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ANNUAL REPORT 2006

AS THE MARKET LEADER, COACH CONTINUES TO BE POSITIONED FOR SUSTAINABLE, LONG TERM GROWTH.

– LEW FRANKFORT, CHAIRMAN AND CEO

FINANCIAL HIGHLIGHTS

(DOLLARS AND SHARES IN MILLIONS. EXCEPT FOR PER SHARE DATA)	**2006**	2005	INCREASE/ (DECREASE)
Net sales	**$ 2,111.5**	$ 1,710.4	23.4 %
Operating income	**$ 764.6**	$ 572.6	33.5 %
Operating margin	**36.2 %**	33.5 %	270 bps
Net income	**$ 494.3**	$ 358.6	37.8 %
Net income as a percentage of net sales	**23.4 %**	21.0 %	240 bps
Net income per diluted share	**$ 1.27**	$ 0.92	38.4 %
Weighted-average number of common shares (diluted)	**388.5**	390.2	(1.7)
Net cash provided by operating activities	**$ 596.6**	$ 475.6	$ 121.0
Stockholders' equity per share	**$ 3.21**	$ 2.79	15.1 %

TO OUR SHAREHOLDERS

Fiscal 2006, our sixth year as a public company, demonstrated sustained success, as we achieved excellent results across all aspects of our business and continued to increase profitability. These results reflect sustainability of our business model, our ability to effectively execute our growth strategies, and most importantly, the strength and endurance of the Coach brand.

Sales for fiscal 2006 rose 23% to $2.1 billion, with all channels of distribution posting increases from prior year levels. We were particularly pleased with the strength of our business in North America, both in our own full price and factory stores and in the department store channel, as the U.S. market for premium handbags and accessories continues to flourish. In addition, we were also delighted with the continued excellent market share gains we achieved in Japan, building upon our number two market share position, as our accessible luxury proposition resonated particularly well with the stylish Japanese consumer. Once again, both new and existing stores generated excellent results.

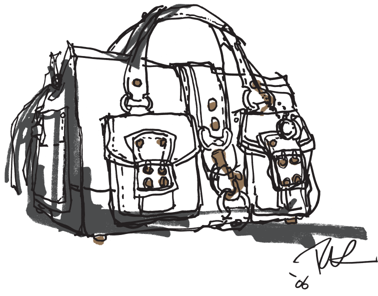
The company's operating margin rose to 36.2% for the year, a remarkable 270 basis point expansion from fiscal 2005 levels. Gross margin for the year climbed to over 77%, with supply chain initiatives and product mix shifts offsetting the negative impact of channel mix. At the same time, selling, general, and administrative expenses as a percentage of net sales declined to about 41% due to operating leverage achieved in the U.S. and other non-Japan businesses. Direct to consumer sales, which consist primarily of sales at Coach stores in North America and Japan, rose 23% to $1.6 billion in fiscal 2006. These results were generated by higher comparable store sales as well as new and expanded stores. Indirect sales increased 24% to $501 million, driven by strong gains in all channels, including U.S. department stores, international wholesale, and business-to-business. In fiscal 2006, sales at Coach Japan accounted for 20% of revenues.

Fiscal 2006 was another year of continued distribution and market share growth for Coach. In the U.S., we added 25 new full price stores, including eight new markets, and expanded seven others. Through Coach Japan, we continued to develop our opportunity in Japan, adding sixteen net new locations, including a flagship in Kobe, and expanding nine others.

The strength of the Coach franchise is built upon our distinctive business model. We offer accessible luxury lifestyle accessories that are extremely well-made, at a very attractive price. By doing so, we are able to continually strengthen Coach's position by building lasting market share. This premise is essential to our belief that we will continue to achieve sustainable growth in the years ahead in the rapidly growing premium accessories category.

Lew Frankfort

LEW FRANKFORT,
CHAIRMAN AND CEO



65 YEARS OF AMERICAN STYLE

Since 1941 the words “classic American style” have defined the character and spirit of the Coach brand. Today, more than ever, Coach embodies classic American style—now across a broad and diversified product offering of quality lifestyle bags and accessories.

This year, as Coach celebrates its 65th anniversary, we look back at decades of distinctive American design—and forward to what’s next. There’s a synergy between past and present that’s best exemplified in the unique way Coach continually evolves its iconic elements. Yet the meticulous craftsmanship and attention to detail never waver. The enduring quality and integrity of design are still paramount.

STRENGTH OF THE BRAND

The strength of the Coach brand is built upon our unique proposition and distinctive business model. Coach offers accessible luxury lifestyle accessories to a loyal and growing consumer base. We provide fresh, relevant, and innovative products that are extremely well made at an excellent price.

The hallmark of the Coach brand is our product. Each is crafted from the finest leathers, materials and proprietary hardware, and offers function, durability, and excellent value.

Today, Coach has a diversified portfolio of product platforms to meet our consumers' lifestyle accessories needs. We introduce new product into our stores, department store locations, website and direct mail programs monthly, matching the shopping style of our best consumers.

The strength of the Coach brand is further reinforced by our compelling and dynamic retail environment. Our stores across the globe are sophisticated, modern and inviting—showcasing the world of Coach and enhancing the shopping experience.

REED KRAKOFF
PRESIDENT, EXECUTIVE
CREATIVE DIRECTOR

OPPORTUNITIES FOR GROWTH

Over the past six years as a public company, the strength of the Coach brand has endured, and the opportunities ahead of us are abundant.

Today, the U.S. premium accessories market is rapidly growing. American consumers are extremely loyal to their handbag and accessory brands. In the United States, Coach's share of the market has increased from about 16% in 2000 to about 25% in 2005. As the market leader with a broad and diversified consumer base and strong business equities, we continue to be in an ideal position for long term growth.

COACH

INCREASE DISTRIBUTION

Our first long term growth initiative is to increase distribution across the globe with a primary focus on North America and the Japanese consumer.

We plan to bring our number of North American full price stores from about 200 today to 400 over the next several years. For U.S. factory we plan to open three to five new stores per year, totaling about 105, from about 85 today.

In Japan, we currently have about 110 locations, and we're confident that we have the potential to reach over 180.

In addition to our two core markets, we are focused on driving growth in Hong Kong as the gateway to greater China, recently opening our thirteenth location on Canton Road. On the mainland, we plan to open at least ten new locations over the next two to three years.

Coach's business is based on a multi-channel international distribution model, which allows us to maintain a critical balance. Our success does not depend solely on the performance of a single channel or geography. Coach is available at multiple shopping venues, wherever our target consumer chooses to shop.

MAXIMIZE PRODUCTIVITY

Our second long term growth initiative is to maximize productivity in our stores.

We are intensifying awareness of Coach as a year round gift resource by enhancing our unique position as an accessible luxury lifestyle brand, offering aspirational, stylish, well-made products. To this end, we continue to offer a variety of products at a broader range of prices, providing perfect gift-giving options year-round.

We are expanding our core assortment by continuing to introduce collections for new usage occasions. We conduct research to understand what our consumers want and need everyday, providing product that is both fashionable and functional, allowing us to gain an even greater presence in their accessories wardrobe.

COACH
COACH

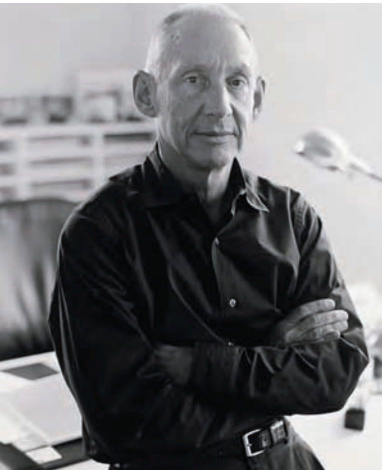
ENHANCE SERVICE

At Coach, we want to be as well-known for excellent service as we are for great product. Elevating the level of service in our stores is key to maximizing our productivity. Great service builds loyalty, and loyalty drives sales.

We continue to evolve our in-store marketing programs, making it easier for our customers to shop. One recent example is Coach by Special Request. This program allows our North American customers to pre-order product or purchase styles not available in a particular store, and have them shipped directly to their home.

We also continue to evolve Coach Service, focusing on additional opportunities to deliver consistent customer service through new tools and initiatives.

The success of these service initiatives was demonstrated in our excellent results this fiscal year.



KEITH MONDA
PRESIDENT, CHIEF OPERATING OFFICER

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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 July 1, 2006 have been derived from Coach's audited Consolidated Financial Statements. The financial data should be read in conjunction with 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[1]	JULY 1, 2006	JULY 2, 2005	JULY 3, 2004	JUNE 28, 2003	JUNE 29, 2002
CONSOLIDATED STATEMENTS OF INCOME:[2]					
Net sales	$2,111,501	$1,710,423	$1,321,106	$ 953,226	$ 719,403
Cost of sales	472,622	399,652	331,024	275,797	236,041
Gross profit	1,638,879	1,310,771	990,082	677,429	483,362
Selling, general and administrative expenses	874,275	738,208	584,778	458,980	362,211
Reorganization costs[3]	–	–	–	–	3,373
Operating income	764,604	572,563	405,304	218,449	117,778
Interest income (expense), net	32,623	15,760	3,192	1,059	(299)
Income before provision for income taxes and minority interest	797,227	588,323	408,496	219,508	117,479
Provision for income taxes	302,950	216,070	152,504	81,219	41,695
Minority interest, net of tax	–	13,641	18,043	7,608	184
Net income	$ 494,277	$ 358,612	$ 237,949	$ 130,681	$ 75,600
Net income per share					
Basic	$ 1.30	$ 0.95	$ 0.64	$ 0.36	$ 0.21
Diluted	$ 1.27	$ 0.92	$ 0.62	$ 0.35	$ 0.21
Shares used in computing net income per share:[4]					
Basic	379,635	378,670	372,120	359,116	352,192
Diluted	388,495	390,191	385,558	371,684	363,808
CONSOLIDATED PERCENTAGE OF NET SALES DATA:					
Gross margin	77.6%	76.6%	74.9%	71.1%	67.2%
Selling, general and administrative expenses	41.4%	43.2%	44.3%	48.2%	50.3%
Operating income	36.2%	33.5%	30.7%	22.9%	16.4%
Net income	23.4%	21.0%	18.0%	13.7%	10.5%
CONSOLIDATED BALANCE SHEET DATA:[2]					
Working capital	$ 632,658	$ 443,699	$ 533,280	$ 295,333	$ 135,328
Total assets	1,626,520	1,370,157	1,060,279	640,871	456,162
Cash, cash equivalents and investments	537,565	505,116	564,443	229,176	93,962
Inventory	233,494	184,419	161,913	143,807	136,404
Revolving credit facility	–	12,292	1,699	26,471	34,169
Long-term debt	3,100	3,270	3,420	3,535	3,615
Stockholders' equity	1,188,734	1,055,920	796,036	436,536	266,542

(1) Coach's fiscal year ends on the Saturday closest to June 30. Fiscal years 2006, 2005, 2003 and 2002 were 52-week years, while fiscal year 2004 was a 53-week year.

(2) In accordance with the Company's adoption of SFAS 123R, "Share-Based Compensation" in fiscal 2006, all financial statement amounts for the prior periods presented have been adjusted to reflect the grant-date fair value of equity awards issued through share-based compensation plans.

(3) During fiscal 2002, Coach committed to and completed a reorganization plan involving the complete closure of its Lares, Puerto Rico, manufacturing operation. This action, intended to reduce costs, resulted in the transfer of production to lower cost third-party manufacturers.

(4) The two-for-one stock splits in April 2005, October 2003 and July 2002 have been retroactively applied to all prior periods.

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. When used herein, the terms "Coach," "Company," "we," "us" and "our" refer to Coach, Inc., including consolidated subsidiaries. Coach's fiscal year ends on the Saturday closest to June 30. Fiscal 2006 and fiscal 2005 were each 52-week periods whereas fiscal 2004 was a 53-week period.

In accordance with the Company's adoption of SFAS 123R, "Share-Based Compensation" in fiscal 2006, all financial statement amounts for the prior periods presented have been adjusted to reflect the grant-date fair value of equity awards issued through share-based compensation plans.

EXECUTIVE OVERVIEW

Coach designs and markets high-quality, modern American classic accessories. Our primary product offerings include handbags, women's and men's accessories, outerwear, business, travel, watches, footwear and eyewear. We sell products directly to consumers through Company-operated stores in North America and Japan, the Internet and catalogs and indirectly through wholesale customers primarily in the U.S. and Asia. 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.

Coach seeks to deliver excellent business results and superior shareholder returns. In fiscal 2006, an increase in sales, combined with an improvement in margins, continued to drive net income and earnings per share growth. The highlights of fiscal 2006 were:

- Net income rose 37.8% to $494.3 million, or $1.27 per diluted share, compared with $358.6 million or $0.92 per share in the year ago period.
- Net sales totaled $2.1 billion, reflecting a 23.4% increase over prior year sales of $1.7 billion.
- Direct-to-consumer sales, which consist primarily of sales at Coach stores in the U.S. and Japan, rose 23.2% to $1.6 billion during fiscal 2006.
- Comparable store sales in the U.S. rose 20.7%, with retail stores up 12.3% and factory stores up 31.9%.
- Japan sales, when translated into U.S. dollars, rose 12.1% driven by new stores, expansions and mid-single-digit retail comparable store sales. These increases in sales were offset by a 9.5% decrease due to currency translation.

During fiscal 2006, we opened 25 new retail stores and seven new factory stores and closed three factory stores in the U.S., bringing the total number of retail and factory stores in the U.S. to 218 and 86, respectively, at the end of fiscal 2006. We also expanded seven retail stores in the U.S. In Japan, we opened 18 new locations, closed three locations and expanded nine locations, bringing the total number of locations at the end of fiscal 2006 to 118. Through our international distributors, we opened 14 net new locations and expanded 14 locations in fiscal 2006, bringing the total number of international locations, excluding Coach operated stores in Japan, to 108 at the end of fiscal 2006.

FISCAL 2006 VS. FISCAL 2005

Results of operations for fiscal 2006 compared to fiscal 2005 are as follows:

FISCAL YEAR ENDED (DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA)	JULY 1, 2006 AMOUNT	JULY 1, 2006 PERCENTAGE OF NET SALES	JULY 2, 2005 AMOUNT	JULY 2, 2005 PERCENTAGE OF NET SALES	VARIANCE AMOUNT	VARIANCE PERCENTAGE
Total net sales	$ 2,111.5	100.0%	$ 1,710.4	100.0%	$ 401.1	23.4%
Gross profit	1,638.9	77.6	1,310.8	76.6	328.1	25.0
Selling, general and administrative expenses	874.3	41.4	738.2	43.2	136.1	18.4
Operating income	764.6	36.2	572.6	33.5	192.0	33.5
Interest income, net	32.6	1.5	15.8	0.9	16.9	107.0
Provision for income taxes	303.0	14.3	216.1	12.6	86.9	40.2
Minority interest, net of tax	–	0.0	13.6	0.8	(13.6)	(100.0)
Net income	$ 494.3	23.4%	$ 358.6	21.0%	$ 135.7	37.8%
Net income per share:						
Basic	$ 1.30		$ 0.95		$ 0.36	37.5%
Diluted	$ 1.27		$ 0.92		$ 0.35	38.4%

OPERATING INCOME

Operating income increased 33.5% to $764.6 million in 2006 as compared to $572.6 million in 2005. This increase was driven by increases in net sales and gross profit, offset by an increase in 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 2006	32.3%	42.1%	33.2%	35.0%	36.2%
Fiscal 2005	29.2%	39.8%	31.8%	30.6%	33.5%

The increase in operating margin is attributable to higher sales and gross profit as well as the leveraging of selling, general and administrative expenses.

NET SALES

In fiscal 2006, net sales increased 23.4% to $2.1 billion compared to $1.7 billion, in fiscal 2005. The net sales increase was driven by growth across all distribution channels. As a result of Coach's acquisition of Sumitomo's 50% interest in Coach Japan on July 1, 2005, the Company reevaluated the composition of its reportable segments and determined that Coach Japan should be a component of the Direct-to-Consumer segment. Previously, Coach Japan was included in the Indirect segment. All prior period information has been reclassified to include Coach Japan as a component of the Direct-to-Consumer segment.

Net sales by operating segment in fiscal 2006 as compared to fiscal 2005 are as follows:

(DOLLARS IN MILLIONS)	FISCAL YEAR ENDED JULY 1, 2006	FISCAL YEAR ENDED JULY 2, 2005	RATE OF INCREASE	PERCENTAGE OF TOTAL NET SALES JULY 1, 2006	PERCENTAGE OF TOTAL NET SALES JULY 2, 2005
Direct	$ 1,610.7	$ 1,307.4	23.2%	76.3%	76.4%
Indirect	500.8	403.0	24.3	23.7	23.6
Total net sales	$ 2,111.5	$ 1,710.4	23.4%	100.0%	100.0%

DIRECT Net sales increased 23.2% to $1.6 billion during fiscal 2006 from $1.3 billion during fiscal 2005, driven by increased sales from comparable stores, new stores and expanded stores. 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 $167 million, $72 million and $13 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 $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 slight decline in the direct marketing channel.

INDIRECT Net sales increased 24.3% to $500.8 million in fiscal 2006 from $403.0 million during fiscal 2005. This increase was driven by growth in the U.S. wholesale, international wholesale and business-to-business divisions, which contributed increased sales of approximately $45 million, $36 million and $18 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.

GROSS PROFIT

Gross profit increased 25.0% to $1.6 billion in fiscal 2006 as compared to $1.3 billion in fiscal 2005. Gross margin increased 100 basis points to 77.6% in fiscal 2006 from 76.6% 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. Coach's gross profit is dependent upon a variety of 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 EXPENSES

Selling, general and administrative expenses comprise four categories: selling; advertising, marketing and design; distribution and customer service; and 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 customer 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. Selling, general and administrative 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 selling, general and administrative expenses being spread over a larger sales base.

Selling, general and administrative expenses increased 18.4% to $874.3 million in fiscal 2006 from $738.2 million in fiscal 2005, driven primarily by selling expenses. During fiscal 2006, selling, general and administrative expenses as a percentage of net sales improved to 41.4% as compared to 43.2% during fiscal 2005. This improvement was due to leveraging our expense base on higher sales.

Selling expenses increased 17.0% to $581.9 million, or 27.6% of net sales, in fiscal 2006 from $497.3 million, or 29.1% of net sales, in fiscal 2005. The dollar increase in these 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. In addition, 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.

Advertising, marketing, and design costs increased by 27.7% to $100.6 million, or 4.8% of net sales, in fiscal 2006 from $78.8 million, or 4.6% of net sales, in fiscal 2005. This dollar increase was primarily due to increased staffing costs and increased design expenditures as well as increased development costs for new product categories.

Distribution and customer service expenses increased to $43.0 million in fiscal 2006 from $36.9 million in fiscal 2005. The dollar increase in these expenses was primarily due to higher sales volumes. However, efficiency gains at the distribution and customer service facility resulted in an improvement in the ratio of these expenses to net sales from 2.2% in fiscal 2005 to 2.0% in fiscal 2006.

Administrative expenses increased 18.8% to $148.8 million, or 7.0% of net sales, in fiscal 2006 from $125.2 million, or 7.3% of net sales, in fiscal 2005. The dollar increase in these expenses was primarily due to increased share-based compensation costs and other employee staffing costs. Included as a reduction to administrative expenses are business interruption proceeds of $2.0 million, 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 38.0% as compared to the 36.7% rate recorded 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.

NET INCOME

Net income was $494.3 million in fiscal 2006 as compared to $358.6 million in fiscal 2005. This 37.8% increase is attributable to increased net sales as well as significant margin improvement, as discussed above.

FISCAL 2005 VS. FISCAL 2004

Results of operations for fiscal 2005 compared to fiscal 2004 are as follows:

FISCAL YEAR ENDED[1]	JULY 2, 2005		JULY 3, 2004		VARIANCE	
(DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA)	AMOUNT	PERCENTAGE OF NET SALES	AMOUNT	PERCENTAGE OF NET SALES	AMOUNT	PERCENTAGE
Total net sales	$ 1,710.4	100.0%	$ 1,321.1	100.0%	$ 389.3	29.5%
Gross profit	1,310.8	76.6	990.1	74.9	320.7	32.4
Selling, general and administrative expenses	738.2	43.2	584.8	44.3	153.4	26.2
Operating income	572.6	33.5	405.3	30.7	167.3	41.3
Interest income, net	15.8	0.9	3.2	0.2	12.6	392.5
Provision for income taxes	216.1	12.6	152.5	11.5	63.6	41.7
Minority interest, net of tax	13.6	0.8	18.0	1.4	(4.4)	(24.4)
Net income	$ 358.6	21.0%	$ 237.9	18.0%	$ 120.7	50.7%
Net income per share:						
Basic	$ 0.95		$ 0.64		$ 0.31	48.2%
Diluted	$ 0.92		$ 0.62		$ 0.30	48.9%

(1) Fiscal year ended July 3, 2004 was a 53-week year.

OPERATING INCOME

Operating income increased 41.3% to $572.6 million in 2005 as compared to $405.3 million in 2004. This increase was driven by increases in net sales and gross profit, offset by an increase in selling, general and administrative expenses.

The following chart illustrates our operating margin performance in fiscal 2005 and 2004:

OPERATING MARGIN	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER	TOTAL YEAR
Fiscal 2005	29.2%	39.8%	31.8%	30.6%	33.5%
Fiscal 2004	24.2%	36.6%	28.9%	30.1%	30.7%

The increase in operating margin is attributable to higher sales and gross profit as well as the leveraging of selling, general and administrative expenses.

NET SALES

Net sales by operating segment in fiscal 2005 as compared to fiscal 2004 are as follows:

	FISCAL YEAR ENDED			PERCENTAGE OF TOTAL NET SALES	
(DOLLARS IN MILLIONS)	JULY 2, 2005	JULY 3, 2004	RATE OF INCREASE	JULY 2, 2005	JULY 3, 2004
Direct	$ 1,307.4	$ 1,002.7	30.4%	76.4%	75.9%
Indirect	403.0	318.4	26.6	23.6	24.1
Total net sales	$ 1,710.4	$ 1,321.1	29.5%	100.0%	100.0%

DIRECT Net sales increased 30.4% to $1.3 billion during fiscal 2005 from $1.0 billion during fiscal 2004, 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 $112 million, $85 million and $11 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 $40 million, $30 million and $20 million, respectively, of the net sales increase. Coach Japan's reported net sales were positively impacted by approximately $13 million as a result of foreign currency exchange. Sales growth in the Internet business accounted for the remaining sales increase. These sales increases were offset by $15.7 million of sales in the additional week of fiscal 2004 as well as store closures and a decline in the direct marketing channel.

INDIRECT Net sales increased 26.6% to $403.0 million in fiscal 2005 from $318.4 million during fiscal 2004. This increase was driven by growth in the U.S. wholesale, international wholesale and business-to-business divisions, which contributed increased sales of approximately $48 million, $19 million and $10 million, respectively, as compared to the prior year. The remaining net sales increase is attributable to increases in other indirect channels. The net sales increase was slightly offset by $3.8 million of sales from other indirect channels during the additional week of fiscal 2004. Licensing revenue of approximately $6 million and $5 million in fiscal 2005 and fiscal 2004, respectively, is included in indirect sales.

GROSS PROFIT

Gross profit increased 32.4% to $1.3 billion in fiscal 2005 from $990.1 million in fiscal 2004. Gross margin increased 170 basis points to 76.6% in fiscal 2005 from 74.9% in fiscal 2004. This improvement was driven by a shift in channel mix, as our higher gross margin channels grew faster than the business as a whole, a shift in product mix, reflecting increased penetration of higher margin mixed material product and accessories, and the continuing impact of sourcing cost initiatives.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses increased 26.2% to $738.2 million in fiscal 2005 from $584.8 million in fiscal 2004. The dollar increase was caused primarily by increased store operating expenses attributable to new stores opened both domestically and in Japan and increased variable expenses to support increased net sales. As a percentage of net sales, selling, general and administrative expenses during fiscal 2005 were 43.2% compared to 44.3% during fiscal 2004. This improvement was due to leveraging our expense base on higher sales.

Selling expenses increased 28.8% to $497.3 million, or 29.1% of net sales, in fiscal 2005 from $386.2 million, or 29.2% of net sales, in fiscal 2004. The dollar increase in these expenses was primarily due to an increase in operating expenses associated with Coach Japan and operating expenses associated with North American stores that were opened during and after the end of fiscal 2004. The increase in Coach Japan expenses was driven by new store operating expenses, investment in corporate infrastructure, increased variable expenses related to higher sales and increased advertising expense to support the brand in Japan. In addition, the impact of foreign currency exchange rates increased reported expenses by approximately $6.0 million. In North America, the increase in operating expenses was primarily driven by expenses from new stores, as well as the noncomparable portion of expenses from stores opened in fiscal 2004. The remaining increase in selling expenses was due to increased variable expenses to support sales growth.

Advertising, marketing, and design costs increased by 24.1% to $78.8 million, or 4.6% of net sales, in fiscal 2005 from $63.5 million, or 4.8% of net sales, in fiscal 2004. This dollar increase was primarily due to increased staffing costs and increased design expenditures.

Distribution and customer service expenses increased to $36.9 million in fiscal 2005 from $32.4 million in fiscal 2004. The dollar increase in these expenses was primarily due to higher sales volumes. However, efficiency gains at the distribution and customer service facility resulted in an improvement in the ratio of these expenses to net sales from 2.5% in fiscal 2004 to 2.2% in fiscal 2005.

Administrative expenses increased 21.9% to $125.2 million, or 7.3% of net sales, in fiscal 2005 from $102.7 million, or 7.8% of net sales, in fiscal 2004. The dollar increase in these expenses was primarily due to increased compensation costs, including share-based compensation, as well as increased professional and consulting fees. Included as a reduction to administrative expenses are business interruption proceeds of $2.6 million, related to our World Trade Center location.

INTEREST INCOME, NET

Net interest income was $15.8 million in fiscal 2005, as compared to $3.2 million in fiscal 2004. This dollar change was due to increased positive cash balances during fiscal 2005 as well as higher returns on investments as a result of higher interest rates.

PROVISION FOR INCOME TAXES

The effective tax rate decreased to 36.7% in fiscal 2005 compared with the 37.3% recorded in fiscal 2004. As a result of the buyout of our joint venture partner in Coach Japan and a continued need to grow the Coach Japan business, we determined that the earnings of Coach Japan will be permanently reinvested and the tax provision previously recorded relating to the repatriation of those earnings was reversed. The reversal was recorded in the fourth quarter of fiscal 2005 and brought the full year to the lower effective annual rate.

MINORITY INTEREST

Minority interest expense, net of tax, decreased to $13.6 million, or 0.8% of net sales, in fiscal 2005 from $18.0 million, or 1.4% of net sales, in fiscal 2004. The decrease was primarily due to transfer price increases to Coach Japan, increased marketing expenses and additional infrastructure investments.

NET INCOME

Net income was $358.6 million in fiscal 2005 as compared to $237.9 million in fiscal 2004. This 50.7% increase is attributable to increased net sales as well as significant margin improvement, as discussed above.

FINANCIAL CONDITION

LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating activities was $596.6 million in fiscal 2006 compared to $475.6 million in fiscal 2005. The $121.0 million increase was primarily due to increased earnings of $135.7 million. The increase in earnings was offset by a $13.6 million decrease in minority interest expense, as a result of Coach's acquisition on July 1, 2005 of Sumitomo's 50% interest in Coach Japan. The remaining changes in assets and liabilities are attributable to normal operating fluctuations.

Net cash used in investing activities was $181.0 million in fiscal 2006 compared to $371.8 million in fiscal 2005. The decrease in net cash used in investing activities is primarily attributable to the non-recurrence of the $228.4 million buyout of Sumitomo's 50% interest in Coach Japan. This decrease was offset by a $39.3 million increase in capital expenditures, primarily related to investments in corporate systems and infrastructure.

Net cash used in financing activities was $426.8 million in fiscal 2006 compared to $211.9 million in fiscal 2005. The $214.9 million increase in cash used is primarily attributable to $335.3 million of additional funds expended to repurchase common stock. This cash outflow was offset by the non-recurrence of $72.9 million distributed in the prior year as a result of the buyout of Coach Japan as well as an increase of $39.7 million in proceeds received from the exercise of stock options and a $30.7 million increase in the excess tax benefit realized related to these exercises. In addition, net borrowings on the Coach Japan revolving credit facility decreased $22.9 million.

On October 16, 2003, Coach, certain lenders and Bank of America, N.A. ("Bank of America"), as primary lender and administrative agent, renewed the $100 million senior unsecured revolving credit facility (the "Bank of America facility"), extending the facility expiration to October 16, 2006. On June 23, 2005, this facility was extended for one

additional year, to October 16, 2007. At Coach's request, the Bank of America facility can be expanded to $125 million. This facility is available for seasonal working capital requirements or general corporate purposes and may be prepaid without penalty or premium.

During fiscal 2006 and fiscal 2005 there were no borrowings under the Bank of America facility. Accordingly, as of July 1, 2006 and July 2, 2005, there were no outstanding borrowings under the Bank of America facility.

Coach pays 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 July 1, 2006, 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 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 7.6 billion yen, or approximately $66.0 million, at July 1, 2006. Interest is based on the Tokyo Interbank rate plus a margin of up to 50 basis points.

These facilities contain various covenants and customary events of default. Coach Japan has been in compliance with all covenants since their inception. These facilities include automatic renewals based on compliance with the covenants. Coach, Inc. is not a guarantor on any of these facilities.

During fiscal 2006 and 2005, the peak borrowings under the Japanese credit facilities were $21.6 million and $50.5 million, respectively. As of July 1, 2006 and July 2, 2005, outstanding borrowings under the Japanese credit facilities were $0 and $12.3 million, respectively.

In connection with the 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 will become authorized but unissued shares and may be issued in the future for general corporate and other purposes. On May 11, 2005, the Coach Board of Directors approved a common stock repurchase program to acquire up to $250 million of Coach's outstanding common stock. The Company completed this authorization during 2006. On May 9, 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 2007. The Company may terminate or limit the stock repurchase program at any time.

During fiscal 2006 and 2005, the Company repurchased and retired 19.1 million and 11.0 million shares of common stock at an average cost of $31.50 and $24.09 per share, respectively. As of July 1, 2006, Coach had approximately $150 million remaining in the stock repurchase program.

In fiscal 2006, total capital expenditures were $133.9 million. In North America, Coach opened 25 new retail and seven new factory stores and expanded seven retail stores and five factory stores. These new and expanded stores accounted for approximately $56 million of the total capital expenditures. In addition, spending on department store renovations and distributor locations accounted for approximately $6 million of the total capital expenditures. In Japan, we invested approximately $14 million, primarily for the opening of 18 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 flow and by using funds from our Japanese revolving credit facilities.

For the fiscal year ending June 30, 2007, the Company expects total capital expenditures to be approximately $150 million. Capital expenditures will be primarily for new stores and expansions both in the U.S. and in Japan. We expect to open at least 35 new U.S. retail and factory stores and at least 15 net new locations in Japan, while

continuing to invest in department store and distributor locations. 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 2006, Coach purchased approximately $519 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 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.

Prior to Coach's spin off from the Sara Lee Corporation ("Sara Lee"), Sara Lee was a guarantor or a party to many of Coach's leases. Coach has agreed to make efforts to 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. As of July 1, 2006, the letter of credit was $15.1 million. We expect that we will be required to maintain the letter of credit for approximately 10 years.

As of July 1, 2006, the scheduled maturities of Coach's long-term contractual obligations are as follows:

PAYMENTS DUE BY PERIOD (AMOUNTS IN MILLIONS)	TOTAL	LESS THAN 1 YEAR	1–3 YEARS	3–5 YEARS	MORE THAN 5 YEARS
Operating leases	$ 587.2	$ 77.2	$ 149.7	$ 137.6	$ 222.7
Long-term debt, including the current portion	3.3	0.2	0.5	0.7	1.9
Total	$ 590.5	$ 77.4	$ 150.2	$ 138.3	$ 224.6

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 $3.3 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 accounting policies discussed below are considered critical because changes to certain judgments and assumptions inherent in these policies could affect the financial statements.

The areas of accounting that involve significant judgments and estimates are inventories, share-based compensation, impairment of long lived assets, goodwill and indefinite life intangible assets and revenue recognition. In certain instances, accounting principles generally accepted in the United States of America allow for the selection of alternative accounting methods. The Company's significant policy that involves the selection of an alternative method is accounting for inventories. For more information on Coach's accounting policies, please refer to the Notes to Consolidated Financial Statements.

INVENTORIES

U.S. inventories are valued at the lower of cost (determined by the first-in, first-out method) or market. Inventories in Japan are valued at the lower of cost (determined by the last-in, first-out method) or market. Inventory costs include material, conversion costs, freight and duties. Reserves for slow-moving and aged merchandise are provided based on historical experience and current product demand. We evaluate the adequacy of reserves quarterly.
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 merchandise.

SHARE-BASED COMPENSATION

During the first quarter of fiscal 2006, the Company adopted Statement of Financial Accounting Standards ("SFAS") 123R, "Share-Based Payment," which requires an entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. Previously, the Company accounted for stock-based compensation plans and the employee stock purchase plan in accordance with APB Opinion 25, "Accounting for Stock Issued to Employees" and related Interpretations and provided the required pro forma disclosures of SFAS 123, "Accounting for Stock-Based Compensation." The Company elected to adopt the modified retrospective application method as provided by SFAS 123R and accordingly, all financial statement amounts for the prior periods presented have been adjusted to reflect the cost of such awards based on the grant-date fair value of the awards.

The determination of the grant-date fair value of the awards involves several assumptions, including expected term of the option and future 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.

VALUATION OF LONG-LIVED ASSETS

Long-lived assets other than goodwill and indefinite life intangible assets, which are separately tested for impairment, 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. The Company did not record any impairment losses in fiscal 2006, 2005 or 2004.

GOODWILL AND INTANGIBLE ASSETS

The Company evaluates goodwill and 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 2006, 2005 or 2004.

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. Allowances for estimated uncollectible accounts, discounts, returns and allowances 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 net sales from the licensee.

RECENT ACCOUNTING PRONOUNCEMENTS

In November 2004, the Financial Accounting Standards Board ("FASB") issued SFAS 151, "Inventory Costs – an amendment of ARB 43, Chapter 4." SFAS 151 is an amendment of Accounting Research Board Opinion 43 and sets standards for the treatment of abnormal amounts of idle facility expense, freight, handling costs and spoilage. SFAS 151 is effective for fiscal years beginning after June 15, 2005. The adoption of SFAS 151 did not have a material impact on the Company's consolidated financial statements.

In December 2004, the FASB issued Staff Position ("FSP") 109-2, "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004." FSP 109-2 provides guidance under SFAS 109, "Accounting for Income Taxes," with respect to recording the potential impact of the repatriation provisions of the American Jobs Creation Act of 2004 (the "Jobs Act") on enterprises' income tax expense and deferred tax liability. FSP 109-2 states that an enterprise is allowed time beyond the financial reporting period of enactment to evaluate the effect of the Jobs Act on its plan for reinvestment or repatriation of foreign earnings for purposes of applying SFAS 109. As the Company did not make any dividends under this provision, FSP 109-2 did not have a material impact on the Company's consolidated financial statements.

In December 2004, the FASB issued SFAS 153, "Exchanges of Nonmonetary Assets – an amendment of APB Opinion 29," which eliminates certain narrow differences between APB 29 and international accounting standards. SFAS 153 is effective for fiscal periods beginning on or after June 15, 2005. The adoption of SFAS 153 did not have a material impact on the Company's consolidated financial statements.

In December 2004, the FASB issued SFAS 123 (revised 2004), "Share-Based Payment," which is a revision of SFAS 123, "Accounting for Stock-Based Compensation." SFAS 123R supersedes Accounting Principles Board Opinion 25, "Accounting for Stock Issued to Employees." The pronouncement requires an entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost will be recognized over the period during which an employee is required to provide service in exchange for the award – the requisite service period (typically the vesting period). The Company adopted SFAS 123R effective July 3, 2005. See Footnote 2 for further information.

In March 2005, the SEC issued Staff Accounting Bulletin ("SAB") 107 "Share-Based Payment." SAB 107 expresses views of the SEC staff regarding the interaction between SFAS 123R and certain SEC rules and regulations and provides the staff's views regarding the valuation of share-based payment arrangements. The Company adopted SFAS 123R effective July 3, 2005. See Footnote 2 for further information.

In March 2005, the FASB issued SFAS Interpretation Number ("FIN") 47, "Accounting for Conditional Asset Retirement Obligations." FIN 47 provides clarification regarding the meaning of the term "conditional asset retirement obligation" as used in FASB 143, "Accounting for Asset Retirement Obligations." This Interpretation is effective no later than the end of fiscal years ending after December 15, 2005. The adoption of FIN 47 did not have a material impact on the Company's consolidated financial statements.

In June 2005, the Emerging Issues Task Force ("EITF") reached consensus on EITF 05-6, "Determining the Amortization Period for Leasehold Improvements." Under EITF 05-6, leasehold improvements placed in service significantly after and not contemplated at or near the beginning of the lease term, should be amortized over the lesser of the useful life of the assets or a term that includes renewals that are reasonably assured at the date the leasehold improvements are purchased. EITF 05-6 is effective for periods beginning after June 29, 2005. The adoption of EITF 05-6 did not have a material impact on the Company's consolidated financial statements.

In November 2005, the FASB issued FSP 115-1 and 124-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." FSP's 115-1 and 124-1 address the determination as to when an investment is impaired, whether that impairment is other than temporary, and the measurement of an impairment loss. This FSP is effective for reporting periods beginning after December 15, 2005. The adoption of FSP's 115-1 and 124-1 did not have a material impact on the Company's consolidated financial statements.

In November 2005, the FASB issued FSP 123R-3, "Transition Election to Accounting for the Tax Effects of Share-Based Payment Awards." This FSP provides an alternative transition method for calculating the pool of excess tax benefits available to absorb tax deficiencies recognized subsequent to the adoption of Statement 123R. As the Company did not elect to adopt the alternative transition method, this FSP did not impact the Company's consolidated financial statements.

In February 2006, the FASB issued 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 the beginning of an entity's fiscal year that begins after September 15, 2006. 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 EITF reached consensus on EITF 06-3, "Disclosure Requirements for Taxes Assessed by a Government Authority on Revenue-Producing Transactions." 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 is effective for interim and annual reporting periods beginning after December 15, 2006. The Company does not expect the adoption of EITF 06-3 to have a material 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 FAS 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 fiscal years beginning after December 15, 2006. The Company is currently evaluating the impact of FIN 48 on the Company's consolidated financial statements.

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 July 1, 2006 and July 2, 2005, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended July 1, 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements 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, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company at July 1, 2006 and July 2, 2005, and the consolidated results of their operations and their cash flows for each of the three years in the period ended July 1, 2006 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, in fiscal 2006 the Company changed its method of accounting for stock-based compensation to conform to Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment*, and, adjusted all prior periods presented in accordance with the modified retrospective method.

We also have 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 July 1, 2006, 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 24, 2006 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.

Deloitte & Touche LLP, New York, New York August 24, 2006

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 July 1, 2006, 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 July 1, 2006, 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 July 1, 2006, 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 as of and for the year ended July 1, 2006 of the Company and our report dated August 24, 2006 expressed an unqualified opinion on those consolidated financial statements and included an explanatory paragraph relating to the Company's change in fiscal 2006 of its method of accounting for stock-based compensation.

Deloitte & Touche LLP, New York, New York — August 24, 2006

CONSOLIDATED BALANCE SHEETS

(AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)	JULY 1, 2006	JULY 2, 2005
ASSETS		
Cash and cash equivalents	$ 143,388	$ 154,566
Short-term investments	394,177	228,485
Trade accounts receivable, less allowances of $6,000 and $4,124, respectively	84,361	65,399
Inventories	233,494	184,419
Deferred income taxes	78,019	50,820
Prepaid expenses and other current assets	41,043	25,671
Total current assets	974,482	709,360
Long-term investments	–	122,065
Property and equipment, net	298,531	203,862
Goodwill	227,811	238,711
Indefinite life intangibles	12,007	12,088
Deferred income taxes	84,077	54,545
Other noncurrent assets	29,612	29,526
Total assets	$1,626,520	$1,370,157
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	$ 79,819	$ 64,985
Accrued liabilities	261,835	188,234
Revolving credit facility	–	12,292
Current portion of long-term debt	170	150
Total current liabilities	341,824	265,661
Deferred income taxes	31,655	4,512
Long-term debt	3,100	3,270
Other liabilities	61,207	40,794
Total liabilities	437,786	314,237
Commitments and contingencies (Note 6)		
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 – 369,830,906 and 378,429,710 shares, respectively	3,698	3,784
Additional paid-in-capital	775,209	566,262
Retained earnings	417,087	484,971
Accumulated other comprehensive (loss) income	(7,260)	903
Total stockholders' equity	1,188,734	1,055,920
Total liabilities and stockholders' equity	$1,626,520	$1,370,157

See accompanying Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF INCOME

FISCAL YEAR ENDED[1] (AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA)	JULY 1, 2006	JULY 2, 2005	JULY 3, 2004
Net sales	$2,111,501	$1,710,423	$1,321,106
Cost of sales	472,622	399,652	331,024
Gross profit	1,638,879	1,310,771	990,082
Selling, general and administrative expenses	874,275	738,208	584,778
Operating income	764,604	572,563	405,304
Interest income, net	32,623	15,760	3,192
Income before provision for income taxes and minority interest	797,227	588,323	408,496
Provision for income taxes	302,950	216,070	152,504
Minority interest, net of tax	–	13,641	18,043
Net income	$ 494,277	$ 358,612	$ 237,949
Net income per share			
Basic	$ 1.30	$ 0.95	$ 0.64
Diluted	$ 1.27	$ 0.92	$ 0.62
Shares used in computing net income per share			
Basic	379,635	378,670	372,120
Diluted	388,495	390,191	385,558

(1) Fiscal year ended July 3, 2004 was a 53-week fiscal year

See accompanying Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(AMOUNTS IN THOUSANDS)	TOTAL STOCK-HOLDERS' EQUITY	PREFERRED STOCK-HOLDERS' EQUITY	COMMON STOCK-HOLDERS' EQUITY	ADDITIONAL PAID-IN-CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPRE-HENSIVE INCOME (LOSS)	COMPRE-HENSIVE INCOME (LOSS)	SHARES OF COMMON STOCK
Balances at June 28, 2003	$ 436,536	$ –	$ 3,660	$ 253,944	$ 180,291	$ (1,359)		366,018
Net income	237,949	–	–	–	237,949	–	$ 237,949	
Shares issued for stock options and employee benefit plans	34,141	–	162	33,979	–	–		16,240
Share-based compensation	43,571	–	–	43,571	–	–		
Excess tax benefit from exercise of stock options	95,239	–	–	95,239	–	–		
Repurchase of common stock	(54,954)	–	(30)	(6,015)	(48,909)	–		(3,022)
Changes in derivatives balances	(460)	–	–	–	–	(460)	(460)	
Translation adjustments	2,892	–	–	–	–	2,892	2,892	
Minimum pension liability	1,122	–	–	–	–	1,122	1,122	
Comprehensive income							$ 241,503	
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 exercise of stock options	68,667	–	–	68,667	–	–		
Repurchase of common stock	(264,971)	–	(110)	(21,889)	(242,972)	–		(11,000)
Changes in derivatives balances	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 exercise of stock options	99,337	–	–	99,337	–	–		
Repurchase of common stock	(600,271)	–	(191)	(37,919)	(562,161)	–		(19,055)
Changes in derivatives balances	(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

See accompanying Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

FISCAL YEAR ENDED[1] (AMOUNTS IN THOUSANDS)	JULY 1, 2006	JULY 2, 2005	JULY 3, 2004
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 494,277	$ 358,612	$ 237,949
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation and amortization	65,115	50,400	40,100
Share-based compensation	69,190	55,880	43,571
Minority interest	–	13,641	18,043
Excess tax benefit from share-based compensation	(99,337)	(68,667)	(95,239)
Increase in deferred tax assets	(56,731)	(54,990)	(8,237)
Increase (decrease) in deferred tax liabilities	33,788	(8,428)	15,791
Other noncash credits, net	(14,723)	3,881	3,372
Changes in operating assets and liabilities:			
Increase in trade accounts receivable	(18,962)	(9,675)	(20,254)
Increase in inventories	(49,075)	(22,506)	(18,106)
Increase in other assets	(6,130)	(14,885)	(3,861)
Increase in other liabilities	19,307	23,820	7,058
Increase in accounts payable	14,834	20,214	18,134
Increase in accrued liabilities	145,050	128,299	120,973
Net cash provided by operating activities	596,603	475,596	359,294
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment	(133,876)	(94,592)	(73,659)
Acquisition of joint venture	–	(228,431)	–
Proceeds from dispositions of property and equipment	237	18	58
Purchases of investments	(1,195,934)	(379,530)	(301,723)
Proceeds from maturities of investments	1,148,618	330,703	–
Net cash used in investing activities	(180,955)	(371,832)	(375,324)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repurchase of common stock	(600,271)	(264,971)	(54,954)
Distribution of earnings to joint venture shareholders	–	(57,403)	–
Repayment of joint venture partner contribution	–	(15,524)	–
Repayment of long-term debt	(150)	(115)	(80)
Borrowings on revolving credit facility	58,512	359,503	168,865
Repayments of revolving credit facility	(70,804)	(348,910)	(193,637)
Proceeds from exercise of stock options	86,550	46,835	34,141
Excess tax benefit from share-based compensation	99,337	68,667	95,239
Net cash (used in) provided by financing activities	(426,826)	(211,918)	49,574
(Decrease) increase in cash and cash equivalents	(11,178)	(108,154)	33,544
Cash and cash equivalents at beginning of year	154,566	262,720	229,176
Cash and cash equivalents at end of year	$ 143,388	$ 154,566	$ 262,720
Cash paid for income taxes	$ 205,451	$ 162,702	$ 33,136
Cash paid for interest	$ 1,155	$ 238	$ 330
Noncash investing activity	$ 22,349	$ –	$ –

(1) Fiscal year ended July 3, 2004 was a 53-week fiscal year

See accompanying Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (DOLLARS AND SHARES IN THOUSANDS, EXCEPT PER SHARE DATA)

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

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, outerwear, business, travel, watches, footwear and eyewear. Coach's products are sold through direct-to-consumer channels, including Company-operated stores in North America and Japan, its online store and its catalogs, as well as through indirect channels, including department store locations in the United States, international department stores, freestanding retail locations and specialty retailers.

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 July 1, 2006 ("fiscal 2006") and July 2, 2005 ("fiscal 2005") were each 52-week periods, whereas the fiscal year ended July 3, 2004 ("fiscal 2004") was a 53-week period.

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. Investments are recorded at amortized cost. Premiums are amortized and discounts are accreted over the lives of the related securities as adjustments to interest 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.

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 2006 and 2005, inventories recorded at LIFO were $911 and $17 lower, respectively, than if they were valued at FIFO. Inventories valued under LIFO amounted to $54,651 and $40,861 in fiscal 2006 and 2005, 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 2006, 2005 and 2004 and concluded that there was no impairment of its goodwill or indefinite life intangible assets.

VALUATION OF LONG-LIVED ASSETS In accordance with Statement of Financial Accounting Standards ("SFAS") 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the Company assesses the carrying value of its long-lived assets for possible impairment based on a review of forecasted operating cash flows and the profitability of the related business. The Company did not record any impairment losses in fiscal 2006, 2005 or 2004.

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. Allowances for estimated uncollectible accounts, discounts and returns are provided when sales are recorded. 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.

ADVERTISING Advertising costs include direct marketing activities, such as catalogs, as well as media and production. In fiscal 2006, 2005 and 2004, advertising expenses totaled $35,887, $39,038, and $38,471, respectively, and are included in selling, general and administrative expenses. Advertising costs are expensed when the advertising first appears.

SHARE-BASED COMPENSATION The Company accounts for share-based compensation in accordance with SFAS 123R, "Share-Based Payment." Accordingly, 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.

SHIPPING AND HANDLING Shipping and handling costs incurred were $19,927, $16,188, and $13,080 in fiscal years 2006, 2005 and 2004, 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 fair value of the revolving credit facility at July 1, 2006 and July 2, 2005 approximated its carrying value due to its floating interest rates. 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 July 1, 2006 and July 2, 2005, 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 4, "Investments," for the fair values of the Company's investments as of July 1, 2006.

Coach Japan enters into foreign currency forward contracts that hedge certain U.S. dollar denominated inventory risks. These contracts have been designated for hedge accounting. The fair value of these contracts is recognized in other comprehensive income. 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.

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 November 2004, the Financial Accounting Standards Board ("FASB") issued SFAS 151, "Inventory Costs – an amendment of ARB 43, Chapter 4." SFAS 151 is an amendment of Accounting Research Board Opinion 43 and sets standards for the treatment of abnormal amounts of idle facility expense, freight, handling costs and spoilage. SFAS 151 is effective for fiscal years beginning after June 15, 2005. The adoption of SFAS 151 did not have a material impact on the Company's consolidated financial statements.

In December 2004, the FASB issued Staff Position ("FSP") 109-2, "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004." FSP 109-2 provides guidance under SFAS 109, "Accounting for Income Taxes," with respect to recording the potential impact of the repatriation provisions of the American Jobs Creation Act of 2004 (the "Jobs Act") on enterprises' income tax expense and deferred tax liability. FSP 109-2 states that an enterprise is allowed time beyond the financial reporting period of enactment to evaluate the effect of the Jobs Act on its plan for reinvestment or repatriation of foreign earnings for purposes of applying SFAS 109. As the Company did not make any dividends under this provision, FSP 109-2 did not have a material impact on the Company's consolidated financial statements.

In December 2004, the FASB issued SFAS 153, "Exchanges of Nonmonetary Assets – an amendment of APB Opinion 29," which eliminates certain narrow differences between APB 29 and international accounting standards. SFAS 153 is effective for fiscal periods beginning on or after June 15, 2005. The adoption of SFAS 153 did not have a material impact on the Company's consolidated financial statements.

In December 2004, the FASB issued SFAS 123 (revised 2004), "Share-Based Payment," which is a revision of SFAS 123, "Accounting for Stock-Based Compensation." SFAS 123R supersedes Accounting Principles Board Opinion 25, "Accounting for Stock Issued to Employees." The pronouncement requires an entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost will be recognized over the period during which an employee is required to provide service in exchange for the award – the requisite service period (typically the vesting period). The Company adopted SFAS 123R effective July 3, 2005. See Footnote 2 for further information.

In March 2005, the SEC issued Staff Accounting Bulletin ("SAB") 107 "Share-Based Payment." SAB 107 expresses views of the SEC staff regarding the interaction between SFAS 123R and certain SEC rules and regulations and provides the staff's views regarding the valuation of share-based payment arrangements. The Company adopted SFAS 123R effective July 3, 2005. See Footnote 2 for further information.

In March 2005, the FASB issued SFAS Interpretation Number ("FIN") 47, "Accounting for Conditional Asset Retirement Obligations." FIN 47 provides clarification regarding the meaning of the term "conditional asset retirement obligation" as used in FASB 143, "Accounting for Asset Retirement Obligations." This Interpretation is effective no later than the end of fiscal years ending after December 15, 2005. The adoption of FIN 47 did not have a material impact on the Company's consolidated financial statements.

In June 2005, the Emerging Issues Task Force ("EITF") reached consensus on EITF 05-6, "Determining the Amortization Period for Leasehold Improvements." Under EITF 05-6, leasehold improvements placed in service significantly after and not contemplated at or near the beginning of the lease term, should be amortized over the lesser of the useful life of the assets or a term that includes renewals that are reasonably assured at the date the leasehold improvements are purchased. EITF 05-6 is effective for periods beginning after June 29, 2005. The adoption of EITF 05-6 did not have a material impact on the Company's consolidated financial statements.

In November 2005, the FASB issued FSP 115-1 and 124-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." FSP's 115-1 and 124-1 address the determination as to when an investment is impaired, whether that impairment is other than temporary, and the measurement of an impairment loss. This FSP is effective for reporting periods beginning after December 15, 2005. The adoption of FSP's 115-1 and 124-1 did not have a material impact on the Company's consolidated financial statements.

In November 2005, the FASB issued FSP 123R-3, "Transition Election to Accounting for the Tax Effects of Share-Based Payment Awards." This FSP provides an alternative transition method for calculating the pool of excess tax benefits available to absorb tax deficiencies recognized subsequent to the adoption of Statement 123R. As the Company did not elect to adopt the alternative transition method, this FSP did not impact the Company's consolidated financial statements.

In February 2006, the FASB issued 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 the beginning of an entity's fiscal year that begins after September 15, 2006. 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 EITF reached consensus on EITF 06-3, "Disclosure Requirements for Taxes Assessed by a Government Authority on Revenue-Producing Transactions." 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 is effective for interim and annual reporting periods beginning after December 15, 2006. The Company does not expect the adoption of EITF 06-3 to have a material 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 FAS 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 fiscal years beginning after December 15, 2006. The Company is currently evaluating the impact of FIN 48 on the Company's consolidated financial statements.

RECLASSIFICATIONS Certain prior year amounts have been reclassified to conform to the current year presentation.

2. SHARE-BASED COMPENSATION

During the first quarter of fiscal 2006, the Company adopted SFAS 123R, "Share-Based Payment," which requires an entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. Previously, the Company accounted for stock-based compensation plans and the employee stock purchase plan in accordance with APB Opinion 25, "Accounting for Stock Issued to Employees" and related Interpretations and provided the required pro forma disclosures of SFAS 123, "Accounting for Stock-Based Compensation." The Company elected to adopt the modified retrospective application method as provided by SFAS 123R and accordingly, all financial statement amounts for the prior periods presented have been adjusted to reflect the cost of such awards based on the grant-date fair value of the awards.

The Company maintains several share-based compensation plans which are more fully described below. The total compensation cost charged against income for these plans was $69,190, $55,880 and $43,571 for fiscal 2006, 2005 and 2004, respectively. The total income tax benefit recognized in the income statement for share-based compensation arrangements was $27,191, $21,793 and $17,093 for fiscal 2006, 2005 and 2004, respectively.

The following table details the modified retrospective application impact of SFAS 123R on previously reported amounts:

	ADJUSTED	AS PREVIOUSLY REPORTED
FISCAL YEAR ENDED JULY 2, 2005		
Selling, general and administrative expenses	$ 738,208	$ 688,961
Operating income	572,563	621,810
Income before provision for income taxes and minority interest	588,323	637,570
Provision for income taxes	216,070	235,277
Net income	358,612	388,652
Earnings per share:		
Basic	0.95	1.03
Diluted	0.92	1.00
Net cash provided by operating activities	475,596	544,263
Net cash (used in) financing activities	(211,918)	(280,585)

	ADJUSTED	AS PREVIOUSLY REPORTED
FISCAL YEAR ENDED JULY 3, 2004		
Selling, general and administrative expenses	$ 584,778	$ 545,617
Operating income	405,304	444,465
Income before provision for income taxes and minority interest	408,496	447,657
Provision for income taxes	152,504	167,866
Net income	237,949	261,748
Earnings per share:		
Basic	0.64	0.70
Diluted	0.62	0.68
Net cash provided by operating activities	359,294	454,533
Net cash provided by (used in) financing activities	49,574	(45,665)

	ADJUSTED	AS PREVIOUSLY REPORTED
AT JULY 2, 2005		
Deferred income taxes	$ 54,545	$ 31,520
Total assets	1,370,157	1,347,132
Accrued liabilities	188,234	188,353
Total current liabilities	265,661	265,780
Total liabilities	314,237	314,356
Additional paid-in capital	566,262	465,015
Retained earnings	484,971	576,141
Total stockholders' equity	1,055,920	1,032,776
Total liabilities and stockholders' equity	1,370,157	1,347,132

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 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 5,378, 7,029, and 11,264, were granted in fiscal 2006, 2005 and 2004, respectively.

A summary of option activity under the Coach stock option plans as of July 1, 2006 and changes during the year then ended is as follows:

	NUMBER OF OUTSTANDING OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE	WEIGHTED-AVERAGE REMAINING CONTRACTUAL TERM	AGGREGATE INTRINSIC VALUE
Outstanding at July 2, 2005	31,554	$ 16.17		
Granted	13,513	34.17		
Exercised	(13,393)	17.21		
Forfeited or expired	(857)	21.06		
Outstanding at July 1, 2006	30,817	$ 23.48	7.00	$ 278,432
Exercisable at July 1, 2006	13,507	$ 21.91	5.45	$ 142,520

The following table summarizes information about stock options under the Coach option plans at July 1, 2006:

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING AT JULY 1, 2006	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE (YEARS)	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE AT JULY 1, 2006	WEIGHTED-AVERAGE EXERCISE PRICE
$ 2.00– 5.00	1,332	4.90	$ 4.02	1,332	$ 4.02
$ 5.01–10.00	1,934	5.78	6.63	1,934	6.63
$10.01–20.00	11,820	7.44	15.64	3,239	15.23
$20.01–30.00	2,458	5.77	27.19	1,969	27.84
$30.01–37.00	13,273	7.23	34.18	5,033	34.49
	30,817	7.00	$ 23.48	13,507	$ 21.91

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	JULY 1, 2006	JULY 2, 2005	JULY 3, 2004
Expected term (years)	2.6	1.4	1.6
Expected volatility	35.0%	29.2%	32.4%
Risk-free interest rate	4.2%	2.6%	1.6%
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 2006, 2005 and 2004 was $8.49, $3.10, and $2.45, respectively. The total intrinsic value of options exercised during fiscal 2006, 2005 and 2004 was $232,507, $201,232, and $263,124, respectively. The total cash received from these option exercises was $86,550, $46,835 and $34,141 in fiscal 2006, 2005 and 2004, respectively, and the actual tax benefit realized for the tax deductions from these option exercises was $88,534, $78,480 and $106,458, respectively.

The grant-date fair value of each Coach share award is equal to the fair value of Coach stock at the grant date. The following table summarizes information about nonvested shares as of and for the year ended July 1, 2006:

	NUMBER OF NON-VESTED SHARES	WEIGHTED-AVERAGE GRANT-DATE FAIR VALUE
Nonvested at July 2, 2005	1,861	$ 13.16
Granted	372	34.17
Vested	(845)	7.65
Forfeited	(59)	23.97
Nonvested at July 1, 2006	1,329	$ 22.06

The total fair value of shares vested during fiscal 2006, 2005 and 2004 was $27,593, $5,829 and $526, respectively.

As of July 1, 2006, there was $91,565 of total unrecognized compensation cost related to non-vested stock options and stock awards. This cost is expected to be recognized over a weighted-average period of 1.8 years.

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 162, 159, and 200 shares to employees in fiscal 2006, 2005 and 2004, 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	JULY 1, 2006	JULY 2, 2005	JULY 3, 2004
Expected lives (years)	0.5	0.5	0.5
Expected volatility	25.7%	27.6%	28.8%
Risk-free interest rate	3.7%	2.8%	1.2%
Dividend yield	–%	–%	–%

The weighted-average fair value of the purchase rights granted during fiscal 2006, 2005 and 2004 was $6.64, $6.24, and $4.85, 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 account to be paid on such distribution date. The amounts accrued under these plans at July 1, 2006 and July 2, 2005 were $3,622 and $4,777, respectively, and are included in other noncurrent liabilities in the consolidated balance sheets.

The following table summarizes share and exercise price information about Coach's equity compensation plans as of July 1, 2006:

PLAN CATEGORY	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	32,146	$ 22.51	26,684
Equity compensation plans not approved by security holders	108	$ 16.75	3,050
Total	32,254		29,734

3. 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	JULY 1, 2006	JULY 2, 2005	JULY 3, 2004
Minimum rentals	$ 77,376	$ 73,283	$ 55,352
Contingent rentals	16,380	12,101	7,555
Total rent expense	$ 93,756	$ 85,384	$ 62,907

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

FISCAL YEAR	AMOUNT
2007	$ 77,170
2008	75,889
2009	73,780
2010	70,122
2011	67,431
Subsequent to 2011	222,850
Total minimum future rental payments	$ 587,242

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.

4. 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, all investments are classified as held to maturity and stated at amortized cost. The following table shows the amortized cost, fair value, and unrealized gains and losses of the Company's investments at July 1, 2006 and July 2, 2005:

FISCAL YEAR ENDED	JULY 1, 2006			JULY 2, 2005		
	AMORTIZED COST	FAIR VALUE	UNREALIZED LOSS	AMORTIZED COST	FAIR VALUE	UNREALIZED LOSS
Short-term investments:						
U.S. government and agency securities	$ 49,986	$ 49,641	$ (345)	$ 55,000	$ 54,861	$ (139)
Corporate debt securities	198,191	197,529	(662)	173,485	172,467	(1,018)
Municipal securities	146,000	146,000	–	–	–	–
Short-term investments	$ 394,177	$ 393,170	$ (1,007)	$ 228,485	$ 227,328	$ (1,157)
Long-term investments:						
U.S. government and agency securities	$ –	$ –	$ –	$ 49,945	$ 49,405	$ (540)
Corporate debt securities	–	–	–	72,120	71,216	(904)
Long-term investments	$ –	$ –	$ –	$ 122,065	$ 120,621	$ (1,444)

Securities with maturity dates within one year are classified as short-term investments. Securities with maturity dates greater than one year are classified as long-term investments. Actual maturities could differ from contractual maturities, as some borrowers have the right to call certain obligations.

As of July 1, 2006, U.S. corporate debt securities with a fair value of $20,000 and an unrealized loss of $100 have been in an unrealized loss position for less than twelve months. The remaining corporate debt securities and the U.S. government and agency securities have been in an unrealized loss position for greater than twelve months.

U.S. GOVERNMENT AND AGENCY SECURITIES The unrealized loss on Coach's investment in the Federal Home Loan Bank (FHLB) bond was caused by interest rate increases. Coach purchased this investment at a discount relative to its face amount, and the contractual cash flow of this investment is guaranteed by FHLB, which is an agency of the U.S. government. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost of the Company's investment. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because Coach has the ability and intent to hold this investment until a recovery of fair value, which may be maturity, Coach does not consider this investment to be other-than-temporarily impaired at July 1, 2006.

CORPORATE DEBT SECURITIES The unrealized loss on Coach's investments in corporate bonds was caused by interest rate increases. It is expected that the securities would not be settled at a price less than the amortized cost of Coach's investment. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because Coach has the ability and intent to hold these investments until a recovery of fair value, which may be maturity, Coach does not consider these investments to be other-than-temporarily impaired at July 1, 2006.

5. DEBT

REVOLVING CREDIT FACILITIES

On October 16, 2003, Coach, certain lenders and the Bank of America, N.A. ("Bank of America"), as primary lender and administrative agent, renewed the $100,000 senior unsecured revolving credit facility (the "Bank of America facility"), extending the facility expiration to October 16, 2006. On June 23, 2005, this facility was extended for one additional year, to October 16, 2007. At Coach's request, the Bank of America facility can be expanded to $125,000. This facility is available for seasonal working capital requirements or general corporate purposes and may be prepaid without penalty or premium.

During fiscal 2006 and 2005, there were no borrowings under the Bank of America facility. Accordingly, as of July 1, 2006 and July 2, 2005, there were no outstanding borrowings under the Bank of America facility.

Coach pays 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 July 1, 2006, 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 Bank of America facility contains various covenants and customary events of default. The Company 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 7.6 billion yen, or approximately $66,000, at July 1, 2006. Interest is based on the Tokyo Interbank rate plus a margin of up to 50 basis points.

These facilities contain various covenants and customary events of default. Coach Japan has been in compliance with all covenants since their inception. These facilities include automatic renewals based on compliance with the covenants. Coach, Inc. is not a guarantor on any of these facilities.

During fiscal 2006 and 2005, the peak borrowings under the Japanese credit facilities were $21,568 and $50,461, respectively. As of July 1, 2006 and July 2, 2005, outstanding borrowings under the Japanese credit facilities were $0 and $12,292, respectively.

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 July 1, 2006 and July 2, 2005, the remaining balance on the loan was $3,270 and $3,420, respectively. Future principal payments under the Industrial Revenue Bond are as follows:

FISCAL YEAR	AMOUNT
2007	$ 170
2008	235
2009	285
2010	335
2011	385
Subsequent to 2011	1,860
Total	$ 3,270

6. COMMITMENTS AND CONTINGENCIES

At July 1, 2006 and July 2, 2005, the Company had letters of credit outstanding totaling $91,855 and $68,849, respectively. Of these amounts, $15,057 and $15,425, 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 2010, primarily collateralize the Company's obligation to third parties for the purchase of inventory and lease guarantees.

Coach is a party to employment agreements with certain executives which provide for compensation and other benefits. The agreements also provide for severance payments under certain circumstances. On August 22, 2005, the Company entered into three-year extensions to the employment agreements of three key executives: Lew Frankfort, Chairman and Chief Executive Officer; Reed Krakoff, President and Executive Creative Director; and Keith Monda, President and Chief Operating Officer. These amendments extend the terms of the executives' employment agreements from July 2008 through August 2011. On November 8, 2005, Coach entered into five-year employment agreements with two key executives: Michael Tucci, President, North America Retail Division, and Michael F. Devine, III, Senior Vice President and Chief Financial Officer. The terms of these employment agreements run through June 30, 2010.

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.

7. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Substantially all purchases and sales involving international parties are denominated in U.S. dollars. 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 foreign exchange forward contracts, to manage these risks. These transactions are in accordance with the Company's risk management policies. Coach does not enter into derivative transactions for speculative or trading purposes.

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 foreign currency contracts entered into by the Company have durations no greater than 18 months. The fair values of open foreign currency derivatives included in current assets at July 1, 2006 and July 2, 2005 were $2,578 and $1,535, respectively. As of July 1, 2006 and July 2, 2005, open foreign currency forward contracts designated as hedges with a notional amount of $114,825 and $46,900 were fair valued. For the year ended July 1, 2006, changes in derivative balances resulted in a reduction of other comprehensive income of $4,488, net of taxes. For the year ended July 2, 2005, changes in derivative balances resulted in an increase of other comprehensive income of $1,229, net of taxes.

8. GOODWILL AND OTHER INTANGIBLE ASSETS

The changes in the carrying amount of goodwill for the years ended July 1, 2006 and July 2, 2005 are as follows:

	DIRECT-TO-CONSUMER	INDIRECT	TOTAL
Balance at July 3, 2004	$ 12,089	$ 1,516	$ 13,605
Coach Japan acquisition	225,263	–	225,263
Foreign exchange impact	(157)	–	(157)
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

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

	JULY 1, 2006	JULY 2, 2005
Trademarks	$ 9,788	$ 9,788
Workforce	2,219	2,300
Total Indefinite Life Intangible Assets	$ 12,007	$ 12,088

9. 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	JULY 1, 2006		JULY 2, 2005		JULY 3, 2004	
	AMOUNT	PERCENTAGE	AMOUNT	PERCENTAGE	AMOUNT	PERCENTAGE
Income before provision for income taxes and minority interest:						
United States	$ 712,981	89.4%	$ 535,448	91.0%	$ 349,701	85.6%
Foreign	84,246	10.6	52,875	9.0	58,795	14.4
Total income before provision for income taxes and minority interest	$ 797,227	100.0%	$ 588,323	100.0%	$ 408,496	100.0%
Tax expense at U.S. statutory rate	$ 279,029	35.0%	$ 205,913	35.0%	$ 142,974	35.0%
State taxes, net of federal benefit	29,160	3.7	31,309	5.3	14,523	3.6
Reversal of deferred U.S. taxes on foreign earnings	–	0.0	(16,247)	(2.8)	–	0.0
Foreign income subject to reduced tax rates	(11,548)	(1.4)	(4,458)	(0.8)	(5,182)	(1.3)
Other, net	6,309	0.8	(447)	(0.1)	189	0.0
Taxes at effective worldwide rates	$ 302,950	38.0%	$ 216,070	36.7%	$ 152,504	37.3%

Current and deferred tax provisions (benefits) were:

FISCAL YEAR ENDED	JULY 1, 2006		JULY 2, 2005		JULY 3, 2004	
	CURRENT	DEFERRED	CURRENT	DEFERRED	CURRENT	DEFERRED
Federal	$ 261,592	$ (19,381)	$ 184,318	$ (46,981)	$ 128,449	$ (21,020)
Foreign	7,555	8,321	28,228	1,276	2,302	19,538
State	50,993	(6,130)	60,849	(11,620)	25,468	(2,233)
Total current and deferred tax provisions (benefits)	$ 320,140	$ (17,190)	$ 273,395	$ (57,325)	$ 156,219	$ (3,715)

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	JULY 1, 2006	JULY 2, 2005	JULY 3, 2004
DEFERRED TAX PROVISIONS (BENEFITS)			
Depreciation	$ 906	$ (9,546)	$ (3)
Employee benefits	811	(2,945)	(3,267)
Advertising accruals	(508)	2	(280)
Nondeductible reserves	(11,209)	(25,888)	(20,590)
Earnings of foreign subsidiaries	–	(9,226)	23,920
Other, net	(7,190)	(9,722)	(3,495)
Total deferred tax provisions (benefits)	$ (17,190)	$ (57,325)	$ (3,715)

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

FISCAL YEAR ENDED	JULY 1, 2006	JULY 2, 2005
DEFERRED TAX ASSETS		
Reserves not deductible until paid	$ 116,374	$ 69,003
Pension and other employee benefits	10,502	11,289
Property, plant and equipment	20,606	21,456
Other	14,614	3,617
Total deferred tax assets	$ 162,096	$ 105,365
DEFERRED TAX LIABILITIES		
Equity adjustments	$ 3,107	$ 2,644
Goodwill	17,823	–
Other	20,222	4,719
Total deferred tax liabilities	$ 41,152	$ 7,363
Net deferred tax assets	$ 120,944	$ 98,002

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.

10. RETIREMENT PLANS

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 $7,714, $8,621, and $7,620 in fiscal 2006, 2005 and 2004, respectively.

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. Obligation and funded status information for the Company's defined benefit retirement plans is as follows:

FISCAL YEAR ENDED	JULY 1, 2006	JULY 2, 2005
CHANGE IN BENEFIT OBLIGATION		
Benefit obligation at beginning of year	$ 5,798	$ 5,260
Service cost	357	14
Interest cost	333	308
Actuarial (gain) loss	(59)	394
Prior service cost	755	–
Foreign exchange impact	(25)	–
Benefits paid	(436)	(178)
Benefit obligation at end of year	$ 6,723	$ 5,798
CHANGE IN PLAN ASSETS		
Fair value of plan assets at beginning of year	$ 3,852	$ 2,706
Actual return on plan assets	241	34
Employer contributions	1,223	1,290
Benefits paid	(436)	(178)
Fair value of plan assets at end of year	$ 4,880	$ 3,852
FUNDED STATUS		
Funded status at end of year	$ (1,843)	$ (1,946)
Unrecognized net actuarial loss	2,286	2,117
Net amount recognized	$ 443	$ 171
AMOUNTS RECOGNIZED IN THE CONSOLIDATED BALANCE SHEETS		
Accrued benefit liability	$ (1,507)	$ (1,946)
Accumulated other comprehensive income	1,950	2,117
Net amount recognized	$ 443	$ 171

FISCAL YEAR ENDED	JULY 1, 2006	JULY 2, 2005
INFORMATION FOR PENSION PLANS WITH AN ACCUMULATED BENEFIT OBLIGATION IN EXCESS OF PLAN ASSETS		
Projected benefit obligation	$ 6,723	$ 5,798
Accumulated benefit obligation	6,497	5,798
Fair value of plan assets	4,880	3,852
ADDITIONAL INFORMATION		
(Decrease) Increase in minimum liability included in other comprehensive income	$ (166)	$ 350
WEIGHTED-AVERAGE ASSUMPTIONS USED TO DETERMINE BENEFIT OBLIGATIONS		
Discount rate	5.42%	5.75%
Rate of compensation increase[1]	3.00%	N/A
WEIGHTED-AVERAGE ASSUMPTIONS USED TO DETERMINE NET PERIODIC BENEFIT COST		
Discount rate	5.25%	6.00%
Expected long term return on plan assets	6.75%	6.75%
Rate of compensation increase[1]	3.00%	N/A

(1) Fiscal 2005 did not include the Coach Japan defined benefit 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 6.75% assumption for the fiscal year ended July 1, 2006.

FISCAL YEAR ENDED	JULY 1, 2006	JULY 2, 2005	JULY 3, 2004
COMPONENTS OF NET PERIODIC BENEFIT COST			
Service cost	$ 357	$ 14	$ 13
Interest cost	333	308	381
Expected return on plan assets	(255)	(181)	(281)
Amortization of net actuarial loss	313	190	246
Settlement loss	–	–	559
Net periodic benefit cost	$ 748	$ 331	$ 918

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:

PLAN ASSETS	FISCAL 2006	FISCAL 2005
ASSET CATEGORY		
Domestic equities	61.3%	62.4%
International equities	6.8	4.5
Fixed income	28.5	20.9
Cash equivalents	3.4	12.2
Total	100.0%	100.0%

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, preferred 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 $355 to its U.S. Plan during the year ending June 30, 2007. In addition, Coach Japan expects to contribute $111 for benefit payments during the year ending June 30, 2007. The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

FISCAL YEAR	PENSION BENEFITS
2007	$ 418
2008	386
2009	660
2010	687
2011	700
2012–2016	3,956

11. 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.

As a result of Coach's acquisition of Sumitomo's 50% interest in Coach Japan on July 1, 2005, the Company reevaluated the composition of its reportable segments and determined that Coach Japan should be a component of the Direct-to-Consumer segment. Previously, Coach Japan was included in the Indirect segment. All prior period information has been reclassified to include Coach Japan as a component of the Direct-to-Consumer segment.

	DIRECT-TO-CONSUMER	INDIRECT	CORPORATE UNALLOCATED	TOTAL
FISCAL 2006				
Net sales	$1,610,691	$ 500,810	$ –	$2,111,501
Operating income (loss)	717,326	313,689	(266,411)	764,604
Income (loss) before provision for income taxes and minority interest	717,326	313,689	(233,788)	797,227
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	70,440	6,036	57,400	133,876
FISCAL 2005				
Net sales	$1,307,425	$ 402,998	$ –	$1,710,423
Operating income (loss)	548,520	243,276	(219,233)	572,563
Income (loss) before provision for income taxes and minority interest	548,520	243,276	(203,473)	588,323
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
FISCAL 2004				
Net sales	$1,002,737	$ 318,369	$ –	$1,321,106
Operating income (loss)	403,884	178,390	(176,970)	405,304
Income (loss) before provision for income taxes and minority interest	403,884	178,390	(173,778)	408,496
Depreciation and amortization expense	30,054	3,509	6,537	40,100
Total assets	328,530	64,770	666,979	1,060,279
Additions to long-lived assets	57,589	3,884	12,186	73,659

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

FISCAL YEAR ENDED	JULY 1, 2006	JULY 2, 2005	JULY 3, 2004
Production variances	$ 14,659	$ 11,028	$ 12,581
Advertising, marketing and design	(91,443)	(70,234)	(56,714)
Administration and information systems	(148,846)	(125,217)	(102,682)
Distribution and customer service	(40,781)	(34,810)	(30,155)
Total corporate unallocated	$ (266,411)	$ (219,233)	$ (176,970)

GEOGRAPHIC AREA INFORMATION

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. As of July 1, 2006, Coach operated 218 retail stores and 86 factory stores in North America and 118 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.

	UNITED STATES	JAPAN	OTHER INTERNATIONAL[1]	TOTAL
FISCAL 2006				
Net sales	$1,574,285	$ 420,509	$ 116,707	$2,111,501
Long-lived assets	266,190	298,087	3,684	567,961
FISCAL 2005				
Net sales	$1,253,170	$ 372,326	$ 84,927	$1,710,423
Long-lived assets	314,919	288,338	2,995	606,252
FISCAL 2004				
Net sales	$ 982,668	$ 278,011	$ 60,427	$1,321,106
Long-lived assets	280,938	55,487	2,384	338,809

(1) Other International sales reflect shipments to third-party distributors primarily in East Asia.

12. 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 11th 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 does not expect to receive any additional business interruption proceeds related to the World Trade Center location in the future.

During fiscal 2006, 2005 and 2004, Coach received payments of $2,025, $2,644, and $2,657, respectively, under its business interruption coverage. These amounts are included as a reduction to selling, general and administrative expenses.

13. 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	JULY 1, 2006	JULY 2, 2005	JULY 3, 2004
Net income	$ 494,277	$ 358,612	$ 237,949
Total weighted-average basic shares	379,635	378,670	372,120
Dilutive securities:			
Employee benefit and stock award plans	1,666	2,784	2,578
Stock option programs	7,194	8,737	10,860
Total weighted-average diluted shares	388,495	390,191	385,558
Earnings per share:			
Basic	$ 1.30	$ 0.95	$ 0.64
Diluted	$ 1.27	$ 0.92	$ 0.62

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.

At July 3, 2004, options to purchase 4,306 shares of common stock were outstanding but not included in the computation of diluted earnings per share, as these options' exercise prices, ranging from $21.39 to $22.80, were greater than the average market price of the common shares.

14. 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 million	September 2004
January 30, 2003	$100 million	January 2006
August 12, 2004	$200 million	August 2006
May 11, 2005	$250 million	May 2007
May 9, 2006	$500 million	June 2007

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 2006, 2005 and 2004, the Company repurchased and retired 19,055, 11,000, and 3,022 shares of common stock at an average cost of $31.50, $24.09, and $18.18 per share, respectively. As of July 1, 2006, Coach had approximately $150,000 remaining in the stock repurchase program.

15. ACQUISITION OF COACH JAPAN, INC.

During fiscal 2006, the Company completed its purchase price allocation related to the July 1, 2005 acquisition of Sumitomo's 50% interest in Coach Japan, Inc. At the time of the acquisition, Coach recorded the 50% interest in the assets and liabilities that were acquired through the transaction at fair values. The initial recorded fair values, purchase price allocation adjustments and final purchase price allocations are as follows:

ASSETS AND LIABILITIES ACQUIRED	AS PREVIOUSLY REPORTED	ADJUSTMENTS	FINAL PURCHASE PRICE ALLOCATION
Trade accounts receivable	$ 15,369	$ –	$ 15,369
Inventory	43,089	2,666	45,755
Property and equipment	21,848	–	21,848
Customer list	250	–	250
Workforce	2,300	–	2,300
Goodwill	225,263	(2,666)	222,597
Other assets	22,669	–	22,669
Other liabilities	30,672	–	30,672

16. BALANCE SHEET COMPONENTS

The components of certain balance sheet accounts are as follows:

	JULY 1, 2006	JULY 2, 2005
PROPERTY AND EQUIPMENT		
Land	$ 27,954	$ –
Machinery and equipment	14,187	7,618
Furniture and fixtures	136,730	148,252
Leasehold improvements	270,232	243,784
Construction in progress	66,240	21,428
Less: accumulated depreciation	(216,812)	(217,220)
Total property and equipment, net	$ 298,531	$ 203,862
ACCRUED LIABILITIES		
Income and other taxes	$ 69,017	$ 52,031
Payroll and employee benefits	78,215	65,653
Capital expenditures	21,243	–
Operating expenses	93,360	70,550
Total accrued liabilities	$ 261,835	$ 188,234

17. 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 2006, there were no shareholders whose common stock holdings exceeded the 10% threshold established by the rights plan.

18. QUARTERLY FINANCIAL DATA (UNAUDITED)

	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER	TOTAL FISCAL YEAR
FISCAL 2006					
Net sales	$ 448,951	$ 650,336	$ 497,859	$ 514,355	$2,111,501
Gross profit	341,361	504,676	389,769	403,073	1,638,879
Net income	93,615	174,174	108,846	117,642	494,277
Earnings per common share:					
Basic	$ 0.25	$ 0.46	$ 0.28	$ 0.31	$ 1.30
Diluted	$ 0.24	$ 0.45	$ 0.28	$ 0.31	$ 1.27
FISCAL 2005					
Net sales	$ 344,065	$ 531,759	$ 415,939	$ 418,660	$1,710,423
Gross profit	258,174	402,968	324,673	324,956	1,310,771
Net income	60,981	126,903	80,872	89,856	358,612
Earnings per common share:					
Basic	$ 0.16	$ 0.33	$ 0.21	$ 0.24	$ 0.95
Diluted	$ 0.16	$ 0.32	$ 0.21	$ 0.23	$ 0.92
FISCAL 2004					
Net sales(1)	$ 258,375	$ 411,513	$ 313,073	$ 338,145	$1,321,106
Gross profit	187,909	305,143	237,517	259,513	990,082
Net income	36,605	89,101	51,912	60,331	237,949
Earnings per common share:					
Basic	$ 0.10	$ 0.24	$ 0.14	$ 0.16	$ 0.64
Diluted	$ 0.10	$ 0.23	$ 0.13	$ 0.15	$ 0.62

(1) Fiscal 2004 fourth quarter and total fiscal year net sales include week 53 sales of $19,500

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.

CORPORATE INFORMATION

BOARD OF DIRECTORS

LEW FRANKFORT
Chairman and
Chief Executive Officer,
Coach, Inc.

JOSEPH ELLIS
Retired Partner and
Advisory Director,
Goldman, Sachs & Co.

SUSAN KROPF
President and
Chief Operating Officer,
Avon Products, Inc.

GARY LOVEMAN
President and
Chief Executive Officer,
Harrah's Entertainment, Inc.

IVAN MENEZES
President and
Chief Executive Officer,
Diageo North America

IRENE MILLER
Chief Executive Officer,
Akim, Inc.

KEITH MONDA
President and
Chief Operating Officer,
Coach, Inc.

MICHAEL E. MURPHY
Retired Vice Chairman and
Chief Administrative Officer,
Sara Lee Corporation

JIDE ZEITLIN
Founder,
Independent Mobile
Infrastructure (Pvt.) Limited

EXECUTIVE OFFICERS OF THE COMPANY

LEW FRANKFORT
Chairman and
Chief Executive Officer

KEITH MONDA
President and
Chief Operating Officer

MICHAEL F. DEVINE, III
Senior Vice President and
Chief Financial Officer

MICHAEL TUCCI
President,
North America
Retail Division

REED KRAKOFF
President,
Executive Creative Director

CAROLE P. SADLER
Senior Vice President,
General Counsel and
Secretary

FELICE SCHULANER
Senior Vice President,
Human Resources

SENIOR MANAGEMENT OF COACH, INC.

IAN BICKLEY
President,
Coach International

THOMAS E. BRITT
Senior Vice President,
Chief Information Officer

JANET CARR
Senior Vice President,
Consumer Insights and
Strategic Planning

DAVID DUPLANTIS
Senior Vice President,
Retail Merchandising and
Planning, coach.com

PETER EMMERSON
President,
Global Business
Development

JOANN KUSS
Senior Vice President,
Worldwide Merchandising

ANDREA LALIBERTE
Senior Vice President,
Distribution and
Consumer Service

VICTOR LUIS
President,
Coach Japan, Inc.

ANGUS McRAE
Senior Vice President,
Operations

KATHLEEN NEDOROSTEK
President,
U.S. Wholesale and
Licensing

GEORGE NUNNO
Senior Vice President,
Design

GABRIEL SACA
Senior Vice President,
Global Sourcing and
Leather Management

MICHELLE ADAMS
Vice President,
Sourcing

JIM ALTIERI
Vice President,
Operations Finance

LAURA F. BOOTH
Vice President,
Compensation,
Benefits and HRIS

JANET CHOURAKI
Vice President,
International Wholesale

DOMINIC R. CIOFFOLETTI
Vice President,
U.S. Wholesale Sales

JULIA CONWAY
Vice President,
Women's Design

FRANCINE DELLA BADIA
Vice President,
Merchandising

BARBARA DeROSSI
Vice President,
Fabric and Hardware

KIMBERLY DRAPER
Vice President,
Full Price Stores

KATHERINE DYDENSBORG
Vice President,
Corporate Merchandise
Planning

MICHAEL R. FERNBACHER
Vice President,
Architecture

ANTHONY GALVIN
Vice President,
Real Estate, Store Planning
and Construction

SHEILA HARDING
Vice President,
Sourcing

JONATHAN HEWITT
Chief Operating Officer,
Coach Japan, Inc.

MARTYN JAMES
Vice President,
Coach International Limited

MARYANN KRAKER
Vice President,
U.S. Wholesale
Forecasting and Operations

WILLIAM J. KRETZ, JR.
Vice President,
Corporate Financial
Planning

WALKER MacWILLIAM
Vice President,
Men's Design

JON MAROTO
Vice President,
Design Development

JOSEPH MAROTTA
Vice President,
Information Systems

CHRISTINE B. MILLER
Vice President,
Retail Planning and
Allocation

SERGE MINASSIAN
Vice President,
Information Systems

GIULIA MOLINI
Vice President,
Coach Europe Services

RICHARD MYERS
Vice President,
Logistics and Planning

JAMES OFFUTT
Vice President,
Factory Stores

MARY LYNN PHILLIPS
Vice President,
Retail Finance and
Operations

ANDREA SHAW RESNICK
Vice President,
Investor Relations and
Corporate Communications

LEE B. ROEDER
Vice President,
Design

PAUL SPITZBERG
Vice President,
Special Markets

JOSEPH STAFINIAK
Vice President,
General Manager –
Licensed Categories

MICHAEL TODD
Vice President,
Leather Management

NANCY A. WALSH
Vice President,
Treasurer

JOHN S. WONG
Vice President,
Visual Merchandising
Worldwide

SHAREHOLDER INFORMATION

COMPANY HEADQUARTERS

Coach, Inc.
516 West 34th Street
New York, New York 10001
212-594-1850

ANNUAL MEETING OF SHAREHOLDERS

Thursday, November 2, 2006
9:00 a.m.
Coach, Inc.
516 West 34th Street, 4th floor
New York, New York 10001

TRANSFER AGENT AND REGISTRAR

Please direct communications regarding individual stock records and address changes to:
Mellon Investor Services
480 Washington Blvd.
Jersey City, NJ 07310
or call 1-800-851-9677
www.melloninvestor.com

INVESTOR/FINANCIAL MEDIA CONTACT

Securities analysts, investors and the financial media should contact Andrea Shaw Resnick, Vice President, Investor Relations and Corporate Communications, at the Company's headquarters, or by calling 212-629-2618.

INFORMATION UPDATES

Coach's quarterly financial results and other important information are available by calling the Investor Relations Department at 212-629-2618 or by accessing our website at www.coach.com.

ANNUAL REPORT AND FORM 10-K

Shareholders may obtain, without charge, a copy of the Company's 2006 Annual Report and Form 10-K as filed with the Securities and Exchange Commission by writing to Daniel Ross, DVP, Associate Counsel, at the Company's headquarters.

CATALOGS

To request a Coach catalog, please call 1-800-223-8647.

SARBANES OXLEY CERTIFICATIONS

The Company's annual report on Form 10-K for the year ended July 1, 2006 includes as Exhibit 31.1 the certifications of the Company's Chief Executive Officer and Chief Financial Officer, which were filed with the SEC as required under Section 302 of the Sarbanes-Oxley Act of 2002 and certify the quality of the Company's public disclosure. The Company's Chief Executive Officer has also submitted a certification to the New York Stock Exchange ("NYSE") certifying that he is not aware of any violations by the Company of the NYSE's corporate governance listing standards.

INDEPENDENT PUBLIC ACCOUNTANTS

Deloitte and Touche LLP
Two World Financial Center
New York, New York 10281

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 year 2006, the high and low closing prices per share of Coach's common stock as reported on the NYSE Composite Tape.

QUARTER ENDED	HIGH	LOW
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	

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.

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