested. The Borrower acknowledges and agrees that the making of such Swing Line Loans shall, in each case, be subject in all respects to the provisions of this Credit Agreement as if they were Swing Line Loans covered by a Loan Request including, without limitation, the limitations set forth in Section 2.1 and the requirements that the applicable provisions of Section 11 (in the case of Swing Line Loans made on the Closing Date) and Section 12 be satisfied. All actions taken by the Swing Line Lender pursuant to the provisions of this Section 2.6.2 shall be conclusive and binding on the Borrower and the Lenders absent the Swing Line Lender's gross negligence or willful misconduct.

**2.7** **Conversion Options.**

**2.7.1** **Conversion to Different Type of Revolving Credit Loan.** The Borrower may elect from time to time to convert any outstanding Revolving Credit Loan to a Revolving Credit Loan of another Type, provided that (a) with respect to any such conversion of a Eurodollar Rate Loan to a Base Rate Loan, the Borrower shall give the Administrative Agent at least one (1) Business Day prior written notice of such election; (b) with respect to any such conversion of a Base Rate Loan to a Eurodollar Rate Loan, the Borrower shall give the Administrative Agent at least three (3) Eurodollar Business Days prior written notice of such election; (c) with respect to any such conversion of a Eurodollar Rate Loan into a Base Rate Loan, such conversion shall only be made on the last day of the Interest Period with respect thereto and (d) no Revolving Credit Loan may be converted into a Eurodollar Rate Loan when any Default or Event of Default has occurred and is continuing. On the date on which such conversion is being made each Lender shall take such action as is necessary to transfer its Commitment Percentage of such Revolving Credit Loans to its Domestic Lending Office or its Eurodollar Lending Office, as the case may be. All or any part of outstanding Revolving Credit Loans of any Type may be converted into a Revolving Credit Loan of another Type as provided herein, provided that any partial conversion to a Eurodollar Rate Loan shall be in an aggregate principal amount of \$1,000,000 or an integral multiple of \$500,000 in excess thereof, and any partial conversion to a Base Rate Loan shall be in an aggregate principal amount of \$500,000 or an integral multiple of \$100,000 in excess thereof. Each Conversion Request relating to the conversion of a Revolving Credit Loan to a Eurodollar Rate Loan shall be irrevocable by the Borrower.

**2.7.2**        **Continuation of Type of Revolving Credit Loan.** Any Revolving Credit Loan of any Type may be continued as a Revolving Credit Loan of the same Type upon the expiration of an Interest Period with respect thereto by compliance by the Borrower with the notice provisions contained in Section 2.7.1; provided that no Eurodollar Rate Loan may be continued as such when any Default or Event of Default has occurred and is continuing, but shall be automatically converted to a Base Rate Loan on the last day of the first Interest Period relating thereto ending during the continuance of any Default or Event of Default of which officers of the Administrative Agent active upon the Borrower's account have actual knowledge. In the event that the Borrower fails to provide any such notice with respect to the continuation of any Eurodollar Rate Loan as such, then such Eurodollar Rate Loan shall be automatically converted to a Base Rate Loan on the last day of the first Interest Period relating thereto. The Administrative Agent shall notify the Lenders promptly when any such automatic conversion contemplated by this Section 2.7 is scheduled to occur.

**2.7.3**        **Eurodollar Rate Loans.** Any conversion to or from Eurodollar Rate Loans shall be in such amounts and be made pursuant to such elections so that, after giving effect thereto, the aggregate principal amount of all Eurodollar Rate Loans having the same Interest Period shall not be less than \$1,000,000 or an integral multiple of \$500,000 in excess thereof. No more than ten (10) Eurodollar Rate Loans having different Interest Periods may be outstanding at any time.

**2.7.4**        **Applicability of Conversion and Continuation Provisions.** Notwithstanding anything to the contrary herein contained, the provisions of this Section 2.7 shall not apply to Swing Line Loans.

**2.8**        **Funds for Revolving Credit Loan.**

**2.8.1**        **Funding Procedures.** Not later than 3:00 p.m. (New York time) on the proposed Drawdown Date of any Revolving Credit Loans, each of the Lenders will make available to the Administrative Agent, at the Administrative Agent's Office, in immediately available funds, the amount of such Lender's Commitment Percentage of the amount of the requested Revolving Credit Loans. Upon receipt from each Lender of such amount, and upon receipt of the documents required by Sections 11 and 12 and the satisfaction of the other conditions set forth therein, to the extent applicable, the Administrative Agent will make available to the Borrower the aggregate amount of such Revolving Credit Loans made available to the Administrative Agent by the Lenders. The failure or refusal of any Lender to make available to the Administrative Agent at the aforesaid time and place on any Drawdown Date the amount of its Commitment Percentage of the requested Revolving Credit Loans shall not relieve any other Lender from its several obligation hereunder to make available to the Administrative Agent the amount of such other Lender's Commitment Percentage of any requested Revolving Credit Loans.

**2.8.2**     **Advances by Administrative Agent.** The Administrative Agent may, unless notified to the contrary by any Lender prior to a Drawdown Date, assume that such Lender has made available to the Administrative Agent on such Drawdown Date the amount of such Lender's Commitment Percentage of the Revolving Credit Loans to be made on such Drawdown Date, and the Administrative Agent may, in reliance upon such assumption, make available to the Borrower a corresponding amount. If any Lender makes available to the Administrative Agent such amount on a date after such Drawdown Date, such Lender shall pay to the Administrative Agent on demand such amount in immediately available funds with interest thereon, for each day from and including the date such amount is made available to the Borrower to but excluding the date of payment to the Administrative Agent, at the greater of the Federal Funds Rate and a rate determined by the Administrative Agent in accordance with banking industry rules on interbank compensation, plus any administrative, processing or similar fees customarily charged by the Administrative Agent in connection with the foregoing. A statement of the Administrative Agent submitted to such Lender with respect to any amounts owing under this paragraph shall be prima facie evidence (absent manifest error) of the amount due and owing to the Administrative Agent by such Lender. If the amount of such Lender's Commitment Percentage of such Revolving Credit Loans is not made available to the Administrative Agent by such Lender within three (3) Business Days following such Drawdown Date, the Administrative Agent shall be entitled to recover such amount from the Borrower on demand, with interest thereon at the rate per annum applicable to the Revolving Credit Loans made on such Drawdown Date. If the Borrower and such Lender shall pay such interest to the Administrative Agent for the same or an overlapping period, the Administrative Agent shall promptly remit to the Borrower the amount of such interest paid by the Borrower for such period. If such Lender pays its share of the applicable borrowing to the Administrative Agent, then the amount so paid shall constitute such Lender's Loan included in such borrowing. Any payment by the Borrower shall be without prejudice to any claim the Borrower may have against a Lender that shall have failed to make such payment to the Administrative Agent.

**2.9**       **Settlements.**

**2.9.1**     **General.** On each Settlement Date, the Administrative Agent shall, not later than 1:00 p.m. (New York time), give telephonic, facsimile or electronic mail notice (a) to the Lenders and the Borrower of the respective outstanding amount of Revolving Credit Loans made by the Administrative Agent on behalf of the Lenders or in the form of Swing Line Loans from the immediately preceding Settlement Date through the close of business on the prior day and the amount of any Eurodollar Rate Loans to be made (following the giving of notice pursuant to Section 2.6.1(b)) on such date pursuant to a Loan Request and (b) to the Lenders of the amount (a "**Settlement Amount**") that each Lender (a "**Settling Lender**") shall pay to effect a Settlement of any Revolving Credit Loan. A statement of the Administrative Agent submitted to the Lenders and the Borrower or to the Lenders with respect to any amounts owing under this Section 2.9 shall be prima facie evidence (absent manifest error) of the amount due and owing. Each Settling Lender shall, not later than 3:00 p.m. (New York time) on such Settlement Date, effect a wire transfer of immediately available funds to the Administrative Agent in the amount of the Settlement Amount for such Settling Lender. All funds advanced by any Lender as a Settling Lender pursuant to this Section 2.9 shall for all purposes be treated as a Revolving Credit Loan made by such Settling Lender to the Borrower and all funds received by any Lender pursuant to this Section 2.9 shall for all purposes be treated as repayment of amounts owed with respect to Revolving Credit Loans made by such Lender. In the event that any bankruptcy, reorganization, liquidation, receivership or similar cases or proceedings in which the Borrower is a debtor prevent a Settling Lender from making any Revolving Credit Loan to effect a Settlement as contemplated hereby, such Settling Lender will make such dispositions and arrangements with the other Lenders with respect to such Revolving Credit Loans, either by way of purchase of participations, distribution, pro tanto assignment of claims, subrogation or otherwise as shall result in each Lender's share of the outstanding Revolving Credit Loans being equal, as nearly as may be, to such Lender's Commitment Percentage of the outstanding amount of the Revolving Credit Loans.

**2.9.2 Failure to Make Funds Available.** The Administrative Agent may, unless notified to the contrary by any Settling Lender prior to a Settlement Date, assume that such Settling Lender has made or will make available to the Administrative Agent on such Settlement Date the amount of such Settling Lender's Settlement Amount, and the Administrative Agent may, in reliance upon such assumption, make available to the Borrower a corresponding amount. If any Settling Lender makes available to the Administrative Agent such amount on a date after such Settlement Date, then such Settling Lender shall pay to the Administrative Agent forthwith on demand such amount in immediately available funds with interest thereon, for each day from and including the Settlement Date at the greater of the Federal Funds Rate and a rate determined by the Administrative Agent in accordance with banking industry rules on interbank compensation, plus any administrative, processing or similar fees customarily charged by the Administrative Agent in connection with the foregoing. A statement of the Administrative Agent submitted to such Settling Lender with respect to any amounts owing under this Section 2.9.2 shall be prima facie evidence (absent manifest error) of the amount due and owing to the Administrative Agent by such Settling Lender. If such Settling Lender's Settlement Amount is not made available to the Administrative Agent by such Settling Lender within three (3) Business Days following such Settlement Date, the Administrative Agent shall be entitled to recover such amount from the Borrower on demand, with interest thereon at the rate per annum applicable to the Revolving Credit Loans as of such Settlement Date.

**2.9.3 No Effect on Other Lenders.** The failure or refusal of any Settling Lender to make available to the Administrative Agent at the aforesaid time and place on any Settlement Date the amount of such Settling Lender's Settlement Amount shall not (a) relieve any other Settling Lender from its several obligations hereunder to make available to the Administrative Agent the amount of such other Settling Lender's Settlement Amount or (b) impose upon any Lender, other than the Settling Lender so failing or refusing, any liability with respect to such failure or refusal or otherwise increase the Commitment of such other Lender.

**3. REPAYMENT OF THE REVOLVING CREDIT LOANS.**

**3.1 Maturity.** The Borrower promises to pay on the Revolving Credit Loan Maturity Date, and there shall become absolutely due and payable on the Revolving Credit Loan Maturity Date, all of the Revolving Credit Loans outstanding on such date, together with any and all accrued and unpaid interest thereon. Without limiting the foregoing, the Borrower promises to pay to the Administrative Agent for its own account, and there shall become absolutely due and payable, the outstanding principal amount of each Swing Line Loan made to the Borrower on the earlier of the Settlement Date with respect thereto and the Revolving Credit Loan Maturity Date.

**3.2 Mandatory Repayments of Revolving Credit Loans.** If at any time the sum of the outstanding amount of the Revolving Credit Loans (including the Swing Line Loans), the Maximum Drawing Amount and all Unpaid Reimbursement Obligations exceeds the Total Commitment at such time, then the Borrower shall immediately pay the amount of such excess to the Administrative Agent for the respective accounts of the Lenders for application: first, to the Swing Line Loans; second, to any Unpaid Reimbursement Obligations; third, to the Revolving Credit Loans; and fourth, to provide to the Administrative Agent cash collateral for Reimbursement Obligations as contemplated by Section 4.1.7.

Each payment of any Unpaid Reimbursement Obligations or prepayment of Revolving Credit Loans (other than Swing Line Loans) shall be allocated among the Lenders, in proportion, as nearly as practicable, to each Reimbursement Obligation or (as the case may be) the respective unpaid principal amount of each Lender's Revolving Credit Note, with adjustments to the extent practicable to equalize any prior payments or repayments not exactly in proportion. Each payment or prepayment of Swing Line Loans shall be allocated to the Swing Line Lender.

**3.3 Optional Repayments of Revolving Credit Loans.** The Borrower shall have the right, at its election, to repay the outstanding amount of the Revolving Credit Loans and Fixed Rate Loans, as a whole or in part, at any time without penalty or premium, provided that any full or partial prepayment of the outstanding amount of any Eurodollar Rate Loans pursuant to this Section 3.3 may be made only on the last day of the Interest Period relating thereto unless breakage costs described in Section 5.10 in connection therewith are paid by the Borrower. The Borrower shall give the Administrative Agent, no later than 11:00 a.m., New York time, on such day written notice of any proposed prepayment pursuant to this Section 3.3 of Base Rate Loans, and no later than 12:00 noon, New York time, three (3) Eurodollar Business Days notice of any proposed prepayment pursuant to this Section 3.3 of Fixed Rate Loans or Eurodollar Rate Loans, in each case specifying the proposed date of prepayment of Revolving Credit Loans and the principal amount to be prepaid. Each such partial prepayment of the Revolving Credit Loans shall be in a minimum aggregate amount of \$1,000,000 or an integral multiple of \$500,000 in excess thereof, shall be accompanied by the payment of accrued interest on the principal prepaid to the date of prepayment and shall be applied, in the absence of instruction by the Borrower, first to the principal of Fixed Rate Loans, second to the principal of Base Rate Loans and third to the principal of Eurodollar Rate Loans. Each partial prepayment shall be allocated among the Lenders, in proportion, as nearly as practicable, to the respective unpaid principal amount of each Lender's Revolving Credit Note, with adjustments to the extent practicable to equalize any prior repayments not exactly in proportion.

#### **4. LETTERS OF CREDIT.**

##### **4.1 Letter of Credit Commitments.**

**4.1.1 Commitment to Issue Letters of Credit.** (a) Subject to the terms and conditions hereof and the execution and delivery by the Borrower of a letter of credit application on the Issuing Lender's customary form (a "Letter of Credit Application"), the Issuing Lender on behalf of the Lenders and in reliance upon the agreement of the Lenders set forth in Section 4.1.4 and upon the representations and warranties of the Borrower contained herein, agrees, in its individual capacity, to issue, extend, amend and renew for the account of the Borrower one or more standby or documentary letters of credit (individually, a "Letter of Credit"), in such form as may be requested from time to time by the Borrower and agreed to by the Issuing Lender; provided, however, that, after giving effect to such request, the sum of (i) the Maximum Drawing Amount on all Letters of Credit, (ii) all Unpaid Reimbursement Obligations, and (iii) the amount of all Revolving Credit Loans (including Swing Line Loans) outstanding shall not exceed the Total Commitment at such time. As of the Closing Date, the letters of credit existing for the account of the Borrower under the Prior Credit Agreement set forth on Schedule 4.1.1 attached hereto, shall become a Letter of Credit under this Credit Agreement for all purposes.



(b) The Issuing Lender shall not issue any Letter of Credit if the expiry date of such requested Letter of Credit would occur after the Letter of Credit Expiration Date, unless all the Lenders have approved such expiry date.

(c) The Issuing Lender shall not be under any obligation to issue any Letter of Credit if:

(i) any order, judgment or decree of any Governmental Authority or arbitrator shall by its terms purport to enjoin or restrain the Issuing Lender from issuing such Letter of Credit, or any law applicable to the Issuing Lender or any request or directive (whether or not having the force of law) from any Governmental Authority with jurisdiction over the Issuing Lender shall prohibit, or request that the Issuing Lender refrain from, the issuance of letters of credit generally or such Letter of Credit in particular or shall impose upon the Issuing Lender with respect to such Letter of Credit any restriction, reserve or capital requirement (for which the Issuing Lender is not otherwise compensated hereunder) not in effect on the Closing Date, or shall impose upon the Issuing Lender any unreimbursed loss, cost or expense which was not applicable on the Closing Date and which the Issuing Lender in good faith deems material to it.

(ii) the issuance of such Letter of Credit would violate one or more policies of the Issuing Lender relating to its ability to issue Letters of Credit; or

(iii) a default of any Lender's obligations to fund under Section 4.1.3 exists or any Lender is at such time a Delinquent Lender hereunder, unless the Issuing Lender has entered into satisfactory arrangements with the Borrower or such Lender to eliminate the Issuing Lender's risk with respect to such Lender.

Furthermore, the Issuing Lender shall not amend any Letter of Credit if the Issuing Lender would not be permitted at such time to issue such Letter of Credit in its amended form under the terms hereof and the Issuing Lender shall be under no obligation to amend any Letter of Credit if (A) the Issuing Lender would have no obligation at such time to issue such Letter of Credit in its amended form under the terms hereof, or (B) the beneficiary of such Letter of Credit does not accept the proposed amendment to such Letter of Credit.

**4.1.2 Procedures for Issuance and Amendment of Letters of Credit; Auto-Extension Letters of Credit.** (a) Each Letter of Credit shall be issued or amended, as the case may be, upon the request of the Borrower delivered to the Issuing Lender (with a copy to the Administrative Agent) in the form of a Letter of Credit Application, appropriately completed and signed by the Borrower. Such Letter of Credit Application must be received by the Issuing Lender and the Administrative Agent not later than 3:00 p.m. (New York time) at least one Business Day (or such later date and time as the Administrative Agent and the Issuing Lender may agree in a particular instance in their sole discretion) prior to the proposed issuance date or date of amendment, as the case may be. In the case of a request for an initial issuance of a Letter of Credit, such Letter of Credit Application shall specify in form and detail satisfactory to the Issuing Lender: (i) the proposed issuance date of the requested Letter of Credit (which shall be a Business Day); (ii) the Maximum Drawing Amount thereof; (iii) the expiry date thereof; (iv) the name and address of the beneficiary thereof; (v) the documents to be presented by such beneficiary in case of any drawing thereunder; (vi) the full text of any certificate to be presented by such beneficiary in case of any drawing thereunder; and (vii) such other matters as the Issuing Lender may require. In the case of a request for an amendment of any outstanding Letter of Credit, such Letter of Credit Application shall specify in form and detail satisfactory to the Issuing Lender (i) the Letter of Credit to be amended; (ii) the proposed date of amendment thereof (which shall be a Business Day); (iii) the nature of the proposed amendment; and (iv) such other matters as the Issuing Lender may require. Additionally, the Borrower shall furnish to the Issuing Lender and the Administrative Agent such other documents and information pertaining to such requested Letter of Credit issuance or amendment, including any Issuer Documents, as the Issuing Lender or the Administrative Agent may reasonably require. In the event that any provision of any Letter of Credit Application shall be inconsistent with any provision of this Credit Agreement, then the provisions of this Credit Agreement shall, to the extent of any such inconsistency, govern.

(b) Promptly after receipt of any Letter of Credit Application, the Issuing Lender will confirm with the Administrative Agent (by telephone or in writing) that the Administrative Agent has received a copy of such Letter of Credit Application from the Borrower and, if not, the Issuing Lender will provide the Administrative Agent with a copy thereof. Unless the Issuing Lender has received written notice from any Lender, the Administrative Agent, the Borrower or any Guarantor, at least one Business Day prior to the requested date of issuance or amendment of the applicable Letter of Credit, that one or more applicable conditions contained in Section 12 shall not then be satisfied, then, subject to the terms and conditions hereof, the Issuing Lender shall, on the requested date, issue a Letter of Credit for the account of the Borrower or enter into the applicable amendment, as the case may be, in each case in accordance with the Issuing Lender's usual and customary business practices. Immediately upon the issuance of each Letter of Credit, each Lender shall be deemed to, and hereby irrevocably and unconditionally agrees to, purchase from the Issuing Lender a risk participation in such Letter of Credit in an amount equal to such Lender's Commitment Percentage of the amount of such Letter of Credit.

(c) If the Borrower so requests in any applicable Letter of Credit Application, and subject to the terms and conditions of Section 4.1.1, the Issuing Lender agrees to issue a Letter of Credit that has automatic renewal provisions (each, an "Auto-Renewal Letter of Credit"); provided that any such Auto-Renewal Letter of Credit must permit the Issuing Lender to prevent any such renewal at least once in each twelve-month period (commencing with the date of issuance of such Letter of Credit) by giving prior notice to the beneficiary thereof not later than a day (the "Non-Renewal Notice Date") in each such twelve-month period to be agreed upon at the time such Letter of Credit is issued. Unless otherwise directed by the Issuing Lender, the Borrower shall not be required to make a specific request to the Issuing Lender for any such renewal. Once an Auto-Renewal Letter of Credit has been issued, the Lenders shall be deemed to have authorized (but may not require) the Issuing Lender to permit the renewal of such Letter of Credit at any time to an expiry date not later than the Letter of Credit Expiration Date; provided, however, that the Issuing Lender shall not permit any such renewal if (A) the Issuing Lender has determined that it would not be permitted, or would have no obligation, at such time to issue such Letter of Credit in its revised form under the terms hereof (by reason of the provisions of clause (b) or (c) of Section 4.1.1 or otherwise), or (B) it has received notice (which may be by telephone or in writing) on or before the day that is seven (7) Business Days before the Non-Renewal Notice Date from the Administrative Agent, any Lender or the Borrower that one or more of the applicable conditions specified in Section 12 is not then satisfied, and in each such case directing the Issuing Lender not to permit such renewal.

(d) Promptly after its delivery of any Letter of Credit or any amendment to a Letter of Credit to an advising bank with respect thereto or to the beneficiary thereof, the Issuing Lender will also deliver to the Borrower and the Administrative Agent a true and complete copy of such Letter of Credit or amendment.

**4.1.3 Drawings and Reimbursements; Funding of Participations.** (a) Upon payment by the Issuing Lender of a drawing under any Letter of Credit, the Issuing Lender shall notify the Borrower and the Administrative Agent thereof not later than 11:00 a.m. (New York time) on the date of such payment (each such date, an "Honor Date"). Not later than 1:00 p.m. (New York time) on the Honor Date, the Borrower shall reimburse the Issuing Lender through the Administrative Agent in an amount equal to the amount of such payment. If the Borrower fails to so reimburse the Issuing Lender by such time, the Administrative Agent shall promptly notify each Lender of the Honor Date, the amount of the Unpaid Reimbursement Obligations, and the amount of such Lender's pro rata share thereof. In such event, the Borrower shall be deemed to have made a Loan Request which shall be for a Base Rate Loan to be disbursed on the Honor Date in an amount equal to the Unpaid Reimbursement Obligation, without regard to the minimum and multiples specified herein for the principal amount of Base Rate Loans, but subject to the amount of the unutilized portion of the Total Commitment and the conditions set forth in Section 12. Any notice given by the Issuing Lender or the Administrative Agent pursuant to this Section 4.1.3(a) must be given in writing to such Persons as may from time to time be designated by the Borrower in accordance with Section 16.6.

(b) Each Lender shall upon any notice pursuant to Section 4.1.3(a) make funds available to the Administrative Agent for the account of the Issuing Lender at the Administrative Agent's Office in an amount equal to its Commitment Percentage of the Unpaid Reimbursement Obligations not later than 3:00 p.m. (New York time) on the Business Day specified in such notice by the Administrative Agent, whereupon, subject to the provisions of Section 4.1.3(c), each Lender that so makes funds available shall be deemed to have made a Base Rate Loan to the Borrower in such amount. The Administrative Agent shall remit the funds so received to the Issuing Lender.

(c) With respect to any Unpaid Reimbursement Obligation that is not fully refinanced by a Loan which is a Base Rate Loan because the conditions set forth in Section 12 cannot be satisfied or for any other reason, the Borrower shall be deemed to have incurred from the Issuing Lender a Letter of Credit Advance in the amount of the Unpaid Reimbursement Obligation that is not so refinanced, which Letter of Credit Advance shall be due and payable on demand (together with interest) and shall bear interest at the rate set forth in Section 5.11. In such event, each Lender's payment to the Administrative Agent for the account of the Issuing Lender pursuant to Section 4.1.3(b) shall be deemed payment in respect of its participation in such Letter of Credit Advance and shall constitute a Letter of Credit Advance from such Lender in satisfaction of its participation obligation under this Section 4.1.3.

(d) Until each Lender funds its Letter of Credit Advance pursuant to this Section 4.1.3 to reimburse the Issuing Lender for any amount drawn under any Letter of Credit, interest in respect of such Lender's pro rata share of such amount shall be solely for the account of the Issuing Lender.

(e) Each Lender's obligation to make Letter of Credit Advances to reimburse the Issuing Lender for amounts drawn under Letters of Credit, as contemplated by this Section 4.1.3, shall be absolute and unconditional and shall not be affected by any circumstance, including (i) any setoff, counterclaim, recoupment, defense or other right which such Lender may have against the Issuing Lender, the Borrower or any other Person for any reason whatsoever; (ii) the occurrence or continuance of a Default, or (iii) any other occurrence, event or condition, whether or not similar to any of the foregoing; provided, however, that each Lender's obligation to make Letter of Credit Advances pursuant to this Section 4.1.3 is subject to the conditions set forth in Section 12. No such making of a Letter of Credit Advance shall relieve or otherwise impair the obligation of the Borrower to reimburse the Issuing Lender for the amount of any payment made by the Issuing Lender under any Letter of Credit, together with interest as provided herein.

(f) If any Lender fails to make available to the Administrative Agent for the account of the Issuing Lender any amount required to be paid by such Lender pursuant to the foregoing provisions of this Section 4.1.3 by the time specified in Section 4.1.3(b), the Issuing Lender shall be entitled to recover from such Lender (acting through the Administrative Agent), on demand, such amount with interest thereon for the period from the date such payment is required to the date on which such payment is immediately available to the Issuing Lender at a rate per annum equal to the greater of the Federal Funds Rate and a rate determined by the Issuing Lender in accordance with banking industry rules on interbank compensation. A certificate of the Issuing Lender submitted to any Lender (through the Administrative Agent) with respect to any amounts owing under this clause (vi) shall be conclusive absent manifest error.

**4.1.4 Repayment of Participations.** (a) At any time after the Issuing Lender has made a payment under any Letter of Credit and has received from any Lender such Lender's Letter of Credit Advance in respect of such payment in accordance with Section 4.1.3, if the Administrative Agent receives for the account of the Issuing Lender any payment in respect of the related Unpaid Reimbursement Obligations or interest thereon (whether directly from the Borrower or otherwise), the Administrative Agent will distribute to such Lender its pro rata share thereof (appropriately adjusted, in the case of interest payments, to reflect the period of time during which such Lender's Letter of Credit Advance was outstanding) in the same funds as those received by the Administrative Agent.

(b) If any payment received by the Administrative Agent for the account of the Issuing Lender pursuant to Section 4.1.3(a) is required to be returned under any circumstances (including pursuant to any settlement entered into by the Issuing Lender in its discretion), each Lender shall pay to the Administrative Agent for the account of the Issuing Lender its pro rata thereof on demand of the Administrative Agent, plus interest thereon from the date of such demand to the date such amount is returned by such Lender, at a rate per annum equal to the Federal Funds Rate from time to time in effect. The obligations of the Lenders under this clause shall survive the payment in full of the Obligations and the termination of this Credit Agreement.

**4.1.5 Obligations Absolute.** The obligation of the Borrower to reimburse the Issuing Lender for each drawing under each Letter of Credit and to repay each Letter of Credit Advance shall be absolute, unconditional and irrevocable, and shall be paid strictly in accordance with the terms of this Credit Agreement under all circumstances, including the following:

(a) any lack of validity or enforceability of such Letter of Credit, this Credit Agreement, or any other Loan Document;

(b) the existence of any claim, counterclaim, setoff, defense or other right that the Borrower or any Subsidiary may have at any time against any beneficiary or any transferee of such Letter of Credit (or any Person for whom any such beneficiary or any such transferee may be acting), the Issuing Lender or any other Person, whether in connection with this Credit Agreement, the transactions contemplated hereby or by such Letter of Credit or any agreement or instrument relating thereto, or any unrelated transaction;

(c) any draft, demand, certificate or other document presented under such Letter of Credit proving to be forged, fraudulent or invalid in any respect or any statement therein being untrue or inaccurate in any respect; or any loss or delay in the transmission or otherwise of any document required in order to make a drawing under such Letter of Credit; or

(d) any payment by the Issuing Lender under such Letter of Credit against presentation of a draft or certificate that does not strictly comply with the terms of such Letter of Credit (so long as such draft or certificate complies in all material respects with the terms of such Letter of Credit); or any payment made by the Issuing Lender under such Letter of Credit to any Person purporting to be a trustee in bankruptcy, debtor-in-possession, assignee for the benefit of creditors, liquidator, receiver or other representative of or successor to any beneficiary or any transferee of such Letter of Credit, including any arising in connection with any proceeding under any Debtor Relief Law.

The Borrower shall promptly examine a copy of each Letter of Credit and each amendment thereto that is delivered to it and, in the event of any claim of noncompliance with the Borrower's instructions or other irregularity, the Borrower will immediately notify the Issuing Lender. The Borrower shall be conclusively deemed to have waived any such claim against the Issuing Lender and its correspondents unless such notice is given as aforesaid.

**4.1.6 Role of Issuing Lender.** Each Lender and the Borrower agree that, in paying any drawing under a Letter of Credit, the Issuing Lender shall not have any responsibility to obtain any document (other than any sight draft, certificates and documents expressly required by the Letter of Credit) or to ascertain or inquire as to the validity or accuracy of any such document or the authority of the Person executing or delivering any such document. None of the Issuing Lender, the Administrative Agent, any of their respective Related Parties nor any correspondent, participant or assignee of the Issuing Lender shall be liable to any Lender for (a) any action taken or omitted in connection herewith at the request or with the approval of the Lenders or the Required Lenders, as applicable; (b) any action taken or omitted in the absence of gross negligence or willful misconduct; or (c) the due execution, effectiveness, validity or enforceability of any document or instrument related to any Letter of Credit or Issuer Document. The Borrower hereby assumes all risks of the acts or omissions of any beneficiary or transferee with respect to its use of any Letter of Credit; provided, however, that this assumption is not intended to, and shall not, preclude the Borrower from pursuing such rights and remedies as it may have against the beneficiary or transferee at law or under any other agreement. None of the Issuing Lender, the Administrative Agent, any of their respective Related Parties nor any correspondent, participant or assignee of the Issuing Lender shall be liable or responsible for any of the matters described in clauses (a) through (e) of Section 4.1.5; provided, however, that anything in such clauses to the contrary notwithstanding, the Borrower may have a claim against the Issuing Lender, and the Issuing Lender may be liable to the Borrower, to the extent, but only to the extent, of any direct, as opposed to consequential or exemplary, damages suffered by the Borrower which the Borrower proves were caused by the Issuing Lender's willful misconduct or gross negligence or the Issuing Lender's willful failure to pay under any Letter of Credit after the presentation to it by the beneficiary of a sight draft and certificate(s) strictly complying with the terms and conditions of a Letter of Credit. In furtherance and not in limitation of the foregoing, the Issuing Lender may accept documents that appear on their face to be in order, without responsibility for further investigation, regardless of any notice or information to the contrary, and the Issuing Lender shall not be responsible for the validity or sufficiency of any instrument transferring or assigning or purporting to transfer or assign a Letter of Credit or the rights or benefits thereunder or proceeds thereof, in whole or in part, which may prove to be invalid or ineffective for any reason.

**4.1.7 Cash Collateral.**

(a) Upon the reduction (but not termination) of the Total Commitment to an amount less than the Maximum Drawing Amount, the Administrative Agent may require, and at the direction of the Required Lenders shall require, that the Borrower shall immediately cash collateralize an amount equal to 100% of such difference, to be held by the Issuing Lender as cash collateral for any drawing under the Letters of Credit then outstanding.

(b) Upon the termination of the Total Commitment or the acceleration of the Reimbursement Obligations with respect to all Letters of Credit in accordance with Section 13, the Administrative Agent may require, and at the direction of the Required Lenders shall require, that the Borrower shall immediately cash collateralize an amount equal to 100% of the aggregate Maximum Drawing Amount of all such Letters of Credit, to be held by the Issuing Lender as cash collateral for any drawing under any such Letter of Credit; provided, that upon acceleration of the Reimbursement Obligations with respect to all Letters of Credit pursuant to Sections 13(h) or (i), the Borrower's obligations to immediately cash collateralize an amount equal to 100% of the aggregate Maximum Drawing Amount of all such Letters of Credit as aforesaid shall automatically become effective without further act by the Administrative Agent or any Lender.

For purposes of this Section 4.1.7 herein, "cash collateralize" means to pledge and deposit with or deliver to the Administrative Agent, for the benefit of the Issuing Lender and the Lenders, as collateral for the Maximum Drawing Amount of the Letters of Credit then outstanding (or, in the case of clause (a) above, the difference between the Total Commitment and the Maximum Drawing Amount of the Letters of Credit then outstanding), cash or deposit account balances pursuant to documentation in form and substance satisfactory to the Administrative Agent and the Issuing Lender (which documents are hereby consented to by the Lenders). The Borrower hereby grants to the Administrative Agent, for the benefit of the Issuing Lender and the Lenders, a security interest in all such cash, deposit accounts and all balances therein and all proceeds of the foregoing. Cash collateral shall be maintained in blocked, interest bearing deposit accounts at Bank of America.

**4.1.8 Applicability ISP and UCP.** Unless otherwise expressly agreed by the Issuing Lender and the Borrower when a Letter of Credit is issued (a) the rules of the ISP shall apply to each standby Letter of Credit, and (b) the rules of the Uniform Customs and Practice for Documentary Credits, as most recently published by the International Chamber of Commerce at the time of issuance shall apply to each commercial Letter of Credit.

**4.2 Letter of Credit Fees.** The Borrower shall pay a fee (in each case, a “Letter of Credit Fee”) to the Administrative Agent (a) quarterly in arrears on the first day of each fiscal quarter of the Borrower for the immediately preceding fiscal quarter of the Borrower, in respect of each standby Letter of Credit, an amount equal to the Applicable Margin per annum with respect to Standby Letter of Credit Fees multiplied by the result of (i) the average daily face amount of such standby Letter of Credit during such period, multiplied by the number of days such standby Letter of Credit is outstanding and divided by (ii) three hundred and sixty (360) (a “Standby Letter of Credit Fee”), and (b) quarterly in arrears on the first day of each fiscal quarter of the Borrower for the immediately preceding fiscal quarter of the Borrower, in respect of each documentary Letter of Credit, an amount equal to the Applicable Margin per annum with respect to documentary Letter of Credit Fees multiplied by the result of (i) the average daily face amount of such documentary Letter of Credit during such period, multiplied by the number of days such documentary Letter of Credit is outstanding, divided by (B) three hundred and sixty (360) (a “Documentary Letter of Credit Fee”), in each case which Letter of Credit Fee shall be for the accounts of the Lenders in accordance with their respective Commitment Percentages. In respect of each Letter of Credit, the Borrower shall also pay to the Issuing Lender for the Issuing Lender’s own account, at such other time or times as such charges are customarily made by the Issuing Lender, the Issuing Lender’s customary fronting, issuance, amendment, negotiation or document examination and other administrative fees as in effect from time to time.

**4.3 Conflict with Issuer Documents.** In the event of any conflict between the terms hereof and the terms of any Issuer Document, the terms hereof shall control.

**5. CERTAIN GENERAL PROVISIONS.**

**5.1 Arrangement Fee.** The Borrower agrees to pay to the Arranger for its own account, on the Closing Date an arrangement fee (the “Arrangement Fee”) as set forth in the Fee Letter.

**5.2 Administrative Agent’s Fee.** The Borrower agrees to pay to the Administrative Agent for its own account, on the Closing Date and on each anniversary thereof, an administrative agent’s fee (the “Administrative Agent’s Fee”) as set forth in the Fee Letter.

**5.3 Funds for Payments.**

**5.3.1 Payments to Administrative Agent.** All payments of principal, interest, Reimbursement Obligations, Fees and any other amounts due hereunder or under any of the other Loan Documents shall be made on the due date thereof to the Administrative Agent in Dollars, for the respective accounts of the Lenders and the Administrative Agent, at the Administrative Agent’s Office or at such other place that the Administrative Agent may from time to time designate, in each case at or about 3:00 p.m. (New York time or other local time at the place of payment) and in immediately available funds.

**5.3.2 No Offset, etc.** All payments by the Borrower hereunder and under any of the other Loan Documents shall be made without recoupment, setoff or counterclaim and free and clear of and without deduction for any taxes, levies, imposts, duties, charges, fees, deductions, withholdings, compulsory loans, restrictions or conditions of any nature now or hereafter imposed or levied by any jurisdiction or any political subdivision thereof or taxing or other authority therein unless the Borrower is compelled by law to make such deduction or withholding. If any such obligation is imposed upon the Borrower with respect to any amount payable by it hereunder or under any of the other Loan Documents, the Borrower will pay to the Administrative Agent, for the account of the Lenders or (as the case may be) the Administrative Agent, on the date on which such amount is due and payable hereunder or under such other Loan Document, such additional amount in Dollars as shall be necessary to enable the Lenders or the Administrative Agent to receive the same net amount which the Lenders or the Administrative Agent would have received on such due date had no such obligation been imposed upon the Borrower. The Borrower will deliver promptly to the Administrative Agent certificates or other valid vouchers for all taxes or other charges deducted from or paid with respect to payments made by the Borrower hereunder or under such other Loan Document.

**5.4 Computations.** All computations of interest on (a) the Loans (other than Eurodollar Rate Loans) and of Fees shall, unless otherwise expressly provided herein, be based on a 365/366-day year and (b) Eurodollar Rate Loans shall be based on a 360-day year and, in each case, paid for the actual number of days elapsed. Except as otherwise provided in the definition of the term “Interest Period” with respect to Eurodollar Rate Loans, whenever a payment hereunder or under any of the other Loan Documents becomes due on a day that is not a Business Day, the due date for such payment shall be extended to the next succeeding Business Day, and interest and Fees shall accrue during such extension. The outstanding amount of the Loans as reflected on the Revolving Credit Note Records from time to time shall be considered correct and binding on the Borrower unless within five (5) Business Days after receipt of any notice by the Administrative Agent or any of the Lenders of such outstanding amount, the Administrative Agent or such Lender shall notify the Borrower to the contrary.

**5.5 Inability to Determine Eurodollar Rate.** In the event, prior to the commencement of any Interest Period relating to any Eurodollar Rate Loan, the Administrative Agent shall determine or be notified by the Required Lenders that adequate and reasonable methods do not exist for ascertaining the Eurodollar Rate that would otherwise determine the rate of interest to be applicable to any Eurodollar Rate Loan during any Interest Period, the Administrative Agent shall forthwith give notice of such determination (which shall be conclusive and binding on the Borrower and the Lenders) to the Borrower and the Lenders. In such event (a) any Loan Request or Conversion Request with respect to Eurodollar Rate Loans shall be automatically withdrawn and shall be deemed a request for Base Rate Loans, (b) each Eurodollar Rate Loan will automatically, on the last day of the then current Interest Period relating thereto, become a Base Rate Loan, and (c) the obligations of the Lenders to make Eurodollar Rate Loans shall be suspended until the Administrative Agent or the Required Lenders determine that the circumstances giving rise to such suspension no longer exist, whereupon the Administrative Agent or, as the case may be, the Administrative Agent upon the instruction of the Required Lenders, shall so notify the Borrower and the Lenders.

**5.6 Illegality.** Notwithstanding any other provisions herein, if any present or future law, regulation, treaty or directive or in the interpretation or application thereof shall make it unlawful for any Lender to make or maintain Eurodollar Rate Loans, such Lender shall forthwith give notice of such circumstances to the Borrower and the other Lenders and thereupon (a) the commitment of such Lender to make Eurodollar Rate Loans or convert Base Rate Loans to Eurodollar Rate Loans shall forthwith be suspended and (b) such Lender's Revolving Credit Loans then outstanding as Eurodollar Rate Loans, if any, shall be converted automatically to Base Rate Loans on the last day of each Interest Period applicable to such Eurodollar Rate Loans or within such earlier period as may be required by law. The Borrower hereby agrees promptly to pay the Administrative Agent for the account of such Lender, upon demand by such Lender, any additional amounts necessary to compensate such Lender for any costs incurred by such Lender in making any conversion in accordance with this Section 5.6, including any interest or fees payable by such Lender to lenders of funds obtained by it in order to make or maintain its Eurodollar Rate Loans hereunder.



5.7 **Additional Costs, etc.** If any present or future applicable law, which expression, as used herein, includes statutes, rules and regulations thereunder and interpretations thereof by any competent court or by any governmental or other regulatory body or official charged with the administration or the interpretation thereof and requests, directives, instructions and notices at any time or from time to time hereafter made upon or otherwise issued to any Lender or the Administrative Agent by any central bank or other fiscal, monetary or other authority (whether or not having the force of law), shall:

(a) subject any Lender or the Administrative Agent to any tax, levy, impost, duty, charge, fee, deduction or withholding of any nature with respect to this Credit Agreement, the other Loan Documents, any Letters of Credit, such Lender's Commitment or the Loans (other than taxes based upon or measured by the income or profits of such Lender or the Administrative Agent), or

(b) materially change the basis of taxation (except for changes in taxes on income or profits) of payments to any Lender of the principal of or the interest on any Loans or any other amounts payable to any Lender or the Administrative Agent under this Credit Agreement or any of the other Loan Documents, or

(c) impose or increase or render applicable (other than to the extent specifically provided for elsewhere in this Credit Agreement) any special deposit, reserve, assessment, liquidity, capital adequacy or other similar requirements (whether or not having the force of law) against assets held by, or deposits in or for the account of, or loans by, or letters of credit issued by, or commitments of an office of any Lender, or

(d) impose on any Lender or the Administrative Agent any other conditions or requirements with respect to this Credit Agreement, the other Loan Documents, any Letters of Credit, the Loans, such Lender's Commitment, or any class of loans, letters of credit or commitments of which any of the Loans or such Lender's Commitment forms a part, and the result of any of the foregoing is

(i) to increase the cost to any Lender of making, funding, issuing, renewing, extending or maintaining any of the Loans or such Lender's Commitment or any Letter of Credit, or

(ii) to reduce the amount of principal, interest, Reimbursement Obligation or other amount payable to such Lender or the Administrative Agent hereunder on account of such Lender's Commitment, any Letter of Credit or any of the Loans, or

(iii) to require such Lender or the Administrative Agent to make any payment or to forego any interest or Reimbursement Obligation or other sum payable hereunder, the amount of which payment or foregone interest or Reimbursement Obligation or other sum is calculated by reference to the gross amount of any sum receivable or deemed received by such Lender or the Administrative Agent from the Borrower hereunder,

then, and in each such case, the Borrower will, upon demand made by such Lender or (as the case may be) the Administrative Agent at any time and from time to time and as often as the occasion therefor may arise, pay to such Lender or the Administrative Agent such additional amounts as will be sufficient to compensate such Lender or the Administrative Agent for such additional cost, reduction, payment or foregone interest or Reimbursement Obligation or other sum.

**5.8**        **Capital Adequacy.** If after the date hereof any Lender or the Administrative Agent determines that (a) the adoption of or change in any law, governmental rule, regulation, policy, guideline or directive (whether or not having the force of law) regarding capital requirements for Lenders or Lender holding companies or any change in the interpretation or application thereof by a Governmental Authority with appropriate jurisdiction, or (b) compliance by such Lender or the Administrative Agent or any corporation controlling such Lender or the Administrative Agent with any law, governmental rule, regulation, policy, guideline or directive (whether or not having the force of law) of any such entity regarding capital adequacy, has the effect of reducing the return on such Lender's or the Administrative Agent's commitment with respect to any Loans to a level below that which such Lender or the Administrative Agent could have achieved but for such adoption, change or compliance (taking into consideration such Lender's or the Administrative Agent's then existing policies with respect to capital adequacy and assuming full utilization of such entity's capital) by any amount deemed by such Lender or (as the case may be) the Administrative Agent to be material, then such Lender or the Administrative Agent may notify the Borrower of such fact. To the extent that the amount of such reduction in the return on capital is not reflected in the Base Rate, the Borrower agrees to pay such Lender or (as the case may be) the Administrative Agent for the amount of such reduction in the return on capital as and when such reduction is determined upon presentation by such Lender or (as the case may be) the Administrative Agent of a certificate in accordance with Section 5.9 hereof. Each Lender shall allocate such cost increases among its customers in good faith and on an equitable basis.

**5.9**        **Certificate.** A certificate setting forth any additional amounts payable pursuant to Sections 5.7 or 5.8 and a brief explanation of such amounts which are due, submitted by any Lender or the Administrative Agent to the Borrower, shall be conclusive, absent manifest error, that such amounts are due and owing.

**5.10**       **Indemnity.** The Borrower agrees to indemnify each Lender and to hold each Lender harmless from and against any loss, cost or expense actually incurred (excluding loss of anticipated profits) that such Lender may sustain or incur as a consequence of (a) default by the Borrower in payment of the principal amount of or any interest on any Eurodollar Rate Loans or Fixed Rate Loans as and when due and payable, including any such loss or expense arising from interest or fees payable by such Lender to banks of funds obtained by it in order to maintain its Eurodollar Rate Loans or Fixed Rate Loans, (b) default by the Borrower in making a borrowing or conversion after the Borrower has given (or is deemed to have given) a Loan Request or a Conversion Request relating thereto in accordance with Section 2.6 or Section 2.7, or (c) the making of any payment of a Eurodollar Rate Loan or a Fixed Rate Loan or the making of any conversion of any such Loan which is not a Swing Line Loan or any such Fixed Rate Loan to a Base Rate Loan on a day that is not the last day of the applicable Interest Period with respect thereto, including interest or fees payable by such Lender to lenders of funds obtained by it in order to maintain any such Loans.

**5.11**       **Interest After Default.**

**5.11.1 Overdue Amounts.** Overdue principal and (to the extent permitted by applicable law) interest on the Loans and all other overdue amounts payable hereunder (including Unpaid Reimbursement Obligations) or under any of the other Loan Documents shall bear interest (or fees in the case of Unpaid Reimbursement Obligations) compounded monthly and payable on demand at a rate per annum equal to two percent (2.00%) above the rate of interest or Letter of Credit Fee (including the Applicable Margin) then applicable thereto (or, if no rate of interest is then applicable thereto, the Base Rate) until such amount shall be paid in full (after as well as before judgment).

**5.11.2 Amounts Not Overdue.** During the continuance of a Default or an Event of Default, until such Default or Event of Default has been cured or remedied or such Default or Event of Default has been waived by the Lenders or the Required Lenders pursuant to Section 16.12, (a) the principal of the Revolving Credit Loans not overdue shall, bear interest at a rate per annum equal to two percent (2.00%) above the rate of interest otherwise applicable, and (b) the Applicable Margin applicable to Letter of Credit Fees shall be equal to two percent (2.00%) above the Letter of Credit Fee otherwise applicable.

**6. GUARANTIES.**

**6.1 Guaranties of Significant Subsidiaries.** The Obligations shall also be guaranteed by the Significant Subsidiaries pursuant to the terms of the Guaranties.

**7. REPRESENTATIONS AND WARRANTIES.**

The Borrower represents and warrants to the Lenders and the Administrative Agent as follows:

**7.1 Corporate Authority.**

**7.1.1 Incorporation; Good Standing.** Each of the Borrower and its Subsidiaries (a) is a corporation (or similar business entity) duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation or formation except, solely with respect to Subsidiaries of the Borrower which are not Significant Subsidiaries, where a failure to be so organized, existing or formed would not have a Material Adverse Effect, (b) has all requisite corporate (or the equivalent entity) power to own its property and conduct its business as now conducted and as presently contemplated except, solely with respect to Subsidiaries of the Borrower which are not Significant Subsidiaries, where such a failure would not have a Material Adverse Effect, and (c) is in good standing as a foreign corporation (or similar business entity) and is duly authorized to do business in each jurisdiction where such qualification is necessary except, solely with respect to Subsidiaries of the Borrower which are not Significant Subsidiaries, where a failure to be so qualified would not have a Material Adverse Effect.

**7.1.2 Authorization.** The execution, delivery and performance of this Credit Agreement and the other Loan Documents to which the Borrower or any of its Significant Subsidiaries is or is to become a party and the transactions contemplated hereby and thereby (a) are within the corporate (or the equivalent entity) authority of such Person, (b) have been duly authorized by all necessary corporate (or the equivalent entity) proceedings, (c) do not and will not conflict with or result in any breach or contravention of any provision of law, statute, rule or regulation to which the Borrower or any of its Significant Subsidiaries is subject or any judgment, order, writ, injunction, license or permit applicable to the Borrower or any of its Significant Subsidiaries and (d) do not conflict with any provision of the Governing Documents of, or any agreement or other instrument binding upon, the Borrower or any of its Significant Subsidiaries.

**7.1.3      Enforceability.** The execution and delivery of this Credit Agreement and the other Loan Documents to which the Borrower or any of its Significant Subsidiaries is or is to become a party will result in valid and legally binding obligations of such Person enforceable against it in accordance with the respective terms and provisions hereof and thereof, except as enforceability is limited by bankruptcy, insolvency, reorganization, moratorium or other laws relating to or affecting generally the enforcement of creditors' rights and except to the extent that availability of the remedy of specific performance or injunctive relief is subject to the discretion of the court before which any proceeding therefor may be brought.

**7.2      Governmental Approvals.** The execution, delivery and performance by the Borrower and any of its Significant Subsidiaries of this Credit Agreement and the other Loan Documents to which the Borrower or any of its Significant Subsidiaries is or is to become a party and the transactions contemplated hereby and thereby do not require the approval or consent of, or filing with, any governmental agency or authority other than those already obtained.

**7.3      Title to Properties.** Except as indicated on Schedule 7.3 hereto, the Borrower and its Subsidiaries own all of the assets reflected in the consolidated and combined balance sheet of the Borrower and its Subsidiaries as at the Balance Sheet Date or acquired since that date (except property and assets sold or otherwise disposed of in the ordinary course of business since that date and Real Estate leased by the Borrower or its Subsidiaries), subject to no Liens or other rights of others, except Permitted Liens.

**7.4      Financial Statements.**

**7.4.1      Fiscal Year.** The Borrower and each of its Subsidiaries has a fiscal or financial year which is the twelve months ending on or about June 30 of each calendar year.

**7.4.2      Financial Statements.** There has been furnished to each of the Lenders an audited consolidated and combined balance sheet of the Borrower and its Subsidiaries as at the Balance Sheet Date, an audited consolidated and combined statement of income of the Borrower and its Subsidiaries for the fiscal year then ended, and an audited consolidated and combined cash flow statement for the fiscal year then ended. Such balance sheet and statements of income have been prepared in accordance with GAAP and fairly present the financial condition of the Borrower as at the close of business on the date thereof and the results of operations for the fiscal year then ended. There are no contingent liabilities of the Borrower or any of its Subsidiaries as of such date involving material amounts, known to the officers of the Borrower, which were not disclosed in such balance sheet and the notes related thereto.

**7.5      No Material Adverse Changes, etc.** Since the Balance Sheet Date there has been no event or occurrence which has had a Material Adverse Effect. Since the Balance Sheet Date, the Borrower has not made any Restricted Payment other than those permitted under Section 9.4.

**7.6 Franchises, Patents, Copyrights, etc.** The Borrower and each of its Subsidiaries possesses all franchises, patents, copyrights, trademarks, trade names, licenses and permits, and rights in respect of the foregoing, adequate for the conduct of its business substantially as now conducted without known conflict with any rights of others, except any franchises, patents, copyrights, trademarks, trade names, licenses and permits, and rights in respect of the foregoing, where the lack of such would not result in a Material Adverse Effect.

**7.7 Litigation.** Except as set forth in Schedule 7.7 hereto, there are no actions, suits, proceedings or investigations of any kind pending or, to the best knowledge of the Borrower and its Subsidiaries, threatened against the Borrower or any of its Subsidiaries before any Governmental Authority, that, (a) if adversely determined, might, either in any case or in the aggregate, (i) have a Material Adverse Effect or (ii) materially impair the right of the Borrower and its Subsidiaries, considered as a whole, to carry on business substantially as now conducted by them, or (b) which question the validity of this Credit Agreement or any of the other Loan Documents, or any action taken or to be taken pursuant hereto or thereto.

**7.8 No Materially Adverse Contracts, etc.** Neither the Borrower nor any of its Subsidiaries (a) is in violation of any provision of, or subject to, any Governing Document, or any applicable judgment, decree, order, law, statute, license, rule or regulation in a manner that has or is expected in the future to have a Material Adverse Effect, or (b) is a party to any contract or agreement that has or is expected, in the judgment of the Borrower's officers, to have any Material Adverse Effect, or is in violation of any provision of any agreement or instrument to which it may be subject or by which it or any of its properties may be bound, in any of the foregoing cases in a manner that could have a Material Adverse Effect.

**7.9 Tax Status.** To the extent required, the Borrower and its Subsidiaries (a) have made or filed all federal, state and foreign income and all other tax returns, reports and declarations required by any jurisdiction to which any of them is subject, (b) have paid all taxes and other governmental assessments and charges shown or determined to be due on such returns, reports and declarations, except those being contested in good faith and by appropriate proceedings and (c) have, in the reasonable opinion of management, set aside on their books adequate reserves in accordance with GAAP for the payment of all taxes for periods subsequent to the periods to which such returns, reports or declarations apply. There are no unpaid taxes in any material amount claimed to be due by the taxing authority of any jurisdiction, and none of the officers of the Borrower know of any basis for any such claim.

**7.10 No Event of Default.** No Default or Event of Default has occurred and is continuing.

**7.11 Holding Company and Investment Company Acts.** Neither the Borrower nor any of its Subsidiaries is a "public utility", as that term is defined under the Federal Power Act, as amended, and the regulations of the Federal Energy Regulatory Commission ("FERC") promulgated thereunder. Neither the Borrower nor any of its Subsidiaries (i) is subject to any of the accounting or cost-allocation requirements of the Public Utility Holding Company Act of 2005, or the regulations or orders of the FERC promulgated thereunder or (ii) is or is required to be registered as an "investment company" under the Investment Company Act of 1940.

**7.12 Absence of Financing Statements, etc.** Except with respect to Permitted Liens, there is no financing statement, security agreement, chattel mortgage, real estate mortgage or other document filed or recorded with any filing records, registry or other public office, that purports to cover, affect or give notice of any present or possible future Lien on any assets or property of the Borrower or any of its Subsidiaries or any rights relating thereto.

**7.13 Certain Transactions.** To the best knowledge of the Borrower and its Subsidiaries, none of the officers, directors, or employees of the Borrower or any of its Subsidiaries is presently a party to any transaction with the Borrower or any of its Subsidiaries (other than for services as employees, officers and directors), including any contract, agreement or other arrangement providing for the furnishing of services to or by, providing for rental of real or personal property to or from, or otherwise requiring payments to or from any officer, director or such employee or, to the knowledge of the Borrower, any corporation, partnership, trust or other entity in which any officer, director, or any such employee has a substantial interest or is an officer, director, trustee or partner.

**7.14 Employee Benefit Plans.**

**7.14.1 In General.** Each Employee Benefit Plan and each Guaranteed Pension Plan has been maintained and operated in compliance in all material respects with the provisions of ERISA and all Applicable Pension Legislation and, to the extent applicable, the Code, including but not limited to the provisions thereunder respecting prohibited transactions and the bonding of fiduciaries and other persons handling plan funds as required by Section 412 of ERISA, unless noncompliance could not, individually or in the aggregate, reasonably be expected to result in a Material Adverse Effect.

**7.14.2 Terminability of Welfare Plans.** No Employee Benefit Plan, which is an employee welfare benefit plan within the meaning of Section 3(1) or Section 3(2)(B) of ERISA, provides benefit coverage subsequent to termination of employment, except as required by Title I, Part 6 of ERISA or the applicable state insurance laws. The Borrower may terminate, to the extent sponsored by it, each such Plan at any time (or at any time subsequent to the expiration of any applicable bargaining agreement) in the discretion of the Borrower without liability to any Person other than for claims arising prior to termination.

**7.14.3 Guaranteed Pension Plans.** Except as could not, individually or in the aggregate, reasonably be expected to result in a Material Adverse Effect, (a) each contribution required to be made to a Guaranteed Pension Plan, whether required to be made to avoid the incurrence of an accumulated funding deficiency, the notice or lien provisions of Section 302(f) of ERISA, or otherwise, has been timely made; and (b) no waiver of an accumulated funding deficiency or extension of amortization periods has been received with respect to any Guaranteed Pension Plan, and neither the Borrower nor any ERISA Affiliate is obligated to or has posted security in connection with an amendment to a Guaranteed Pension Plan pursuant to Section 307 of ERISA or Section 401(a)(29) of the Code. Based on the latest valuation of each Guaranteed Pension Plan (which in each case occurred within twelve months of the date of this representation), and on the actuarial methods and assumptions employed for that valuation, the aggregate benefit liabilities of all such Guaranteed Pension Plans within the meaning of Section 4001 of ERISA did not exceed the aggregate value of the assets of all such Guaranteed Pension Plans, disregarding for this purpose the benefit liabilities and assets of any Guaranteed Pension Plan with assets in excess of benefit liabilities, except as could not, individually or in the aggregate, reasonably be expected to result in a Material Adverse Effect.

**7.14.4 Multiemployer Plans.** Except as could not, individually or in the aggregate, reasonably be expected to result in a Material Adverse Effect, neither the Borrower nor any ERISA Affiliate has incurred any liability (including secondary liability) to any Multiemployer Plan as a result of a complete or partial withdrawal from such Multiemployer Plan under Section 4201 of ERISA or as a result of a sale of assets described in Section 4204 of ERISA. After due inquiry, the Borrower is not aware that any Multiemployer Plan is in reorganization or insolvent under and within the meaning of Section 4241 or Section 4245 of ERISA or is at risk of entering reorganization or becoming insolvent, or that any Multiemployer Plan intends to terminate or has been terminated under Section 4041A of ERISA.

**7.15 Use of Proceeds.**

**7.15.1 General.** The proceeds of the Loans shall be used for working capital, stock repurchases and dividends permitted by Section 9.4 and general corporate purposes. The Borrower will obtain Letters of Credit solely for general corporate purposes.

**7.15.2 Regulations U and X.** No portion of any Loan is to be used, and no portion of any Letter of Credit is to be obtained, for the purpose of purchasing or carrying any "margin security" or "margin stock" as such terms are used in Regulations U and X of the Board of Governors of the Federal Reserve System, 12 C.F.R. Parts 221 and 224.

**7.15.3 Ineligible Securities.** No portion of the proceeds of any Loans is to be used, and no portion of any Letter of Credit is to be obtained, for the purpose of knowingly purchasing, or providing credit support for the purchase of, during the underwriting or placement period or within thirty (30) days thereafter, any Ineligible Securities underwritten or privately placed by a Financial Affiliate.

**7.16 Environmental Compliance.**

(a) None of the Borrower, its Subsidiaries or, to the best knowledge of the Borrower or any of its Subsidiaries, any operator of the Real Estate or any operations thereon is in violation, or has notice of an alleged violation, of any judgment, decree, order, law, license, rule or regulation pertaining to environmental matters, including without limitation, those arising under Environmental Laws, which violation would have a Material Adverse Effect;

(b) neither the Borrower nor any of its Subsidiaries has received written notice from any Governmental Authority, or, to the best of the Borrower's and any of its Subsidiaries' knowledge, any other third party, (i) that any one of them has been identified by the United States Environmental Protection Agency ("EPA") as a potentially responsible party under CERCLA with respect to a site listed on the National Priorities List, 40 C.F.R. Part 300 Appendix B; (ii) that any Hazardous Substances which any one of them has generated, transported or disposed of has been found at any site at which a Governmental Authority has conducted or has ordered that any Borrower or any of its Subsidiaries conduct a remedial investigation, removal or other response action pursuant to any Environmental Law; or (iii) that it is or shall be a named party to any claim, action, cause of action, complaint, or legal or administrative proceeding (in each case, contingent or otherwise), the result of which could have a Material Adverse Effect, arising out of any third party's incurrence of costs, expenses, losses or damages of any kind whatsoever in connection with the release of Hazardous Substances;

(c) except as set forth on Schedule 7.16 attached hereto, to the best of the Borrower's knowledge: (i) no underground tank or other underground storage receptacle for Hazardous Substances is located on any portion of the Real Estate in violation of applicable Environmental Laws; (ii) in the course of any activities conducted by the Borrower, its Subsidiaries or operators of its properties, no Hazardous Substances have been generated or are being used on the Real Estate except in accordance with applicable Environmental Laws; (iii) there have been no releases (i.e. any past or present releasing, spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, disposing or dumping) or threatened releases of Hazardous Substances on, upon, into or from the properties of the Borrower or its Subsidiaries, which releases would have a Material Adverse Effect; and (iv) any Hazardous Substances that have been generated on any of the Real Estate have been transported offsite only by carriers having an identification number issued by the EPA (or the equivalent thereof in any foreign jurisdiction), treated or disposed of only by treatment or disposal facilities maintaining valid permits as required under applicable Environmental Laws, which transporters and facilities have been and are, to the best of the Borrower's knowledge, operating in compliance with such permits and applicable Environmental Laws; and

(d) neither the Borrower nor any of its Subsidiaries has received written notice that it is required to conduct an environmental clean-up under any Environmental Law by virtue of the transactions set forth herein and contemplated hereby.

**7.17** **Subsidiaries, etc.** Schedule 7.17(a) (as amended and in effect from time to time pursuant to Section 8.11) sets forth a complete and accurate list of all of the Subsidiaries of the Borrower. Schedule 7.17(b) (as amended and in effect from time to time pursuant to Section 8.11) sets forth a complete and accurate list of all of the Significant Subsidiaries of the Borrower.

**7.18** **Disclosure.** None of this Credit Agreement or any of the other Loan Documents contains any untrue statement of a material fact or omits to state a material fact (known to the Borrower or any of its Subsidiaries in the case of any document or information not furnished by it or any of its Subsidiaries) necessary in order to make the statements herein or therein not misleading. There is no fact known to the Borrower or any of its Subsidiaries which has a Material Adverse Effect, or which is reasonably likely in the future to have a Material Adverse Effect, exclusive of effects resulting from changes in general economic conditions, legal standards or regulatory conditions.

**7.19** **Foreign Assets Control Regulations, Etc.** None of the requesting or borrowing of the Loans, the requesting or issuance, extension or renewal of any Letters of Credit or the use of the proceeds of any thereof will violate the Trading With the Enemy Act (50 U.S.C. § 1 et seq., as amended) (the "Trading With the Enemy Act") or any of the foreign assets control regulations of the United States Treasury Department (31 CFR, Subtitle B, Chapter V, as amended) (the "Foreign Assets Control Regulations") or any enabling legislation or executive order relating thereto (which for the avoidance of doubt shall include, but shall not be limited to (a) Executive Order 13224 of September 21, 2001 Blocking Property and Prohibiting Transactions With Persons Who Commit, Threaten to Commit, or Support Terrorism (66 Fed. Reg. 49079 (2001)) (the "Executive Order") and (b) the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (Public Law 107-56)). Furthermore, neither the Borrower nor any of its Subsidiaries or other Affiliates (a) is or will become a "blocked person" as described in the Executive Order, the Trading With the Enemy Act or the Foreign Assets Control Regulations or (b) engages or will engage in any dealings or transactions, or be otherwise associated, with any such "blocked person".



## 8. AFFIRMATIVE COVENANTS.

The Borrower covenants and agrees that, so long as any Loan, Unpaid Reimbursement Obligation, Letter of Credit or Note is outstanding or any Lender has any obligation to make any Loans or the Issuing Lender has any obligation to issue, extend, amend or renew any Letters of Credit:

**8.1 Punctual Payment.** Subject to the grace periods set forth in Sections 13.1(b) and (c), the Borrower will duly and punctually pay or cause to be paid the principal and interest on the Loans, all Reimbursement Obligations, the Letter of Credit Fees, the commitment fees, the Administrative Agent's fee and all other amounts provided for in this Credit Agreement and the other Loan Documents to which the Borrower or any of its Subsidiaries is a party, all in accordance with the terms of this Credit Agreement and such other Loan Documents.

**8.2 Records and Accounts.** The Borrower will (a) keep, and cause each of its Subsidiaries to keep, true and accurate records and books of account in which full, true and correct entries will be made in accordance with GAAP, (b) maintain adequate accounts and reserves for all taxes (including income taxes), depreciation, depletion, obsolescence and amortization of its properties and the properties of its Subsidiaries, contingencies, and other reserves, and (c) at all times engage an independent certified public accountant.

**8.3 Financial Statements, Certificates and Information.** The Borrower will deliver to the Administrative Agent:

(a) as soon as practicable, but in any event not later than ninety (90) days after the end of each fiscal year of the Borrower, the consolidated and combined balance sheet of the Borrower and its Subsidiaries as at the end of such year, and the related consolidated and combined statement of income and consolidated and combined statement of cash flow for such year, each setting forth in comparative form the figures for the previous fiscal year and all such consolidated and combined statements to be in reasonable detail, prepared in accordance with GAAP, and audited by an independent certified public accountant;

(b) as soon as practicable, but in any event not later than forty-five (45) days after the end of each of the fiscal quarters of the Borrower, copies of the unaudited consolidated and combined balance sheet of the Borrower and its Subsidiaries as at the end of such quarter, and the related consolidated and combined statement of income and consolidated and combined statement of cash flow for the portion of the Borrower's fiscal year then elapsed, all in reasonable detail and prepared in accordance with GAAP, together with a certification by the chief financial officer or treasurer of the Borrower that the information contained in such financial statements fairly presents the financial position of the Borrower and its Subsidiaries on the date thereof (subject to year-end adjustments);

(c) simultaneously with the delivery of the financial statements referred to in subsections (a) and (b) above, a statement certified by the chief financial officer or treasurer of the Borrower in substantially the form of Exhibit C hereto (a "Compliance Certificate") and setting forth in reasonable detail computations evidencing compliance with the covenant contained in Section 10;

(d) as soon as practicable after the filing or mailing thereof, copies of all financial statements, disclosure statements, reports and proxies filed with the Securities and Exchange Commission or sent to the stockholders of the Borrower;

(e) as soon as practicable, but in any event not later than thirty (30) days after the filing of the 10K of the Borrower, annual income statements, balance sheets and cash flow statements for the immediately succeeding fiscal year of the Borrower and its Subsidiaries delivered to the Administrative Agent; and

(f) from time to time such other additional information regarding the financial position of the Borrower and its Subsidiaries as the Administrative Agent may reasonably request;

Documents required to be delivered pursuant to this Section 8.3 may be delivered electronically and if so delivered, shall be deemed to have been delivered on the date (i) on which the Borrower posts such documents, or provides a link thereto on the Borrower's website on the Internet; or (ii) on which such documents are posted on the Borrower's behalf on an Internet or intranet website, if any, to which each Lender and the Administrative Agent have access (whether a commercial, third-party website or whether sponsored by the Administrative Agent); provided, that the Borrower shall notify the Administrative Agent (by telecopier or electronic mail) of the posting of any such documents. Notwithstanding anything contained herein, in every instance the Borrower shall be required to provide paper copies of the Compliance Certificate required by Section 8.3(c) to the Administrative Agent. Except for such Compliance Certificate, the Administrative Agent shall have no obligation to request the delivery or to maintain copies of the documents referred to above, and in any event shall have no responsibility to monitor compliance by the Borrower with any such request for delivery, and each Lender shall be solely responsible for requesting delivery from the Administrative Agent to it or maintaining its copies of such documents.

The Borrower hereby acknowledges that (a) the Administrative Agent and/or the Arranger will make available to the Lenders and the Issuing Lender materials and/or information provided by or on behalf of the Borrower hereunder (collectively, "Borrower Materials") by posting the Borrower Materials on IntraLinks or another similar electronic system (the "Platform") and (b) certain of the Lenders may be "public-side" Lenders (i.e., Lenders that do not wish to receive material non-public information with respect to the Borrower or its securities) (each a "Public Lender"). The Borrower hereby agrees that (i) all Borrower Materials that are to be made available to Public Lenders shall be clearly and conspicuously marked "PUBLIC" which, at a minimum, shall mean that the word "PUBLIC" shall appear prominently on the first page thereof; (ii) by marking Borrower Materials "PUBLIC," the Borrower shall be deemed to have authorized the Administrative Agent, the Arranger, the Issuing Lender and the Lenders to treat such Borrower Materials as not containing any material non-public information with respect to the Borrower or its securities for purposes of United States Federal and state securities laws (provided, however, that to the extent such Borrower Materials constitute confidential information, they shall be treated as set forth in Section 16.4 hereof); (iii) all Borrower Materials marked "PUBLIC" are permitted to be made available through a portion of the Platform designated "Public Investor"; and (iv) the Administrative Agent and the Arranger shall be entitled to treat any Borrower Materials that are not marked "PUBLIC" as being suitable only for posting on a portion of the Platform not designated "Public Investor."

#### **8.4**      Notices.

**8.4.1**      Defaults. The Borrower will promptly notify the Administrative Agent and each of the Lenders in writing of the occurrence of any Default or Event of Default, together with a reasonably detailed description thereof, and the actions the Borrower proposes to take with respect thereto. If any Person shall give any notice to the Borrower or any of its Affiliates or, to the best knowledge of the Borrower, take any other action in respect of a claimed default (whether or not constituting an Event of Default) under this Credit Agreement or any other note, evidence of indebtedness, indenture or other obligation to which or with respect to which the Borrower or any of its Subsidiaries is a party or obligor, whether as principal, guarantor, surety or otherwise, the Borrower shall forthwith give written notice thereof to the Administrative Agent and each of the Lenders, describing the notice or action and the nature of the claimed default.

**8.4.2 Environmental Events.** The Borrower will promptly give notice to the Administrative Agent (a) of any violation of any Environmental Law that the Borrower or any of its Subsidiaries reports in writing (or for which any written report supplemental to any oral report is made) to any Governmental Authority and (b) upon receipt of notice thereof, of any inquiry, proceeding, investigation, or other action, including a notice from any agency or any Governmental Authority of potential environmental liability, that could have a Material Adverse Effect.

**8.4.3 Notice of Litigation and Judgments.** The Borrower will, and will cause each of its Subsidiaries to, give notice to the Administrative Agent and each of the Lenders in writing promptly of becoming aware of any litigation or proceedings threatened in writing or any pending litigation and proceedings affecting the Borrower or any of its Subsidiaries or to which the Borrower or any of its Subsidiaries is or becomes a party involving an uninsured claim against the Borrower or any of its Subsidiaries that could reasonably be expected to have a Material Adverse Effect on the Borrower or any of its Subsidiaries and stating the nature and status of such litigation or proceedings. The Borrower will, and will cause each of its Subsidiaries to, give notice to the Administrative Agent and each of the Lenders, in writing, in form and detail reasonably satisfactory to the Administrative Agent, within ten (10) days of any judgment not covered by insurance, final or otherwise, against the Borrower or any of its Subsidiaries in an amount in excess of \$5,000,000.

**8.4.4 ERISA Events.** The Borrower will (a) promptly upon receipt or dispatch, furnish to the Administrative Agent any notice, report or demand sent or received in respect of a Guaranteed Pension Plan under Sections 302, 4041, 4042, 4043, 4063, 4065, 4066 and 4068 of ERISA, or in respect of a Multiemployer Plan, under Sections 4041A, 4202, 4219, 4242, or 4245 of ERISA and (b) upon the request of the Administrative Agent, promptly furnish to the Administrative Agent a copy of all actuarial statements required to be submitted under all Applicable Pension Legislation.

**8.4.5 Notice of Change of Fiscal Year End.** The Borrower will, and will cause each of its Subsidiaries to, give notice to the Administrative Agent in writing thirty (30) days prior to any change of the date of the end of its fiscal or financial year from that set forth in Section 7.4.1.

**8.5 Legal Existence; Maintenance of Properties.** The Borrower will do or cause to be done all things reasonably necessary to preserve and keep in full force and effect its legal existence, rights and franchises and that of its Subsidiaries. It (i) will cause all of its properties and those of its Subsidiaries used or useful in the conduct of its business or the business of its Subsidiaries to be maintained and kept in good condition, repair and working order and supplied with all necessary equipment, (ii) will cause to be made all necessary repairs, renewals, replacements, betterments and improvements thereof, all as in the judgment of the Borrower may be necessary so that the business carried on in connection therewith may be properly and advantageously conducted at all times, and (iii) will, and will cause each of its Subsidiaries to, continue to engage primarily in the businesses now conducted by them and in related businesses; provided that nothing in this Section 8.5 shall prevent the Borrower from discontinuing the operation and maintenance of any of its properties or any of those of its Subsidiaries if such discontinuance is, in the judgment of the Borrower, desirable in the conduct of its or their business and that do not in the aggregate have a Material Adverse Effect.

**8.6 Insurance.** The Borrower will, and will cause each of its Subsidiaries to, maintain with financially sound and reputable insurers insurance with respect to its properties and business against such casualties and contingencies as shall be in accordance with the general practices of businesses engaged in similar activities in similar geographic areas and in amounts, containing such terms, in such forms and for such periods as may be reasonable and prudent.

**8.7 Taxes.** The Borrower will, and will cause each of its Subsidiaries to, duly pay and discharge, or cause to be paid and discharged, before the same shall become overdue, all taxes, assessments and other governmental charges imposed upon it and its Real Estate, sales and activities, or any part thereof, or upon the income or profits therefrom, as well as all claims for labor, materials, or supplies that if unpaid might by law become a Lien or charge upon any of its property; provided that any such tax, assessment, charge, levy or claim need not be paid if the validity or amount thereof shall currently be contested in good faith by appropriate proceedings and if the Borrower or such Subsidiary shall have set aside on its books adequate reserves with respect thereto; and provided further that the Borrower and each Subsidiary of the Borrower will pay all such taxes, assessments, charges, levies or claims forthwith upon the commencement of proceedings to foreclose any Lien that may have attached as security therefor.

**8.8 Inspection of Properties and Books, etc.**

**8.8.1 General.** The Borrower will keep, and will cause each Subsidiary to keep, proper books of record and account in which full, true and correct entries shall be made of all dealings and transactions in relation to its business and activities; and will permit, and will cause each Subsidiary to permit, representatives of the Administrative Agent and any Lender (prior to the occurrence or continuation of a Default or an Event of Default, at the Administrative Agent's or such Lender's expense, as applicable, unless otherwise agreed to by the Administrative Agent or such Lender, as applicable, and the Borrower, and following the occurrence or continuation of a Default or an Event of Default, at the Borrower's expense) to visit and inspect any of their respective properties, to examine and make abstracts from any of their respective books and records and to discuss their respective affairs, finances and accounts with their respective officers, employees and independent public accountants, all at such reasonable times, upon reasonable notice and as often as may reasonably be desired.

**8.8.2 Communications with Accountants.** If a Default or Event of Default shall have occurred or be continuing, the Borrower authorizes the Administrative Agent and, if accompanied by the Administrative Agent, the Lenders to communicate directly with the Borrower's independent certified public accountants and authorizes such accountants to disclose to the Administrative Agent and the Lenders any and all financial statements and other supporting financial documents and schedules including copies of any management letter with respect to the business, financial condition and other affairs of the Borrower or any of its Subsidiaries.

**8.9 Compliance with Laws.** The Borrower will, and will cause each of its Subsidiaries to, comply with (a) the applicable laws and regulations wherever its business is conducted, including all Environmental Laws, (b) the provisions of its Governing Documents, (c) all agreements and instruments by which it or any of its properties may be bound and (d) all applicable decrees, orders, and judgments.

**8.10 Use of Proceeds.** The Borrower will use the proceeds of the Loans and obtain Letters of Credit solely for the purposes set forth in Section 7.15.1.

**8.11 Subsidiaries.**

**8.11.1 Additional Subsidiaries.** If, after the Closing Date, the Borrower or any of its Subsidiaries creates or acquires, either directly or indirectly, any Subsidiary, (a) it will promptly notify the Administrative Agent of such creation or acquisition, as the case may be, and provide the Administrative Agent (for itself and the Lenders) with an updated Schedule 7.17, and (b) contemporaneously with the formation of such Subsidiary, the Borrower shall, or shall cause such Subsidiary to, take all other action required by this Section 8.11. In the event that any Subsidiary becomes a Significant Subsidiary, the Borrower shall promptly notify the Administrative Agent of such Significant Subsidiary and provide the Administrative Agent (for itself and the Lenders) with an updated Schedule 7.17(b).

**8.11.2 New Guarantors.** The Borrower (a) will cause each Significant Subsidiary (including any Subsidiary which, on or after the Closing Date, becomes a Significant Subsidiary) created, acquired (including any Significant Subsidiary acquired pursuant to Section 9.5.1 hereof) or otherwise existing, on or after the Closing Date to promptly become a Guarantor, provided that such Significant Subsidiary satisfies the definition of “Guarantor” hereunder, (b) shall cause such Significant Subsidiary to execute and deliver to the Administrative Agent, for the benefit of the Administrative Agent and the Lenders, a Guaranty in the form of Exhibit E hereto and to comply with all conditions precedent set forth therein, and (c) shall, simultaneously with the delivery of such Guaranty, provide the Administrative Agent (for itself and the Lenders) with an updated Schedule 7.17(b).

**8.12 Further Assurances.** The Borrower will, and will cause each of its Subsidiaries to, cooperate with the Lenders and the Administrative Agent and execute such further instruments and documents as the Lenders or the Administrative Agent shall reasonably request to carry out to their satisfaction the transactions contemplated by this Credit Agreement and the other Loan Documents.

**9. CERTAIN NEGATIVE COVENANTS.**

The Borrower covenants and agrees that, so long as any Loan, Unpaid Reimbursement Obligation, Letter of Credit or Note is outstanding or any Lender has any obligation to make any Loans or the Issuing Lender has any obligations to issue, extend, amend or renew any Letters of Credit:

**9.1 Restrictions on Indebtedness.** The Borrower will not, and will not permit any of its Subsidiaries to, create, incur, assume, guarantee or be or remain liable, contingently or otherwise, with respect to any Indebtedness other than:

- (a) Indebtedness to the Lenders, the Issuing Lender and the Administrative Agent arising under any of the Loan Documents;
- (b) endorsements for collection, deposit or negotiation and warranties of products or services, in each case incurred in the ordinary course of business;
- (c) Indebtedness existing on the date hereof and listed and described on Schedule 9.1 hereto;
- (d) Indebtedness incurred in connection with guarantees and/or comfort letters issued by the Borrower in respect of obligations of its Subsidiaries or Joint Ventures, provided that the aggregate amount of such Indebtedness of the Borrower shall not exceed \$50,000,000 at any one time;
- (e) Indebtedness in respect of (i) derivative contracts described in clause (h) of the definition of the term “Indebtedness” consisting of foreign exchange contracts entered into in the ordinary course of business and for non-speculative purposes, and (ii) any guarantees made by the Borrower of the contracts described in clause (i) of this Section 9.1(e) entered into by Subsidiaries;
- (f) Indebtedness in respect of Capitalized Leases and Synthetic Leases, provided that the aggregate principal amount of such Indebtedness of the Borrower shall not exceed the aggregate amount of \$25,000,000 at any one time;
- (g) Indebtedness in respect of letters of credit in the ordinary course of business (other than Letters of Credit);
- (h) Indebtedness in respect of Investments permitted pursuant to Section 9.3(g) and Section 9.3(h) hereof;
- (i) Indebtedness of the type described in clause (g) of the definition of “Indebtedness” in an aggregate amount not to exceed \$50,000,000 at any time; and
- (j) other Indebtedness of the Borrower and its Subsidiaries, provided that the aggregate principal amount of such Indebtedness of the Borrower and its Subsidiaries shall not exceed the aggregate amount of \$100,000,000 at any one time, and provided further that any intercompany Indebtedness incurred solely among the Borrower and its Subsidiaries which would otherwise be permitted under Section 9.1(h) shall not be included for the purposes of the limit on Indebtedness set forth in this Section 9.1(j).

## **9.2 Restrictions on Liens.**

**9.2.1 Permitted Liens.** The Borrower will not, and will not permit any of its Subsidiaries to, (a) create or incur or suffer to be created or incurred or to exist any Lien upon any of its property or assets of any character whether now owned or hereafter acquired, or upon the income or profits therefrom; (b) transfer any of such property or assets or the income or profits therefrom for the purpose of subjecting the same to the payment of Indebtedness or performance of any other obligation in priority to payment of its general creditors; (c) acquire, or agree or have an option to acquire, any property or assets upon conditional sale or other title retention or purchase money security agreement, device or arrangement; (d) suffer to exist for a period of more than thirty (30) days after the same shall have been incurred any Indebtedness or claim or demand against it that if unpaid might by law or upon bankruptcy or insolvency, or otherwise, be given any priority whatsoever over its general creditors; or (e) sell, assign, pledge or otherwise transfer any “receivables” as defined in clause (g) of the definition of the term “Indebtedness,” with or without recourse; provided that the Borrower or any of its Subsidiaries may create or incur or suffer to be created or incurred or to exist:

- (i) Liens in favor of the Borrower on all or part of the assets of Subsidiaries of the Borrower securing Indebtedness owing by Subsidiaries of the Borrower to the Borrower;
- (ii) Liens to secure taxes, assessments and other government charges in respect of obligations not overdue or Liens on properties to secure claims for labor, material or supplies in respect of obligations not overdue;
- (iii) deposits or pledges made in connection with, or to secure payment of, workmen's compensation, unemployment insurance, old age pensions or other social security obligations;
- (iv) Liens on properties in respect of judgments or awards that have been in force for less than the applicable period for taking an appeal so long as execution is not levied thereunder or in respect of which the Borrower or such Subsidiary shall at the time in good faith be prosecuting an appeal or proceedings for review and in respect of which a stay of execution shall have been obtained pending such appeal or review;
- (v) Liens of carriers, warehousemen, mechanics and materialmen, and other like Liens on properties, in respect of obligations not overdue or which the Borrower is diligently contesting in good faith;
- (vi) encumbrances on Real Estate consisting of easements, rights of way, zoning restrictions, restrictions on the use of real property and defects and irregularities in the title thereto, landlord's or lessor's liens and other minor Liens, provided that none of such Liens (A) interferes materially with the use of the property affected in the ordinary conduct of the business of the Borrower and its Subsidiaries, and (B) individually or in the aggregate have a Material Adverse Effect;
- (vii) Liens existing on the date hereof and listed on Schedule 9.2 hereto;
- (viii) Liens to secure the performance of bids, tenders, contracts (other than contracts for the payment of Indebtedness), leases, statutory obligations, surety, customs, appeal, performance and payment bonds and other obligations of like nature, in each such case arising in the ordinary course of business;
- (ix) Liens with respect to Indebtedness permitted under Sections 9.1(f) and (i) hereof; and
- (x) other Liens not otherwise permitted hereunder, provided that such Liens do not secure Indebtedness in an aggregate amount outstanding or committed in excess of \$25,000,000, which Indebtedness is also permitted under Section 9.1 hereof.

**9.2.2 Restrictions on Negative Pledges and Upstream Limitations.** The Borrower will not, nor will it permit any of its Subsidiaries to (a) enter into or permit to exist any arrangement or agreement (other than the Credit Agreement and the other Loan Documents) which directly or indirectly prohibits the Borrower or any of its Subsidiaries from creating, assuming or incurring any Lien upon its properties, revenues or assets or those of any of its Subsidiaries whether now owned or hereafter acquired, or (b) enter into any agreement, contract or arrangement (other than the Credit Agreement and the other Loan Documents) restricting the ability of any Subsidiary of the Borrower to pay or make dividends or distributions in cash or kind to the Borrower, to make loans, advances or other payments of whatsoever nature to the Borrower, or to make transfers or distributions of all or any part of its assets to the Borrower, in each case other than customary anti-assignment provisions contained in leases and licensing agreements entered into by the Borrower or such Subsidiary in the ordinary course of its business.

**9.3 Restrictions on Investments.** The Borrower will not, and will not permit any of its Subsidiaries to, make or permit to exist or to remain outstanding any Investment except Investments in:

- (a) marketable direct or guaranteed obligations of the United States of America or any agency or instrumentality thereof;
- (b) demand deposits, certificates of deposit, bank acceptances and time deposits of (i) United States banks having total assets in excess of \$1,000,000,000, (ii) any Lender or (iii) a commercial bank organized under the laws of any other country which is a member of the Organization for Economic Cooperation and Development (the "OECD"), or a political subdivision of such country, and having total assets in excess of \$1,000,000,000; provided that such bank is acting through a branch or agency located in the country in which it is organized or another country which is a member of the OECD;
- (c) securities commonly known as "commercial paper" issued by a corporation organized and existing under the laws of the United States of America or any state thereof that at the time of purchase have been rated and the ratings for which are not less than "P 1" if rated by Moody's, and not less than "A 1" if rated by S&P;
- (d) repurchase obligations with a term of not more than seven (7) days for underlying securities of the types described in Sections 9.3(a) and (b);
- (e) mutual funds which invest primarily in the items described in Sections 9.3(a) - (d);
- (f) Investments existing on the date hereof and listed on Schedule 9.3 hereto;
- (g) (i) Investments consisting of the Guaranties, (ii) Investments by the Borrower in any Guarantor hereunder or by any Guarantor in the Borrower or any other Guarantor, (iii) Investments in Subsidiaries other than CJI which are not Guarantors provided that the aggregate of such Investments of the Borrower in Subsidiaries which are not Guarantors shall not exceed the aggregate amount of \$50,000,000, and (iv) Investments in Joint Ventures not to exceed the aggregate amount of \$30,000,000;
- (h) Investments in CJI, provided that at the time of and after giving effect to any such Investment no Default or Event of Default has occurred and is continuing;



- (i) Investments consisting of promissory notes received as proceeds of asset dispositions permitted by Section 9.5.2;
- (j) Investments consisting of loans and advances to employees for moving, entertainment, travel and other similar expenses in the ordinary course of business not to exceed \$5,000,000 in the aggregate at any time outstanding;
- (k) Investments in Permitted Acquisitions (other than Joint Ventures) permitted by Section 9.5.1(a) hereof; and
- (l) other Investments of the Borrower and its Subsidiaries, such Investments not to exceed at any time in the aggregate the greater of (i) \$125,000,000 or (ii) ten percent (10%) of the aggregate outstanding amount of Investments of the Borrower and its Subsidiaries outstanding at such time;
- (m) Investments consisting of auction rate securities which have a long term rating of at least "A-" or "A3" and a short term rating of at least "A1" or "P1" by S&P or Moody's; provided that if such auction rate securities offer tax exempt dividends or interest, such securities shall maintain a rating of at least "Aa2" or "AA" by S&P or Moody's, and such securities may include municipal issues (including without limitation, hospitals and toll roads) and student loan issues (including without limitation, universities and colleges), in each case, made in accordance with the Borrower's corporate investment policy as then in effect; and
- (n) Investments consisting of long term corporate debt securities having a rating of "A-" or better by S&P, or the equivalent rating by Moody's, and made in accordance with the Borrower's corporate investment policy in effect at the time such Investments are made.

**9.4 Restricted Payments.** The Borrower will not make any Restricted Payments; provided, however, that so long as no Default or Event of Default has occurred and is continuing or would exist as a result thereof, the Borrower shall be permitted to make repurchases of or pay dividends with respect to its Capital Stock, so long as immediately prior to and immediately after giving effect to any such Distribution, the Borrower and its Subsidiaries on a consolidated basis shall be in pro forma compliance with the financial covenant set forth in Section 10 hereof.

#### **9.5 Merger, Consolidation and Disposition of Assets.**

**9.5.1 Mergers and Acquisitions.** The Borrower will not, and will not permit any of its Subsidiaries to, become a party to any merger, amalgamation or consolidation, or agree to or effect any asset acquisition or stock acquisition (other than the acquisition of assets in the ordinary course of business consistent with past practices) except (a) the merger or consolidation of one or more of the Subsidiaries of the Borrower with and into the Borrower; (b) the merger or consolidation of two or more Subsidiaries of the Borrower; and (c) any asset or stock or other equity interest acquisition by the Borrower or any of its Subsidiaries of Persons in the same or similar line of business as the Borrower (a "Permitted Acquisition") where (1) the Borrower has notified the Administrative Agent of such Permitted Acquisition; (2) the business to be acquired would not subject the Administrative Agent or the Lenders to any additional regulatory or third party approvals in connection with the exercise of its rights and remedies under this Credit Agreement or any other Loan Document; (3) no contingent liabilities will be incurred or assumed in connection with such Permitted Acquisition which could reasonably be expected to have a Material Adverse Effect, and any Indebtedness incurred or assumed in connection with such Permitted Acquisition shall have been permitted to be incurred or assumed pursuant to Section 9.1 hereof; (4) the Borrower has provided the Administrative Agent with such other information as was reasonably requested by the Administrative Agent; (5) after the consummation of the Permitted Acquisition (other than with respect to a Joint Venture), to the extent such acquisition was a stock acquisition, the Person so acquired is merged with and into the Borrower or its Subsidiary, with the Borrower or such Subsidiary, as the case may be, being the survivor of such merger; (6) the board of directors and the shareholders (if required by applicable law), or the equivalent, of each of the Borrower and the Person to be acquired has approved such merger, consolidation or acquisition and such Permitted Acquisition is otherwise considered "friendly"; (7) if the Permitted Acquisition is of a Significant Subsidiary, the Borrower complies with the requirements of Section 8.11 hereof with respect to the Significant Subsidiary so acquired; and (8) the Borrower has delivered to the Administrative Agent and the Lenders a certificate of the chief financial officer or treasurer of the Borrower (A) to the effect that the Borrower and its Subsidiaries, on a consolidated basis, will be solvent upon the consummation of the Permitted Acquisition; (B) certifying and attaching a pro forma Compliance Certificate evidencing compliance with Section 10 hereof immediately prior to and immediately after giving effect to such Permitted Acquisition, and fairly presenting the financial condition of the Borrower and its Subsidiaries as of the date thereof and after giving effect to such Permitted Acquisition; and (C) to the effect that no Default or Event of Default then exists or would result after giving effect to the Permitted Acquisition.

**9.5.2 Disposition of Assets.** The Borrower will not, and will not permit any of its Subsidiaries to, become a party to or agree to or effect any disposition of assets, other than (a) the sale of inventory, the licensing of intellectual property and the disposition of obsolete assets, in each case in the ordinary course of business consistent with past practices; (b) the disposition of individual stores in the ordinary course of business consistent with past practices; and (c) dispositions with respect to Indebtedness permitted under Section 9.1(i) hereof.

**9.6 Sale and Leaseback.** The Borrower will not, and will not permit any of its Subsidiaries to, enter into any arrangement, directly or indirectly, whereby the Borrower or any Subsidiary of the Borrower shall sell or transfer any assets owned by it in order then or thereafter to lease such assets that the Borrower or any Subsidiary of the Borrower intends to use for substantially the same purpose as the assets being sold or transferred (each such arrangement, a “Sale and Leaseback”), other than any Sale and Leaseback where (i) the sale or transfer of assets would not have a Material Adverse Effect, (ii) the assets to be sold have an aggregate net book value for all such sales for the period from the Closing Date through the date of any such sale of less than twenty five percent (25%) of the value of the Consolidated Total Assets of the Borrower and its Subsidiaries on the date of such sale, (iii) the assets are sold in an arm’s length transaction for fair market value (after giving effect to all tax benefits associated with such sale, if any) and (iv) immediately prior to and immediately after giving effect to any such sale, the Borrower and its Subsidiaries on a consolidated basis shall be in pro forma compliance with the financial covenant set forth in Section 10 hereof.

**9.7 Compliance with Environmental Laws.** The Borrower will not, and will not permit any of its Subsidiaries to, in any manner that would violate any Environmental Law or bring such Real Estate in violation of any Environmental Law, (a) use any of the Real Estate or any portion thereof for the handling, processing, storage or disposal of Hazardous Substances, (b) cause or permit to be located on any of the Real Estate any underground tank or other underground storage receptacle for Hazardous Substances, (c) generate any Hazardous Substances on any of the Real Estate, (d) conduct any activity at any Real Estate or use any Real Estate in any manner so as to cause a release or threatened release of Hazardous Substances on, upon or into the Real Estate or (e) otherwise violate any Environmental Law or bring such Real Estate in violation of any Environmental Law, in each case which would have a Material Adverse Effect.

**9.8**      **Employee Benefit Plans.** Except as could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect, neither the Borrower nor any ERISA Affiliate will:

(a)      engage in any “prohibited transaction” within the meaning of Section 406 of ERISA or Section 4975 of the Code which could result in a material liability for the Borrower or any of its Subsidiaries; or

(b)      permit any Guaranteed Pension Plan to incur an “accumulated funding deficiency”, as such term is defined in Section 302 of ERISA, whether or not such deficiency is or may be waived; or

(c)      fail to contribute to any Guaranteed Pension Plan to an extent which, or terminate any Guaranteed Pension Plan in a manner which, could result in the imposition of a lien or encumbrance on the assets of the Borrower or any of its Subsidiaries pursuant to Section 302(f) or Section 4068 of ERISA; or

(d)      amend any Guaranteed Pension Plan in circumstances requiring the posting of security pursuant to Section 307 of ERISA or Section 401(a)(29) of the Code;

(e)      permit or take any action which would result in the aggregate benefit liabilities (with the meaning of Section 4001 of ERISA) of all Guaranteed Pension Plans exceeding the value of the aggregate assets of such Plans, disregarding for this purpose the benefit liabilities and assets of any such Plan with assets in excess of benefit liabilities; or

(f)      permit or take any action which would contravene any Applicable Pension Legislation.

**9.9**      **Transactions with Affiliates.** The Borrower will not, and will not permit any of its Subsidiaries to, engage in any transaction with any Affiliate (other than for services as employees, officers and directors), including any contract, agreement or other arrangement providing for the furnishing of services to or by, providing for rental of real or personal property to or from, or otherwise requiring payments to or from any such Affiliate or, to the knowledge of the Borrower, any corporation, partnership, trust or other entity in which any such Affiliate has a substantial interest or is an officer, director, trustee or partner, on terms more favorable to such Person than would have been obtainable on an arm's-length basis in the ordinary course of business.

**10.      FINANCIAL COVENANT.**

The Borrower covenants and agrees that, so long as any Loan, Unpaid Reimbursement Obligation, Letter of Credit or Note is outstanding or any Lender has any obligation to make any Loans or the Issuing Lender has any obligation to issue, extend, amend or renew any Letters of Credit:

**10.1 Fixed Charge Ratio.** The Borrower will not permit the Fixed Charge Ratio at the end of any Reference Period to be less than 2.50 to 1.

**11. CLOSING CONDITIONS.**

The obligations of the Lenders to make the initial Revolving Credit Loans and of the Issuing Lender to issue any initial Letters of Credit shall be subject to the satisfaction of the following conditions precedent on or prior to July 26, 2007:

**11.1 Loan Documents.** Each of the Loan Documents shall have been duly executed and delivered by the respective parties thereto, shall be in full force and effect and shall be in form and substance satisfactory to each of the Lenders. The Administrative Agent shall have received fully executed copies of each such document in sufficient quantities to deliver one (1) fully executed original of each such document to each Lender.

**11.2 Certified Copies of Governing Documents.** The Administrative Agent shall have received from the Borrower and each of the Guarantors copies, certified by a duly authorized officer of such Person to be true and complete on the Closing Date, of each of its Governing Documents as in effect on such date of certification.

**11.3 Corporate or Other Action.** All corporate (or other) action necessary for the valid execution, delivery and performance by the Borrower and each of the Guarantors of this Credit Agreement and the other Loan Documents to which it is or is to become a party shall have been duly and effectively taken, and evidence thereof satisfactory to the Lenders shall have been provided to the Administrative Agent.

**11.4 Incumbency Certificate.** The Administrative Agent shall have received from the Borrower and each of the Guarantors an incumbency certificate, dated as of the Closing Date, signed by a duly authorized officer of the Borrower or such Guarantor, and giving the name and bearing a specimen signature of each individual who shall be authorized: (a) to sign, in the name and on behalf of each of the Borrower or such Guarantor, each of the Loan Documents to which the Borrower or such Guarantor is or is to become a party; (b) in the case of the Borrower, to make Loan Requests and Conversion Requests and to apply for Letters of Credit; and (c) to give notices and to take other action on its behalf under the Loan Documents.

**11.5 Certificates of Location and UCC Search Results.** The Administrative Agent shall have received a completed and fully executed certificate of location and the results of UCC searches (and the equivalent thereof in all applicable foreign jurisdictions), indicating no Liens other than Permitted Liens and otherwise in form and substance satisfactory to the Administrative Agent.

**11.6 Certificates of Insurance.** The Administrative Agent shall have received a certificate of insurance from an independent insurance broker dated on or before the Closing Date and/or such other evidence of insurance as is satisfactory to the Administrative Agent, identifying insurers, types of insurance, insurance limits, and policy terms, and otherwise describing the insurance obtained in accordance with the provisions of the Loan Documents.

**11.7 Opinion of Counsel.** The Administrative Agent shall have received a favorable legal opinion addressed to the Lenders and the Administrative Agent, dated as of the Closing Date and in sufficient quantities to deliver one (1) original of each such opinion to each Lender, in form and substance satisfactory to the Administrative Agent, from

- (a) Latham & Watkins, counsel to the Borrower and the Guarantors; and
- (b) Venable LLP, Maryland counsel to the Borrower.

**11.8 Payment of Fees.** The Borrower shall have paid to the Lenders or the Administrative Agent, as appropriate, the Fees pursuant to Sections 5.1 and 5.2, as well as the fees and expenses of the Administrative Agent, the Arranger and the Administrative Agent's Special Counsel as set forth in the Fee Letter.

**11.9 Termination of Existing Credit Facility.** The Administrative Agent shall have received evidence that the Prior Credit Agreement has been terminated and all obligations thereunder have been discharged.

**11.10 Closing Certificate.** The Borrower shall have delivered to the Administrative Agent a certificate, dated as of the Closing Date, stating that, as of such date (a) the representations and warranties set forth herein or in any other Loan Document are true and correct, and (b) no Default or Event of Default has occurred and is continuing.

**11.11 Pro Forma Compliance Certificate.** The Borrower shall have delivered to the Administrative Agent a statement certified by the chief financial officer or treasurer of the Borrower in substantially the form of Exhibit C hereto (a "Compliance Certificate") and setting forth in reasonable detail computations evidencing pro forma compliance as of the fiscal quarter ending March 31, 2007 with the covenant contained in Section 10.

Without limiting the generality of the provisions of the last paragraph of Section 14.3, for purposes of determining compliance with the conditions specified in this Section 11, each Lender that has signed this Credit Agreement shall be deemed to have consented to, approved or accepted or to be satisfied with, each document or other matter required thereunder to be consented to or approved by or acceptable or satisfactory to a Lender unless the Administrative Agent shall have received notice from such Lender prior to the proposed Closing Date specifying its objection thereto.

## **12. CONDITIONS TO ALL BORROWINGS.**

The obligations of the Lenders to make any Loan and of the Issuing Lender to issue, extend, amend or renew any Letter of Credit, in each case whether on or after the Closing Date, shall also be subject to the satisfaction of the following conditions precedent:

**12.1 Representations True; No Event of Default.** Each of the representations and warranties of any of the Borrower and its Subsidiaries contained in this Credit Agreement, the other Loan Documents or in any document or instrument delivered pursuant to or in connection with this Credit Agreement shall be true as of the date as of which they were made and shall also be true at and as of the time of the making of such Loan or the issuance, extension, amendment or renewal of such Letter of Credit, with the same effect as if made at and as of that time (except to the extent of changes resulting from transactions contemplated or permitted by this Credit Agreement and the other Loan Documents and changes occurring in the ordinary course of business that singly or in the aggregate are not materially adverse, and to the extent that such representations and warranties relate expressly to an earlier date) and no Default or Event of Default shall have occurred and be continuing.

**12.2 No Legal Impediment.** No change shall have occurred in any law or regulations thereunder or interpretations thereof that in the reasonable opinion of any Lender would make it illegal for such Lender to make such Loan or to participate in the issuance, extension, amendment or renewal of such Letter of Credit or in the reasonable opinion of the Administrative Agent would make it illegal for the Issuing Lender to issue, extend, amend or renew such Letter of Credit.

**12.3 Proceedings and Documents.** All proceedings in connection with the transactions contemplated by this Credit Agreement, the other Loan Documents and all other documents incident thereto shall be satisfactory in substance and in form to the Lenders and to the Administrative Agent and the Administrative Agent's Special Counsel, and the Lenders, the Administrative Agent and such counsel shall have received all information and such counterpart originals or certified or other copies of such documents as the Administrative Agent may reasonably request.

**13. EVENTS OF DEFAULT; ACCELERATION; ETC.**

**13.1 Events of Default and Acceleration.** If any of the following events ("Events of Default" or, if the giving of notice or the lapse of time or both is required, then, prior to such notice or lapse of time, "Defaults") shall occur:

(a) the Borrower shall fail to pay any principal of the Loans or any Reimbursement Obligation when the same shall become due and payable (including, without limitation, under and pursuant to Section 3.2(a) and (b)) within five (5) Business Days after the same shall become due and payable, whether at the stated date of maturity or any accelerated date of maturity or at any other date fixed for payment;

(b) the Borrower or any of its Subsidiaries shall fail to pay any interest on the Loans, within five (5) Business Days after the same shall become due and payable, whether at the stated date of maturity or any accelerated date of maturity or at any other date fixed for payment;

(c) the Borrower or any of its Subsidiaries shall fail to pay any fees or other sums due hereunder or under any of the other Loan Documents, within five (5) Business Days after the same shall become due and payable, whether at the stated date of maturity or any accelerated date of maturity or at any other date fixed for payment; provided, that with respect to any fees or other sums due hereunder or under any of the other Loan Documents for which an invoice has been provided by the Administrative Agent but has not been received by the Borrower, the Borrower or any of its Subsidiaries shall fail to pay such fees or other sums within five (5) Business Days after notice of such failure has been given to the Borrower by the Administrative Agent;

(d) the Borrower shall fail to comply with any of its covenants contained in Section 8.1, the first sentence of Section 8.4.1, the first sentence of Section 8.5, Sections 9.1 through 9.6 or Section 10;

(e) the Borrower or any of its Subsidiaries shall fail to perform any term, covenant or agreement contained herein or in any of the other Loan Documents (other than those specified elsewhere in this Section 13.1) for thirty (30) days after written notice of such failure has been given to the Borrower by the Administrative Agent;

(f) any representation or warranty of the Borrower or any of its Subsidiaries (whether in this Credit Agreement or any of the other Loan Documents or in any other document or instrument delivered pursuant to or in connection with this Credit Agreement) shall prove to have been false in any material respect upon the date when made or deemed to have been made or repeated;

(g) the Borrower or any of its Subsidiaries shall fail to pay at maturity, or within any applicable period of grace, any obligation for borrowed money or credit received or in respect of any Capitalized Leases, in an aggregate principal amount in excess of \$25,000,000, or fail to observe or perform any material term, covenant or agreement contained in any agreement by which it is bound, evidencing or securing borrowed money or credit received or in respect of any Capitalized Leases, in an aggregate principal amount in excess of \$25,000,000, for such period of time as would permit (assuming the giving of appropriate notice if required) the holder or holders thereof or of any obligations issued thereunder to accelerate the maturity thereof, or any such holder or holders shall rescind or shall have a right to rescind the purchase of any such obligations;

(h) the Borrower or any of its Subsidiaries shall make an assignment for the benefit of creditors, or admit in writing its inability to pay or generally fail to pay its debts as they mature or become due, or shall petition or apply for the appointment of a trustee or other custodian, liquidator or receiver of the Borrower or any of its Subsidiaries or of any substantial part of the assets of the Borrower or any of its Subsidiaries or shall commence any case or other proceeding relating to the Borrower or any of its Subsidiaries under any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution or liquidation or similar law of any jurisdiction, now or hereafter in effect, or shall take any action to authorize or in furtherance of any of the foregoing, or if any such petition or application shall be filed or any such case or other proceeding shall be commenced against the Borrower or any of its Subsidiaries and the Borrower or any of its Subsidiaries shall indicate its approval thereof, consent thereto or acquiescence therein or such petition or application shall not have been dismissed within sixty (60) days following the filing thereof;

(i) a decree or order is entered appointing any such trustee, custodian, liquidator or receiver or adjudicating the Borrower or any of its Subsidiaries bankrupt or insolvent, or approving a petition in any such case or other proceeding, or a decree or order for relief is entered in respect of the Borrower or any Subsidiary of the Borrower in an involuntary case under federal bankruptcy laws as now or hereafter constituted;

(j) there shall remain in force, undischarged, unsatisfied and unstayed, for more than sixty days, whether or not consecutive, any final judgment against the Borrower or any of its Subsidiaries that, with other outstanding final judgments, undischarged, against the Borrower or any of its Subsidiaries exceeds in the aggregate \$25,000,000;

(k) if any of the Loan Documents shall be cancelled, terminated, revoked or rescinded, in each case otherwise than in accordance with the terms thereof or with the express prior written agreement, consent or approval of the Lenders, or any action at law, suit or in equity or other legal proceeding to cancel, revoke or rescind any of the Loan Documents shall be commenced by or on behalf of the Borrower or any of its Subsidiaries party thereto or any of their respective stockholders, or any court or any other governmental or regulatory authority or agency of competent jurisdiction shall make a determination that, or issue a judgment, order, decree or ruling to the effect that, any one or more of the Loan Documents is illegal, invalid or unenforceable in accordance with the terms thereof;

(l) the Borrower or any ERISA Affiliate incurs any liability to the PBGC or a Guaranteed Pension Plan pursuant to Title IV of ERISA in an aggregate amount exceeding \$25,000,000, or the Borrower or any ERISA Affiliate is assessed withdrawal liability pursuant to Title IV of ERISA by a Multiemployer Plan requiring aggregate annual payments exceeding \$25,000,000, or any of the following occurs with respect to a Guaranteed Pension Plan: (i) an ERISA Reportable Event, or a failure to make a required installment or other payment (within the meaning of Section 302(f)(1) of ERISA), provided that the Administrative Agent determines in its reasonable discretion that such event (A) could be expected to result in liability of the Borrower or any of its Subsidiaries to the PBGC or such Guaranteed Pension Plan in an aggregate amount exceeding \$25,000,000 and (B) could constitute grounds for the termination of such Guaranteed Pension Plan by the PBGC, for the appointment by the appropriate United States District Court of a trustee to administer such Guaranteed Pension Plan or for the imposition of a lien in favor of such Guaranteed Pension Plan; or (ii) the appointment by a United States District Court of a trustee to administer such Guaranteed Pension Plan; or (iii) the institution by the PBGC of proceedings to terminate such Guaranteed Pension Plan;

(m) the Borrower or any of its Subsidiaries is obligated to repurchase \$25,000,000 or more of receivables of the type described in clause (g) of the definition of “Indebtedness” hereof, whether sold under a purchase facility or otherwise, or a termination event occurs in connection with any such sale or with respect to any such facility; or

(n) a Change of Control shall occur;

then, and in any such event, so long as the same may be continuing, the Administrative Agent may, and upon the request of the Required Lenders shall, by notice in writing to the Borrower declare all amounts owing with respect to this Credit Agreement, the Notes and the other Loan Documents and all Reimbursement Obligations to be, and they shall thereupon forthwith become, immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived by the Borrower; provided that in the event of any Event of Default specified in Sections 13.1(h) or 13.1(i), all such amounts shall become immediately due and payable automatically and without any requirement of notice from the Administrative Agent or any Lender.

**13.2 Termination of Commitments.** If any one or more of the Events of Default specified in Section 13.1(h) or Section 13.1(i) shall occur, any unused portion of the credit hereunder shall forthwith terminate and each of the Lenders shall be relieved of all further obligations to make Loans to the Borrower and the Issuing Lender shall be relieved of all further obligations to issue, extend, amend or renew Letters of Credit. If any other Event of Default shall have occurred and be continuing, the Administrative Agent may and, upon the request of the Required Lenders, shall, by notice to the Borrower, terminate the unused portion of the credit hereunder, and upon such notice being given such unused portion of the credit hereunder shall terminate immediately and each of the Lenders shall be relieved of all further obligations to make Loans and the Issuing Lender shall be relieved of all further obligations to issue, extend, amend or renew Letters of Credit. No termination of the credit hereunder shall relieve the Borrower or any of its Subsidiaries of any of the Obligations.

**13.3 Remedies.** In case any one or more of the Events of Default shall have occurred and be continuing, and whether or not the Lenders shall have accelerated the maturity of the Loans pursuant to Section 13.1, each Lender, if owed any amount with respect to the Loans or the Reimbursement Obligations, may, with the consent of the Administrative Agent and the Required Lenders but not otherwise, proceed to protect and enforce its rights by suit in equity, action at law or other appropriate proceeding, whether for the specific performance of any covenant or agreement contained in this Credit Agreement and the other Loan Documents or any instrument pursuant to which the Obligations to such Lender are evidenced, including as permitted by applicable law the obtaining of the ex parte appointment of a receiver, and, if such amount shall have become due, by declaration or otherwise, proceed to enforce the payment thereof or any other legal or equitable right of such Lender. No remedy herein conferred upon any Lender or the Administrative Agent or the holder of any Note or purchaser of any Letter of Credit Participation is intended to be exclusive of any other remedy and each and every remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing at law or in equity or by statute or any other provision of law.



14. **THE AGENT.**

14.1 **Authorization.**

(a) The Administrative Agent is authorized to take such action on behalf of each of the Lenders and to exercise all such powers as are hereunder and under any of the other Loan Documents and any related documents delegated to the Administrative Agent, together with such powers as are reasonably incident thereto, provided that no duties or responsibilities not expressly assumed herein or therein shall be implied to have been assumed by the Administrative Agent.

(b) The relationship between the Administrative Agent and each of the Lenders is that of an independent contractor. The use of the term "Administrative Agent" is for convenience only and is used to describe, as a form of convention, the independent contractual relationship between the Administrative Agent and each of the Lenders. Nothing contained in this Credit Agreement nor the other Loan Documents shall be construed to create an agency, trust or other fiduciary relationship between the Administrative Agent and any of the Lenders.

(c) As an independent contractor empowered by the Lenders to exercise certain rights and perform certain duties and responsibilities hereunder and under the other Loan Documents, the Administrative Agent is nevertheless a "representative" of the Lenders, as that term is defined in Article 1 of the Uniform Commercial Code, for purposes of actions for the benefit of the Lenders and the Administrative Agent with respect to all cash collateral for Letters of Credit described in Section 4.1.7 hereof and guaranties contemplated by the Loan Documents.

14.2 **Employees and Administrative Agents.** The Administrative Agent may exercise its powers and execute its duties by or through employees or agents and shall be entitled to take, and to rely on, advice of counsel concerning all matters pertaining to its rights and duties under this Credit Agreement and the other Loan Documents. Prior to the existence of a Default or an Event of Default, the Administrative Agent may utilize the services of such Persons as the Administrative Agent in consultation with the Borrower may reasonably determine, and all reasonable fees and expenses of any such Persons shall be paid by the Borrower. Following the occurrence and during the continuation of a Default or an Event of Default, the Administrative Agent may utilize the services of such Persons as the Administrative Agent in its sole discretion may reasonably determine, and all reasonable fees and expenses of any such Persons shall be paid by the Borrower.

14.3 **No Liability.** Neither the Administrative Agent nor any of its shareholders, directors, officers or employees nor any other Person assisting them in their duties nor any agent or employee thereof, shall be liable for any waiver, consent or approval given or any action taken, or omitted to be taken, in good faith by it or them hereunder or under any of the other Loan Documents, or in connection herewith or therewith, or be responsible for the consequences of any oversight or error of judgment whatsoever, except that the Administrative Agent or such other Person, as the case may be, may be liable for losses due to its willful misconduct or gross negligence.

#### 14.4 No Representations.

**14.4.1 General.** The Administrative Agent shall not be responsible for the execution or validity or enforceability of this Credit Agreement, the Notes, the Letters of Credit, any of the other Loan Documents or any instrument at any time constituting, or intended to constitute, cash collateral for Letters of Credit described in Section 4.1.7 hereof, or for the value of any such cash collateral for Letters of Credit or for the validity, enforceability or collectability of any such amounts owing with respect to the Notes, or for any recitals or statements, warranties or representations made herein or in any of the other Loan Documents or in any certificate or instrument hereafter furnished to it by or on behalf of the Borrower or any of its Subsidiaries, or be bound to ascertain or inquire as to the performance or observance of any of the terms, conditions, covenants or agreements herein or in any instrument at any time constituting, or intended to constitute, cash collateral for Letters of Credit described in Section 4.1.7 hereof or to inspect any of the properties, books or records of the Borrower or any of its Subsidiaries. The Administrative Agent shall not be bound to ascertain whether any notice, consent, waiver or request delivered to it by the Borrower or any holder of any of the Notes shall have been duly authorized or is true, accurate and complete. The Administrative Agent has not made nor does it now make any representations or warranties, express or implied, nor does it assume any liability to the Lenders, with respect to the credit worthiness or financial conditions of the Borrower or any of its Subsidiaries. Each Lender acknowledges that it has, independently and without reliance upon the Administrative Agent or any other Lender, and based upon such information and documents as it has deemed appropriate, made its own credit analysis and decision to enter into this Credit Agreement.

**14.4.2 Closing Documentation, etc.** For purposes of determining compliance with the conditions set forth in Section 11, each Lender that has executed this Credit Agreement shall be deemed to have consented to, approved or accepted, or to be satisfied with, each document and matter either sent, or made available, by the Administrative Agent or the Arranger to such Lender for consent, approval, acceptance or satisfaction, or required thereunder to be to be consent to or approved by or acceptable or satisfactory to such Lender, unless an officer of the Administrative Agent or the Arranger active upon the Borrower's account shall have received notice from such Lender prior to the Closing Date specifying such Lender's objection thereto and such objection shall not have been withdrawn by notice to the Administrative Agent or the Arranger to such effect on or prior to the Closing Date.

#### 14.5 Payments.

**14.5.1 Payments to Administrative Agent.** A payment by the Borrower to the Administrative Agent hereunder or any of the other Loan Documents for the account of any Lender shall constitute a payment to such Lender. The Administrative Agent agrees promptly to distribute to each Lender such Lender's pro rata share of payments received by the Administrative Agent for the account of the Lenders except as otherwise expressly provided herein or in any of the other Loan Documents.

**14.5.2 Distribution by Administrative Agent.** If in the opinion of the Administrative Agent the distribution of any amount received by it in such capacity hereunder, under the Notes or under any of the other Loan Documents might involve it in liability, it may refrain from making distribution until its right to make distribution shall have been adjudicated by a court of competent jurisdiction. If a court of competent jurisdiction shall adjudge that any amount received and distributed by the Administrative Agent is to be repaid, each Person to whom any such distribution shall have been made shall either repay to the Administrative Agent its proportionate share of the amount so adjudged to be repaid or shall pay over the same in such manner and to such Persons as shall be determined by such court.

### 14.5.3 Delinquent Lenders.

(a) Notwithstanding anything to the contrary contained in this Credit Agreement or any of the other Loan Documents, any Lender that fails (i) to make available to the Administrative Agent its pro rata share of any Loan or to purchase any Letter of Credit Participation or (ii) to comply with the provisions of Section 16.1 with respect to making dispositions and arrangements with the other Lenders, where such Lender's share of any payment received, whether by setoff or otherwise, is in excess of its pro rata share of such payments due and payable to all of the Lenders, in each case as, when and to the full extent required by the provisions of this Credit Agreement, shall be deemed delinquent (a "Delinquent Lender") and shall be deemed a Delinquent Lender until such time as such delinquency is satisfied. A Delinquent Lender shall be deemed to have assigned any and all payments due to it from the Borrower, whether on account of outstanding Loans, Unpaid Reimbursement Obligations, interest, fees or otherwise, to the remaining nondelinquent Lenders for application to, and reduction of, their respective pro rata shares of all outstanding Loans and Unpaid Reimbursement Obligations. The Delinquent Lender hereby authorizes the Administrative Agent to distribute such payments to the nondelinquent Lenders in proportion to their respective pro rata shares of all outstanding Loans and Unpaid Reimbursement Obligations. A Delinquent Lender shall be deemed to have satisfied in full a delinquency when and if, as a result of application of the assigned payments to all outstanding Loans and Unpaid Reimbursement Obligations of the nondelinquent Lenders, the Lenders' respective pro rata shares of all outstanding Loans and Unpaid Reimbursement Obligations have returned to those in effect immediately prior to such delinquency and without giving effect to the nonpayment causing such delinquency.

(b) If any Lender is a Delinquent Lender, then the Borrower may, at its cost and expense (other than with respect to payment of the assignment fee referred to in Section 14.5.3(b)(i) and payment of the breakage costs referred to in the proviso to Section 14.5.3(b)(ii) below), upon notice to such Delinquent Lender and the Administrative Agent, require such Delinquent Lender to assign and delegate, without recourse (in accordance with and subject to the restrictions contained in, and consents required by, Section 15.1), all of its interests, rights and obligations under this Credit Agreement and the related Loan Documents to an assignee that shall assume such obligations (which assignee may be another Lender, if a Lender accepts such assignment); provided, however, that:

(i) such Delinquent Lender shall pay to the Administrative Agent the assignment fee specified in Section 15.3;

(ii) such Delinquent Lender shall have received payment of an amount equal to the outstanding principal of its Loans and Letter of Credit Advances, accrued interest thereon, accrued fees and all other amounts payable to such Delinquent Lender hereunder or under any of the other Loan Documents (including any amounts payable under Section 5.10) from the assignee (to the extent of such outstanding principal and accrued interest and fees) or the Borrower (in the case of all other amounts); provided, however, that the Borrower shall not be responsible for any breakage costs incurred by such Delinquent Lender as a direct result of the Borrower's decision to replace such Delinquent Lender pursuant to this Section 14.5.3(b); and

(iii) such assignment does not conflict with any applicable laws, statutes, regulations or guidelines, directives or requests of, or agreements with, any Governmental Authority (whether or not having the force of law).

**14.6 Holders of Notes.** The Administrative Agent may deem and treat the payee of any Note or the purchaser of any Letter of Credit Participation as the absolute owner or purchaser thereof for all purposes hereof until it shall have been furnished in writing with a different name by such payee or by a subsequent holder, assignee or transferee.

**14.7 Indemnity.** The Lenders ratably agree hereby to indemnify and hold harmless the Administrative Agent and its affiliates from and against any and all claims, actions and suits (whether groundless or otherwise), losses, damages, costs, expenses (including any expenses for which the Administrative Agent or such affiliate has not been reimbursed by the Borrower as required by Section 16.2), and liabilities of every nature and character arising out of or related to this Credit Agreement, the Notes, or any of the other Loan Documents or the transactions contemplated or evidenced hereby or thereby, or the Administrative Agent's actions taken hereunder or thereunder, except to the extent that any of the same shall be directly caused by the Administrative Agent's willful misconduct or gross negligence.

**14.8 Administrative Agent as Lender.** In its individual capacity, Bank of America shall have the same obligations and the same rights, powers and privileges in respect to its Commitment and the Loans made by it, and as the holder of any of the Notes and as the purchaser of any Letter of Credit Participations, as it would have were it not also the Administrative Agent.

**14.9 Resignation.** The Administrative Agent may resign at any time by giving sixty (60) days prior written notice thereof to the Lenders and the Borrower. Upon any such resignation, the Required Lenders shall have the right to appoint a successor Administrative Agent. Unless a Default or Event of Default shall have occurred and be continuing, such successor Administrative Agent shall be reasonably acceptable to the Borrower. If no successor Administrative Agent shall have been so appointed by the Required Lenders and shall have accepted such appointment within thirty (30) days after the retiring Administrative Agent's giving of notice of resignation, then the retiring Administrative Agent may, on behalf of the Lenders, appoint a successor Administrative Agent, which shall be a financial institution having a rating of not less than A or its equivalent by S&P. Upon the acceptance of any appointment as Administrative Agent hereunder by a successor Administrative Agent, such successor Administrative Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the retiring Administrative Agent, and the retiring Administrative Agent shall be discharged from its duties and obligations hereunder. After any retiring Administrative Agent's resignation, the provisions of this Credit Agreement and the other Loan Documents shall continue in effect for its benefit in respect of any actions taken or omitted to be taken by it while it was acting as Administrative Agent.

**14.10 Notification of Defaults and Events of Default.** Each Lender hereby agrees that, upon learning of the existence of a Default or an Event of Default, it shall promptly notify the Administrative Agent thereof. The Administrative Agent hereby agrees that upon receipt of any notice under this Section 14.10 it shall promptly notify the other Lenders of the existence of such Default or Event of Default.

## **15. ASSIGNMENT AND PARTICIPATION.**

**15.1 Conditions to Assignment by Lenders.** Except as provided herein, each Lender may assign to one or more Eligible Assignees, all or a portion of its interests, rights and obligations under this Credit Agreement (including all or a portion of its Commitment Percentage and Commitment and the same portion of the Loans at the time owing to it, the Notes held by it and its participating interest in the risk relating to any Letters of Credit); provided that (a) each of the Administrative Agent and, unless a Default or Event of Default shall have occurred and be continuing, the Borrower shall have given its prior written consent to such assignment, including, without limitation, an assignment to a Lender Affiliate, which consent, in the case of the Borrower, will not be unreasonably withheld; except that the consent of the Borrower or the Administrative Agent shall not be required in connection with any assignment by a Lender to an existing Lender, (b) each assignment shall be in an amount which, if less than all of such assigning Lender's rights and obligations under this Credit Agreement, is a whole multiple of \$5,000,000 or a lesser amount agreed to by the Administrative Agent, the Borrower and such assigning Lender, except that in the case of an assignment to a Lender, no minimum amount need be assigned and (c) the parties to such assignment shall execute and deliver to the Administrative Agent, for recording in the Register (as hereinafter defined), an Assignment and Acceptance, substantially in the form of Exhibit D hereto (an "Assignment and Acceptance"), together with any Notes subject to such assignment. Upon such execution, delivery, acceptance and recording, from and after the effective date specified in each Assignment and Acceptance, which effective date shall be at least five (5) Business Days after the execution thereof, (y) the assignee thereunder shall be a party hereto and, to the extent provided in such Assignment and Acceptance, have the rights and obligations of a Lender hereunder, and (z) the assigning Lender shall, to the extent provided in such assignment and upon payment to the Administrative Agent of the registration fee referred to in Section 15.3, be released from its obligations under this Credit Agreement.

**15.2** **Certain Representations and Warranties; Limitations; Covenants.** By executing and delivering an Assignment and Acceptance, the parties to the assignment thereunder confirm to and agree with each other and the other parties hereto that the representations and warranties and agreements set forth in Section 3 of the Assignment and Acceptance are true and correct as of the date such Assignment and Acceptance is executed.

**15.3** **Register.** The Administrative Agent shall maintain a copy of each Assignment and Acceptance delivered to it and a register or similar list (the "Register") for the recordation of the names and addresses of the Lenders and the Commitment Percentage of, and principal amount of the Revolving Credit Loans owing to and Letter of Credit Participations purchased by, the Lenders from time to time. The entries in the Register shall be conclusive, in the absence of manifest error, and the Borrower, the Administrative Agent and the Lenders may treat each Person whose name is recorded in the Register as a Lender hereunder for all purposes of this Credit Agreement. The Register shall be available for inspection by the Borrower and the Lenders at any reasonable time and from time to time upon reasonable prior notice. Upon each such recordation, the assigning Lender agrees to pay to the Administrative Agent a registration fee in the sum of \$3,500; provided, however, that the Administrative Agent may, in its sole discretion, elect to waive such registration fee in the case of any assignment. The assignee, if it is not a Lender, shall deliver to the Administrative Agent an Administrative Questionnaire.

**15.4** **New Notes.** Upon its receipt of an Assignment and Acceptance executed by the parties to such assignment, together with each Note subject to such assignment, the Administrative Agent shall record the information contained therein in the Register. Promptly upon the request of the assignee or the assignor thereunder, the Borrower, at its own expense, shall execute and deliver to the Administrative Agent, in exchange for each surrendered Note, a new Note to the order of such assignee in an amount equal to the amount assumed by such assignee pursuant to such Assignment and Acceptance and, if the assigning Lender has retained some portion of its obligations hereunder, a new Note to the order of the assigning Lender in an amount equal to the amount retained by it hereunder. Such new Notes shall provide that they are replacements for the surrendered Note(s), shall be in an aggregate principal amount equal to the aggregate principal amount of the surrendered Note(s), shall be dated the effective date of such Assignment and Acceptance and shall otherwise be in substantially the form of the assigned Notes. The surrendered Note(s) shall be cancelled and returned to the Borrower.

**15.5 Participations.** Each Lender may sell participations to one or more Lenders or other entities in all or a portion of such Lender's rights and obligations under this Credit Agreement and the other Loan Documents; provided that (a) each such participation shall be in an amount of not less than \$2,500,000, (b) any such sale or participation shall not affect the rights and duties of the selling Lender hereunder to the Borrower and (c) the only rights granted to the participant pursuant to such participation arrangements with respect to waivers, amendments or modifications of the Loan Documents shall be the rights to approve waivers, amendments or modifications that would reduce the principal of or the interest rate on any Loans, extend the term or increase the amount of the Commitment of such Lender as it relates to such participant, reduce the amount of any Commitment Fee or Letter of Credit Fees to which such participant is entitled or extend any regularly scheduled payment date for principal or interest.

**15.6 Assignee or Participant Affiliated with the Borrower.** If any assignee Lender is an Affiliate of the Borrower, then any such assignee Lender shall have no right to vote as a Lender hereunder or under any of the other Loan Documents for purposes of granting consents or waivers or for purposes of agreeing to amendments or other modifications to any of the Loan Documents or for purposes of making requests to the Administrative Agent pursuant to Section 13.1 or Section 13.2, and the determination of the Required Lenders shall for all purposes of this Credit Agreement and the other Loan Documents be made without regard to such assignee Lender's interest in any of the Loans or Reimbursement Obligations. If any Lender sells a participating interest in any of the Loans or Reimbursement Obligations to a participant, and such participant is the Borrower or an Affiliate of the Borrower, then such transferor Lender shall promptly notify the Administrative Agent of the sale of such participation. A transferor Lender shall have no right to vote as a Lender hereunder or under any of the other Loan Documents for purposes of granting consents or waivers or for purposes of agreeing to amendments or modifications to any of the Loan Documents or for purposes of making requests to the Administrative Agent pursuant to Section 13.1 or Section 13.2 to the extent that such participation is beneficially owned by the Borrower or any Affiliate of the Borrower, and the determination of the Required Lenders shall for all purposes of this Credit Agreement and the other Loan Documents be made without regard to the interest of such transferor Lender in the Loans or Reimbursement Obligations to the extent of such participation.

**15.7 Miscellaneous Assignment Provisions.** Any assigning Lender shall retain its rights to be indemnified pursuant to Section 16.3 with respect to any claims or actions arising prior to the date of such assignment. If any assignee Lender is not incorporated under the laws of the United States of America or any state thereof, it shall, prior to the date on which any interest or fees are payable hereunder or under any of the other Loan Documents for its account, deliver to the Borrower and the Administrative Agent certification satisfactory in form and substance to the Administrative Agent as to its exemption from deduction or withholding of any United States federal income taxes. Anything contained in this Section 15 to the contrary notwithstanding, any Lender may at any time pledge or assign a security interest in all or any portion of its interest and rights under this Credit Agreement (including all or any portion of its Notes) to secure obligations of such Lender, including any pledge or assignment to secure obligations to any of the twelve Federal Reserve Banks organized under Section 4 of the Federal Reserve Act, 12 U.S.C. Section 341. Any foreclosure or similar action by any Person in respect of such pledge or assignment shall be subject to the other provisions of this Section 15. No such pledge or the enforcement thereof shall release the pledgor Lender from its obligations hereunder or under any of the other Loan Documents, provide any voting rights hereunder to the pledgee thereof, or affect any rights or obligations of the Borrower or Administrative Agent hereunder.

**15.8 Assignment by Borrower.** The Borrower shall not assign or transfer any of its rights or obligations under any of the Loan Documents without the prior written consent of each of the Lenders.

**15.9 Electronic Execution of Assignments.** The words “execution,” “signed,” “signature,” and words of like import in any Assignment and Acceptance shall be deemed to include electronic signatures or the keeping of records in electronic form, each of which shall be of the same legal effect, validity or enforceability as a manually executed signature or the use of a paper-based recordkeeping system, as the case may be, to the extent and as provided for in any applicable law, including the Federal Electronic Signatures in Global and National Commerce Act, the New York State Electronic Signatures and Records Act, or any other similar state laws based on the Uniform Electronic Transactions Act.

**16. PROVISIONS OF GENERAL APPLICATION.**

**16.1 Setoff.** Regardless of the adequacy of any cash collateral for Letters of Credit described in Sections 4.2(b) and (c) hereof, following the occurrence and during the continuation of an Event of Default, any deposits or other sums credited by or due from any of the Lenders to the Borrower in the possession of such Lender may be applied to or set off against the payment of Obligations of the Borrower to such Lender. Each of the Lenders agree with each other Lender that (a) if an amount to be set off is to be applied to Indebtedness of the Borrower to such Lender, other than Indebtedness evidenced by the Notes held by such Lender or constituting Reimbursement Obligations owed to such Lender, such amount shall be applied ratably to such other Indebtedness and to the Indebtedness evidenced by all such Notes held by such Lender or constituting Reimbursement Obligations owed to such Lender, and (b) if such Lender shall receive from the Borrower, whether by voluntary payment, exercise of the right of setoff, counterclaim, cross action, enforcement of the claim evidenced by the Notes held by, or constituting Reimbursement Obligations owed to, such Lender by proceedings against the Borrower at law or in equity or by proof thereof in bankruptcy, reorganization, liquidation, receivership or similar proceedings, or otherwise, and shall retain and apply to the payment of the Note or Notes held by, or Reimbursement Obligations owed to, such Lender any amount in excess of its ratable portion of the payments received by all of the Lenders with respect to the Notes held by, and Reimbursement Obligations owed to, all of the Lenders, such Lender will make such disposition and arrangements with the other Lenders with respect to such excess, either by way of distribution, pro tanto assignment of claims, subrogation or otherwise as shall result in each Lender receiving in respect of the Notes held by it or Reimbursement Obligations owed it, its proportionate payment as contemplated by this Credit Agreement; provided that if all or any part of such excess payment is thereafter recovered from such Lender, such disposition and arrangements shall be rescinded and the amount restored to the extent of such recovery, but without interest.

**16.2 Expenses.** The Borrower agrees to pay (a) any taxes (including any interest and penalties in respect thereto) payable by the Administrative Agent, any Issuing Lender, the Swing Line Lender or any of the Lenders (other than taxes based upon or measured by the income or profits of the Administrative Agent, any Issuing Lender, the Swing Line Lender or any Lender) on or with respect to the transactions contemplated by this Credit Agreement (the Borrower hereby agreeing to indemnify the Administrative Agent, each Issuing Lender, the Swing Line Lender and each Lender with respect thereto), (b) the reasonable fees, expenses and disbursements of the Administrative Agent’s Special Counsel or any local counsel to the Administrative Agent incurred in connection with the preparation, syndication or administration of the Loan Documents and other instruments mentioned herein, each closing hereunder, any amendments, modifications, approvals, consents or waivers hereto or hereunder, or the cancellation of any Loan Document upon payment in full in cash of all of the Obligations or pursuant to any terms of such Loan Document for providing for such cancellation, (c) the reasonable fees, expenses and disbursements of the Administrative Agent or any of its Affiliates incurred by the Administrative Agent or such Affiliate in connection with the preparation, syndication, administration or interpretation of the Loan Documents and other instruments mentioned herein and subject to the limitations contained in the Fee Letter, (d) all reasonable out-of-pocket expenses (including without limitation reasonable attorneys’ fees and costs, which attorneys may be employees of any Lender, any Issuing Lender, the Swing Line Lender or the Administrative Agent, and reasonable consulting, accounting, appraisal, investment bankruptcy and similar professional fees and charges) incurred by any Lender, any Issuing Lender, the Swing Line Lender or the Administrative Agent in connection with (i) the enforcement of or preservation of rights under any of the Loan Documents against the Borrower or any of its Subsidiaries or the administration thereof after the occurrence of a Default or Event of Default and (ii) any litigation, proceeding or dispute whether arising hereunder or otherwise, in any way related to any Lender’s, any Issuing Lender’s, the Swing Line Lender’s or the Administrative Agent’s relationship with the Borrower or any of its Subsidiaries, except, in each case, to the extent resulting solely from the bad faith, willful misconduct or gross negligence of such party. The covenants contained in this Section 16.2 shall survive payment or satisfaction in full of all Obligations.

### 16.3 Indemnification.

(a) The Borrower agrees to indemnify and hold harmless the Administrative Agent, the Arranger, their affiliates, the Issuing Lender(s), the Swing Line Lender and the Lenders from and against any and all claims, actions and suits whether groundless or otherwise, and from and against any and all liabilities, losses, damages and expenses of every nature and character arising out of this Credit Agreement or any of the other Loan Documents or the transactions contemplated hereby including, without limitation, (a) any actual or proposed use by the Borrower or any of its Subsidiaries of the proceeds of any of the Loans or Letters of Credit, (b) the Borrower or any of its Subsidiaries entering into or performing this Credit Agreement or any of the other Loan Documents or (c) with respect to the Borrower and its Subsidiaries and their respective properties and assets, the violation of any Environmental Law or laws related to Hazardous Substances or any action, suit, proceeding or investigation in relation thereto, in each case including, without limitation, the reasonable fees and disbursements of counsel incurred in connection with any such investigation, litigation or other proceeding, except to the extent resulting from the bad faith, willful misconduct or gross negligence of such indemnified party. In litigation, or the preparation therefor, the Lenders, the Issuing Lender(s), the Swing Line Lender and the Administrative Agent and its affiliates shall be entitled to select their own counsel and, in addition to the foregoing indemnity, the Borrower agrees to pay promptly the reasonable fees and expenses of such counsel. If, and to the extent that the obligations of the Borrower under this Section 16.3 are unenforceable for any reason, the Borrower hereby agrees to make the maximum contribution to the payment in satisfaction of such obligations which is permissible under applicable law. The covenants contained in this Section 16.3 shall survive payment or satisfaction in full of all other Obligations.

(b) To the extent that the Borrower for any reason fails to indefeasibly pay any amount required under Sections 16.2 or 16.3 to be paid by it to the Administrative Agent (or any sub-agent thereof), the Issuing Lender or any Related Party of any of the foregoing, each Lender severally agrees to pay to the Administrative Agent (or any such sub-agent), the Issuing Lender or such Related Party, as the case may be, such Lender's Commitment Percentage (determined as of the time that the applicable unreimbursed expense or indemnity payment is sought) of such unpaid amount, provided that the unreimbursed expense or indemnified loss, claim, damage, liability or related expense, as the case may be, was incurred by or asserted against the Administrative Agent (or any such sub-agent) or the Issuing Lender in its capacity as such, or against any Related Party of any of the foregoing acting for the Administrative Agent (or any such sub-agent) or Issuing Lender in connection with such capacity. The obligations of the Lenders under this section are subject to the provisions of Section 2.8.



16.4 **Treatment of Certain Confidential Information.**

**16.4.1 Confidentiality.** Each of the Administrative Agent, the Lenders and the Issuing Lender agrees to maintain the confidentiality of the Information (as defined below), except that Information may be disclosed (a) to its Affiliates and to its and its Affiliates' respective partners, directors, officers, employees, agents, advisors and representatives (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such Information and instructed to keep such Information confidential), (b) to the extent requested by any regulatory authority purporting to have jurisdiction over it (including any self-regulatory authority, such as the National Association of Insurance Commissioners), (c) to the extent required by applicable laws or regulations or by any subpoena or similar legal process, (d) to any other party hereto, (e) in connection with the exercise of any remedies hereunder or under any other Loan Document or any action or proceeding relating to this Credit Agreement or any other Loan Document or the enforcement of rights hereunder or thereunder, (f) subject to an agreement containing provisions substantially the same as those of this Section, to (i) any assignee of or participant in, or any prospective assignee of or participant in, any of its rights or obligations under this Credit Agreement or any Eligible Assignee invited to be a Lender pursuant to Section 2.1(b) or (ii) any actual or prospective counterparty (or its advisors) to any swap or derivative transaction relating to the Borrower and its obligations, (g) with the consent of the Borrower or (h) to the extent such Information (x) becomes publicly available other than as a result of a breach of this Section or (y) becomes available to the Administrative Agent, any Lender, the Issuing Lender or any of their respective Affiliates on a nonconfidential basis from a source other than the Borrower.

For purposes of this Section, "Information" means all information received from the Borrower or any Subsidiary relating to the Borrower or any Subsidiary or any of their respective businesses, other than any such information that is available to the Administrative Agent, any Lender or the Issuing Lender on a nonconfidential basis prior to disclosure by the Borrower or any Subsidiary, provided that, in the case of information received from the Borrower or any Subsidiary after the date hereof, such information shall be presumed to be confidential unless (A) clearly identified at the time of delivery as public or (B) deemed to be public pursuant to the conditions set forth in the first paragraph of this Section 16.4.1 above. Any Person required to maintain the confidentiality of Information as provided in this Section shall be considered to have complied with its obligation to do so if such Person has exercised the same degree of care to maintain the confidentiality of such Information as such Person would accord to its own confidential information.

Each of the Administrative Agent, the Lenders and the Issuing Lender acknowledges that (a) the Information may include material non-public information concerning the Borrower or a Subsidiary, as the case may be, (b) it has developed compliance procedures regarding the use of material non-public information and (c) it will handle such material non-public information in accordance with applicable law, including United States Federal and state securities laws.

**16.4.2** **Prior Notification.** Unless specifically prohibited by applicable law or court order, each of the Lenders, the Issuing Lender(s), the Swing Line Lender, the Financial Affiliate(s) and the Administrative Agent shall notify the Borrower of any request for disclosure of any such non-public information by any governmental agency or representative thereof (other than any such request in connection with an examination of the financial condition of such Lender by such governmental agency) or pursuant to legal process; provided, however, that in the event such disclosure is required pursuant to such order of a court or the order, request or demand of any administrative or regulatory agency or authority, such Lender, such Issuing Lender, the Swing Line Lender, such Financial Affiliate and the Administrative Agent will provide the Borrower with notice prior to its disclosure of the same in order to allow (to the extent practicable) sufficient time for the Borrower to respond to or defend such order, request or demand.

**16.4.3** **Other.** In no event shall any Lender, any Issuing Lender, the Swing Line Lender or the Administrative Agent be obligated or required to return any materials furnished to it or any Financial Affiliate by the Borrower or any of its Subsidiaries. The obligations of each Lender under this Section 16 shall supersede and replace the obligations of such Lender under any confidentiality letter in respect of this financing signed and delivered by such Lender to the Borrower prior to the date hereof and shall be binding upon any assignee of, or purchaser of any participation in, any interest in any of the Loans or Reimbursement Obligations from any Lender.

**16.5** **Survival of Covenants, Etc.** All covenants, agreements, representations and warranties made herein, in the Notes, in any of the other Loan Documents or in any documents or other papers delivered by or on behalf of the Borrower or any of its Subsidiaries pursuant hereto shall be deemed to have been relied upon by the Lenders, the Issuing Lender(s), the Swing Line Lender and the Administrative Agent, notwithstanding any investigation heretofore or hereafter made by any of them, and shall survive the making by the Lenders of any of the Loans and the issuance, extension, amendment or renewal of any Letters of Credit, as herein contemplated, and shall continue in full force and effect so long as any Letter of Credit or any amount due under this Credit Agreement or the Notes or any of the other Loan Documents remains outstanding or any Lender has any obligation to make any Loans or the Issuing Lender has any obligation to issue, extend, amend or renew any Letter of Credit, and for such further time as may be otherwise expressly specified in this Credit Agreement.

**16.6** **Notices.** (e) Notices Generally. Except as otherwise expressly provided in this Credit Agreement, all notices and other communications made or required to be given pursuant to this Credit Agreement or the Notes or any Letter of Credit Applications shall be in writing and shall be delivered in hand, mailed by United States registered or certified first class mail, postage prepaid, sent by overnight courier, or sent by telegraph, facsimile or telex and confirmed by delivery via courier or postal service, addressed as follows:

If to the Borrower, at 516 West 34th Street, New York, New York 10001, Attention: Nancy Walsh, Treasurer, with a copy to the General Counsel of the Borrower, or at such other address for notice as the Borrower shall last have furnished in writing to the Person giving the notice;

If to (i) the Administrative Agent for payments or any credit extension request, at 2001 Clayton RD, Concord, CA 94520, (925) 675-8144 phone, (888) 969-9145, Attn: Marti J. Egner or (ii) the Administrative Agent for all other notices, at 335 Madison Avenue, Mail Code: NY1-503-04-03, New York, NY 10017, (212) 503-8328, (212) 901-7842, Attn: Steven Gazzillo or, in each case, such other address for notice as the Administrative Agent shall last have furnished in writing to the Person giving the notice; and

If to any Lender, at such Lender's address set forth on Schedule 1 hereto, or such other address for notice as such Lender shall have last furnished in writing to the Person giving the notice.

Notices sent by hand or overnight courier service, or mailed by certified or registered mail, shall be deemed to have been given when received; notices sent by telecopier shall be deemed to have been given when sent (except that, if not given during normal business hours for the recipient, shall be deemed to have been given at the opening of business on the next business day for the recipient). Notices delivered through electronic communications to the extent provided in subsection (b) below, shall be effective as provided in such subsection (b).

(b) Electronic Communications. Notices and other communications to the Lenders and the Issuing Lender hereunder may be delivered or furnished by electronic communication (including e-mail and Internet or intranet websites) pursuant to procedures approved by the Administrative Agent; provided that the foregoing shall not apply to notices to any Lender or the Issuing Lender pursuant to Section 4 if such Lender or the Issuing Lender, as applicable, has notified the Administrative Agent that it is incapable of receiving notices under such Section by electronic communication. The Administrative Agent or the Borrower may, in its discretion, agree to accept notices and other communications to it hereunder by electronic communications pursuant to procedures approved by it, provided that approval of such procedures may be limited to particular notices or communications.

Unless the Administrative Agent otherwise prescribes, (i) notices and other communications sent to an e-mail address shall be deemed received upon the sender's receipt of an acknowledgement from the intended recipient (such as by the "return receipt requested" function, as available, return e-mail or other written acknowledgement); provided that if such notice or other communication is not sent during the normal business hours of the recipient, such notice or communication shall be deemed to have been sent at the opening of business on the next business day for the recipient, and (ii) notices or communications posted to an Internet or intranet website shall be deemed received upon the deemed receipt by the intended recipient at its e-mail address as described in the foregoing clause (i) of notification that such notice or communication is available and identifying the website address therefor.

(c) The Platform. THE PLATFORM IS PROVIDED "AS IS" AND "AS AVAILABLE." THE AGENT PARTIES (AS DEFINED BELOW) DO NOT WARRANT THE ACCURACY OR COMPLETENESS OF THE BORROWER MATERIALS OR THE ADEQUACY OF THE PLATFORM, AND EXPRESSLY DISCLAIM LIABILITY FOR ERRORS IN OR OMISSIONS FROM THE BORROWER MATERIALS. NO WARRANTY OF ANY KIND, EXPRESS, IMPLIED OR STATUTORY, INCLUDING ANY WARRANTY OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, NON-INFRINGEMENT OF THIRD PARTY RIGHTS OR FREEDOM FROM VIRUSES OR OTHER CODE DEFECTS, IS MADE BY ANY AGENT PARTY IN CONNECTION WITH THE BORROWER MATERIALS OR THE PLATFORM. In no event shall the Administrative Agent or any of its Related Parties (collectively, the "Agent Parties") have any liability to the Borrower, any Lender, the Issuing Lender or any other Person for losses, claims, damages, liabilities or expenses of any kind (whether in tort, contract or otherwise) arising out of the Borrower's or the Administrative Agent's transmission of Borrower Materials through the Internet, except to the extent that such losses, claims, damages, liabilities or expenses are determined by a court of competent jurisdiction by a final and nonappealable judgment to have resulted from the gross negligence or willful misconduct of such Agent Party; provided, however, that in no event shall any Agent Party have any liability to the Borrower, any Lender, the Issuing Lender or any other Person for indirect, special, incidental, consequential or punitive damages (as opposed to direct or actual damages).

(d) Change of Address, Etc. Each of the Borrower, the Administrative Agent, the Issuing Lender and the Swing Line Lender may change its address, telecopier or telephone number for notices and other communications hereunder by notice to the other parties hereto. Each other Lender may change its address, telecopier or telephone number for notices and other communications hereunder by notice to the Borrower, the Administrative Agent, the Issuing Lender and the Swing Line Lender. In addition, each Lender agrees to notify the Administrative Agent from time to time to ensure that the Administrative Agent has on record (i) an effective address, contact name, telephone number, telecopier number and electronic mail address to which notices and other communications may be sent and (ii) accurate wire instructions for such Lender. Furthermore, each Public Lender agrees to cause at least one individual at or on behalf of such Public Lender to at all times have selected the "Private Side Information" or similar designation on the content declaration screen of the Platform in order to enable such Public Lender or its delegate, in accordance with such Public Lender's compliance procedures and applicable Law, including United States Federal and state securities Laws, to make reference to Borrower Materials that are not made available through the "Public Side Information" portion of the Platform and that may contain material non-public information with respect to the Borrower or its securities for purposes of United States Federal or state securities laws.

(e) Reliance by Administrative Agent, Issuing Lender and Lenders. The Administrative Agent, the Issuing Lender and the Lenders shall be entitled to rely and act upon any notices purportedly given by or on behalf of the Borrower made in a manner specified herein. The Borrower shall indemnify the Administrative Agent, the Issuing Lender, each Lender and the Related Parties of each of them from all losses, costs, expenses and liabilities resulting from the reliance by such Person on each notice purportedly given by or on behalf of the Borrower, except to the extent that such losses, costs, expenses and liabilities are determined by a court of competent jurisdiction by a final and nonappealable judgment to have resulted from the gross negligence or willful misconduct of such Person. All telephonic notices to and other telephonic communications with the Administrative Agent may be recorded by the Administrative Agent, and each of the parties hereto hereby consents to such recording.

**16.7** Governing Law. THIS CREDIT AGREEMENT AND, EXCEPT AS OTHERWISE SPECIFICALLY PROVIDED THEREIN, EACH OF THE OTHER LOAN DOCUMENTS ARE CONTRACTS UNDER THE LAWS OF THE STATE OF NEW YORK AND SHALL FOR ALL PURPOSES BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF SAID STATE OF NEW YORK (EXCLUDING THE LAWS APPLICABLE TO CONFLICTS OR CHOICE OF LAW OTHER THAN GENERAL OBLIGATIONS LAW §5-1401 AND §5-1402). THE BORROWER AGREES THAT ANY SUIT FOR THE ENFORCEMENT OF THIS CREDIT AGREEMENT OR ANY OF THE OTHER LOAN DOCUMENTS MAY BE BROUGHT IN THE COURTS OF THE STATE OF NEW YORK OR ANY FEDERAL COURT SITTING THEREIN AND CONSENTS TO THE NONEXCLUSIVE JURISDICTION OF SUCH COURT AND SERVICE OF PROCESS IN ANY SUCH SUIT BEING MADE UPON THE BORROWER BY MAIL AT THE ADDRESS SPECIFIED IN SECTION 16.6. THE BORROWER HEREBY WAIVES ANY OBJECTION THAT IT MAY NOW OR HEREAFTER HAVE TO THE VENUE OF ANY SUCH SUIT OR ANY SUCH COURT OR THAT SUCH SUIT IS BROUGHT IN AN INCONVENIENT COURT.

**16.8**        **Headings.** The captions in this Credit Agreement are for convenience of reference only and shall not define or limit the provisions hereof.

**16.9**        **Counterparts.** This Credit Agreement and any amendment hereof may be executed in several counterparts and by each party on a separate counterpart, each of which when executed and delivered shall be an original, and all of which together shall constitute one instrument. In proving this Credit Agreement it shall not be necessary to produce or account for more than one such counterpart signed by the party against whom enforcement is sought. Delivery by facsimile by any of the parties hereto of an executed counterpart hereof or of any amendment or waiver hereto shall be as effective as an original executed counterpart hereof or of such amendment or waiver and shall be considered a representation that an original executed counterpart hereof or such amendment or waiver, as the case may be, will be delivered.

**16.10**       **Entire Agreement, Etc.** The Loan Documents and any other documents executed in connection herewith or therewith express the entire understanding of the parties with respect to the transactions contemplated hereby. Neither this Credit Agreement nor any term hereof may be changed, waived, discharged or terminated, except as provided in Section 16.12.

**16.11**       **WAIVER OF JURY TRIAL.** EACH PARTY HERETO HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS CREDIT AGREEMENT OR ANY OTHER LOAN DOCUMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PERSON HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PERSON WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS CREDIT AGREEMENT AND THE OTHER LOAN DOCUMENTS BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION. Except as prohibited by law, each party hereto hereby waives any right it may have to claim or recover in any litigation referred to in the preceding sentence any special, exemplary, punitive or consequential damages or any damages other than, or in addition to, actual damages. The Borrower acknowledges and agrees that the Administrative Agent, the Issuing Lender(s), the Swing Line Lender and the Lenders have been induced to enter into this Credit Agreement and the other Loan Documents to which it is a party by, among other things, the waivers and certifications contained herein and that no representative, agent or attorney of any such party has represented to the Borrower that such party would not, in the event of litigation, seek to enforce the foregoing waivers.

**16.12**       **Consents, Amendments, Waivers, Etc.** Any consent or approval required or permitted by this Credit Agreement to be given by the Lenders may be given, and any term of this Credit Agreement, the other Loan Documents or any other instrument related hereto or mentioned herein may be amended, and the performance or observance by the Borrower or any of its Subsidiaries of any terms of this Credit Agreement, the other Loan Documents or such other instrument or the continuance of any Default or Event of Default may be waived (either generally or in a particular instance and either retroactively or prospectively) with, but only with, the written consent of the Borrower and the written consent of the Required Lenders. Notwithstanding the foregoing, no amendment, modification or waiver shall:

(a) without the written consent of the Borrower and each Lender directly affected thereby:

(i) reduce or forgive the principal amount of any Loans or Reimbursement Obligations, or reduce the rate of interest on the Notes or the amount of the Commitment Fee or Letter of Credit Fees, including, for purposes of calculation of the Applicable Margin, as a result of a change in the definition of Fixed Charge Ratio or any of the components thereof or the method of calculation thereto (it being understood that any change to the definition of Fixed Charge Ratio or any of the components thereof or the method of calculation thereto for purposes of calculating the covenant in Section 10 hereof shall only require the written consent of the Borrower and the Required Lenders), but excluding interest accruing pursuant to Section 5.11.2 following the effective date of any waiver by the Required Lenders of the Default or Event of Default relating thereto;

(ii) increase the amount of such Lender's Commitment or extend the expiration date of such Lender's Commitment; and

(iii) postpone or extend the Revolving Credit Loan Maturity Date (subject to Section 2.1(c)) or any other regularly scheduled dates for payments of principal of, or interest on, the Loans or Reimbursement Obligations or any Fees or other amounts payable to such Lender (it being understood that (A) a waiver of the application of the default rate of interest pursuant to Section 5.11.2, (B) any vote to rescind any acceleration made pursuant to Section 13.1 of amounts owing with respect to the Loans and other Obligations and (C) any modifications of the provisions relating to amounts, timing or application of prepayments of Loans and other Obligations shall require only the approval of the Required Lenders);

(b) without the written consent of all of the Lenders, amend or waive this Section 16.12 or the definition of Required Lenders;

(c) without the written consent of the Administrative Agent, amend or waive Section 14, the amount or time of payment of the Administrative Agent's Fee payable for the Administrative Agent's account or any other provision applicable to the Administrative Agent; and

(d) without the written consent of the Swing Line Lender, amend or waive Section 2.6.2, the amount or time of payment of the Swing Line Loans or any other provision applicable to the Swing Line Lender; and

(e) without the written consent of the Issuing Lender, amend or waive any Letter of Credit Fees payable for the Issuing Lender's account or any other provision applicable to the Issuing Lender.

No waiver shall extend to or affect any obligation not expressly waived or impair any right consequent thereon. No course of dealing or delay or omission on the part of the Administrative Agent, any Issuing Lender, the Swing Line Lender or any Lender in exercising any right shall operate as a waiver thereof or otherwise be prejudicial thereto. No notice to or demand upon the Borrower shall entitle the Borrower to other or further notice or demand in similar or other circumstances.

**16.13 Severability.** The provisions of this Credit Agreement are severable and if any one clause or provision hereof shall be held invalid or unenforceable in whole or in part in any jurisdiction, then such invalidity or unenforceability shall affect only such clause or provision, or part thereof, in such jurisdiction, and shall not in any manner affect such clause or provision in any other jurisdiction, or any other clause or provision of this Credit Agreement in any jurisdiction.

**16.14 USA Patriot Act Notice.** Each Lender that is subject to the Act (as hereinafter defined) and the Administrative Agent (for itself and not on behalf of any Lender) hereby notifies the Borrower that pursuant to the requirements of the USA Patriot Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)) (the "Act"), it is required to obtain, verify and record information that identifies the Borrower, which information includes the name and address of the Borrower and other information that will allow such Lender or the Administrative Agent, as applicable, to identify the Borrower in accordance with the Act.

**16.15 No Advisory or Fiduciary Responsibility.** In connection with all aspects of each transaction contemplated hereby (including in connection with any amendment, waiver or other modification hereof or of any other Loan Document), the Borrower acknowledges and agrees, and acknowledges its Affiliates' understanding, that: (i) (A) the arranging and other services regarding this Credit Agreement provided by the Administrative Agent, the Arranger and the Lenders are arm's-length commercial transactions between the Borrower and its respective Affiliates, on the one hand, and the Administrative Agent, the Arranger and the Lenders, on the other hand, (B) the Borrower has consulted its own legal, accounting, regulatory and tax advisors to the extent it has deemed appropriate, and (C) the Borrower is capable of evaluating, and understands and accepts, the terms, risks and conditions of the transactions contemplated hereby and by the other Loan Documents; (ii) (A) the Administrative Agent, the Arranger and each Lender each is and has been acting solely as a principal and, except as expressly agreed in writing by the relevant parties, has not been, is not, and will not be acting as an advisor, agent or fiduciary for the Borrower or any of its respective Affiliates, or any other Person and (B) neither the Administrative Agent, the Arranger nor any Lender has any obligation to the Borrower or any of its respective Affiliates with respect to the transactions contemplated hereby except those obligations expressly set forth herein and in the other Loan Documents; and (iii) the Administrative Agent, the Arranger and the Lenders and their respective Affiliates may be engaged in a broad range of transactions that involve interests that differ from those of the Borrower and its respective Affiliates, and neither the Administrative Agent, the Arranger nor any Lender has any obligation to disclose any of such interests to the Borrower or any of its respective Affiliates. To the fullest extent permitted by law, the Borrower hereby waives and releases any claims that it may have against the Administrative Agent, the Arranger and the Lenders with respect to any breach or alleged breach of agency or fiduciary duty in connection with any aspect of any transaction contemplated hereby.

IN WITNESS WHEREOF, the undersigned have duly executed this Credit Agreement as of the date first set forth above.

**COACH, INC.**

By: \_\_\_\_\_  
Name: Nancy Walsh  
Title: Vice President and Treasurer

Signature Page to Revolving Credit Agreement



**BANK OF AMERICA, N.A.**, individually and as Administrative Agent

By: \_\_\_\_\_

Name:

Title:

Signature Page to Revolving Credit Agreement

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**HSBC BANK USA, NATIONAL ASSOCIATION**

By: \_\_\_\_\_

Name:

Title:

Signature Page to Revolving Credit Agreement

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**THE NORTHERN TRUST COMPANY**

By: \_\_\_\_\_  
Name:  
Title:

Signature Page to Revolving Credit Agreement

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**US BANK, NATIONAL ASSOCIATION**

By: \_\_\_\_\_  
Name:  
Title:

Signature Page to Revolving Credit Agreement

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**JPMORGAN CHASE BANK, N.A.**

By: \_\_\_\_\_

Name:

Title:

Signature Page to Revolving Credit Agreement

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**NATIONAL CITY BANK**

By: \_\_\_\_\_  
Name:  
Title:

Signature Page to Revolving Credit Agreement

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**LIST OF SUBSIDIARIES OF COACH, INC.**

1. Coach Services, Inc. (Maryland)
  2. Coach Leatherware International, Inc. (Delaware)
  3. Coach Stores Puerto Rico, Inc. (Delaware)
  4. Coach Japan Holdings, Inc. (Delaware)
  5. Coach Japan Investments, Inc. (Delaware)
  6. 504-514 West 34<sup>th</sup> Street Corp. (Maryland)
  7. Coach Europe Services S.r.l. (Italy)
  8. Coach Stores Canada Inc. (Canada)
  9. Coach International Holdings, Inc. (Cayman Islands)
  10. Coach International Limited (Hong Kong)
  11. Coach Manufacturing Limited (Hong Kong)
  12. Coach Japan, Inc. (Japan)
  13. Coach Consulting (Shenzhen) Company Limited (China)
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CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 333-51706 and 333-82102 on Form S-8 of our reports dated August 23, 2007 relating to the consolidated financial statements and consolidated financial statement schedule of Coach, Inc. and subsidiaries, and management's report on the effectiveness of internal control over financial reporting, appearing in this Annual Report on Form 10-K of Coach, Inc. for the year ended June 30, 2007.

/s/ Deloitte & Touche LLP

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New York, NY  
August 23, 2007

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**EXHIBIT 31.1**

I, Lew Frankfort, certify that:

1. I have reviewed this Annual Report on Form 10-K of Coach, 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 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 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: August 23, 2007

By: /s/ Lew Frankfort

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Name: Lew Frankfort

Title: Chairman and Chief Executive Officer

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I, Michael F. Devine III, certify that:

1. I have reviewed this Annual Report on Form 10-K of Coach, 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 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 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: August 23, 2007

By: /s/ Michael F. Devine, III

Name: Michael F. Devine, III

Title: Executive Vice President and Chief Financial Officer

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**EXHIBIT 32.1**

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Coach, Inc. (the "Company") hereby certifies, to such officer's knowledge, that:

- (i) the accompanying Annual Report on Form 10-K of the Company for the fiscal year ended June 30, 2007 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 23, 2007

By: /s/ Lew Frankfort

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Name: Lew Frankfort  
Title: Chairman and Chief Executive Officer

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Coach, Inc. (the "Company") hereby certifies, to such officer's knowledge, that:

- (i) the accompanying Annual Report on Form 10-K of the Company for the fiscal year ended June 30, 2007 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 23, 2007

By: /s/ Michael F. Devine, III

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Name: Michael F. Devine, III  
Title: Executive Vice President and Chief Financial Officer

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