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“We view Coach as a small business with large sales, which we manage actively.”

Lew Frankfort, Chairman and CEO



FINANCIAL HIGHLIGHTS

(Dollars in millions. Except for earnings per share)	2004	2003	Increase/ (Decrease)
Net sales	\$ 1,321.1	\$ 953.2	38.6 %
Gross margin	74.9 %	71.1 %	380 bps
Operating income	\$ 444.5	\$ 243.8	82.3 %
Operating income as a percentage of net sales	33.6 %	25.6 %	800 bps
Net income	\$ 261.7	146.6	78.5 %
Net income as a percentage of net sales	19.8 %	15.4 %	440 bps
Net income per diluted share	\$ 1.36	\$ 0.79	72.2 %
Weighted-average number of common shares (diluted)	192.8	185.8	
Net cash/Investment position	\$ 562.7	\$ 202.7	\$ 360.0
Return on average stockholders' equity	43.3 %	42.7 %	
Stockholders' equity per share	\$ 4.13	\$ 2.33	





TO OUR SHAREHOLDERS:

Fiscal 2004 was another remarkable year for our company, as we generated outstanding financial results in all dimensions of our business. Our performance reflected the growing strength of the Coach brand, and consumers' continued enthusiasm for our fresh and relevant product offering. Our results also speak to our philosophy of operating Coach as a small business with large sales, which we manage very actively. We understand that we are not simply selling product, but building lasting relationships with our consumers, one at a time.

Sales for fiscal 2004 rose 39% to \$1.3 billion, with all channels of distribution posting increases from prior year levels. We were particularly pleased with the performance of our full-priced businesses in the U.S. – where we saw strong growth in our accessory category – and the rapid market share growth we achieved in Japan, where we attained the number two market share position. Both new and existing stores generated excellent results driven by distinctive newness in our product offering, which addresses the active lifestyles of our broad and loyal consumer base. In addition, we saw ongoing momentum in collections such as Soho and Signature, which were updated and enhanced during the fiscal year.

Gross margin for the year climbed to nearly 75%, driven by channel mix, product mix, and sourcing cost initiatives. 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. For the full year, the company's operating margin rose to 33.6%, a remarkable 800 basis point expansion from fiscal 2003 levels.

- Direct to consumer sales, which consist primarily of sales at Coach stores, rose 30% to \$726 million in fiscal 2004. These results were generated by higher comparable store sales as well as new and expanded stores.
- Indirect sales increased 51% to \$595 million, driven by strong gains in all channels including Coach Japan, U.S. department stores international wholesale, and business-to-business. In fiscal 2004, sales at Coach Japan accounted for nearly 21% of total revenues.

Fiscal 2004 was another year of continued distribution and market share growth for Coach. In the U.S., we added 19 new full price stores and expanded nine others. Through Coach Japan we continued to develop our opportunity in Japan, adding eight new locations and expanding 15 highly productive shop-in-shops as well as one retail store. We also opened our third Japanese flagship store, located in the Marunouchi section of Tokyo, with great success.

While our accomplishments this year have been significant, based on the increasing vibrancy and strength of the Coach brand, we have never felt more positive than we do today about our prospects for future organic growth. We have built a diversified business model, which yields highly predictable results. We have a well articulated vision, which rests on our distinctive proposition, strong brand equities, and expanding market share. At the same time, our diversified distribution model, multiple product platforms, monthly product flow, and market research activities help us mitigate risk. Finally, we have the systems in place, along with a flexible, nimble and highly responsive supply chain, to support our growth in the years ahead. In summary, we have clarity to our growth, and we are confident in our ability to continue to generate superior financial results.

Lew Frankfort,
Chairman and CEO

our brand

The Coach proposition is unique. We are America's number one accessible luxury accessories brand, and the fastest growing imported handbag and accessory brand in Japan. In fact, we recently captured the number two position in Japan and each year as our market share increases, our leadership position strengthens.

The touchstone of the Coach brand is our products. They are made one at a time by skilled craftspeople from natural materials, proprietary hardware and exceptional leathers. From the beginning, Coach's classic American design combined with an identifiably New York spirit immediately gave the product a unique and desirable look.

Today, Coach products, which originally came to stand for durability, function and exceptional value, also stand for fashion, femininity and fun. The Council of Fashion Designers of America (CFDA) agree, recognizing Coach's President and Executive Creative Director, Reed Krakoff, with the coveted Accessories Designer of the Year Award for the second time in 2004.







our customer

Coach has an extremely broad and loyal consumer base, who form an emotional bond with the brand. Part of our everyday mission is to cultivate our consumer relationships by reinforcing this personal connection. In fact, nine out of ten consumers express a positive intent to re-purchase.

We understand that our business is about building relationships with our customers, not just selling product. We do this by enhancing the shopping experience in the stores and offering specialized marketing programs, designed to elevate the level of service at all times. Whether a consumer is shopping in our retail stores, visiting Coach.com, or speaking with our customer service department, we treat them as if they are guests in our home.

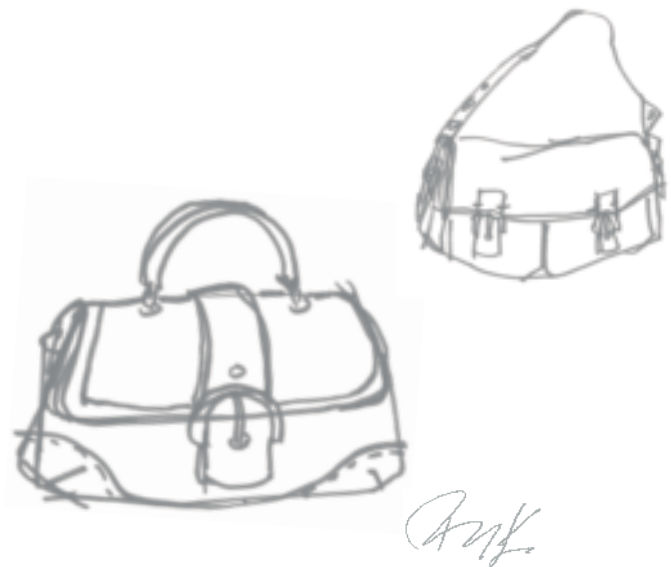


OUR innovation

We recognize that all brands need to evolve and change. Continuous improvement is built into our culture. From the transformation of our supply chain, and the modernization of our product, to the rejuvenation of our retail environments, we embrace change.

We also embrace trends. To this end, we conduct extensive consumer research, interviewing over 10,000 consumers individually a year, and we work hard to anticipate their changing needs.

Key to Coach's success is keeping our product offering fresh and relevant to our consumer's lifestyle. We introduce new product monthly, supported by dynamic integrated marketing communications – from store windows to the website – matching the shopping cadence of our best consumers.



Reed Krakoff
President, Executive Creative Director





our balance

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.

This year about 55% of our revenues were derived from direct to consumer channels. These channels comprise our Coach full price and factory stores, our catalog and internet businesses. The remaining 45% of our business comes from indirect channels – international, U.S. department stores and business-to-business.

Similarly, Coach's product offering is also well balanced with multiple product platforms. Again, our success does not depend solely on the performance of one collection. From Soho leather and suede to Hamptons Weekend and seasonal offerings, each collection has proprietary and distinctive elements, appealing to a broad and diversified customer base.



our growth

Coach is a small business with large sales, managed very actively. Over the past several years, we have created a business model that yields superior growth and predictable returns – and we are not even at the halfway point.

To drive this growth we have a strong management team who are knowledge-driven and focused on the details, and we move seamlessly between strategy and tactics. We have a performance based corporate culture, who share our vision. And lastly, we have systems to yield timely information and a supply chain that is both nimble and flexible, allowing us to react rapidly to changes in requirements.







our strategy

Our growth strategy is twofold. First, focusing on the U.S. and Japan, we will grow our distribution through store openings, expansions and relocations. We will enter new markets as well as strengthen our presence in existing ones. In Japan, we are accelerating our flagship store openings allowing us to leverage Coach's heightened brand awareness. Osaka, Sapporo and Sendai, three key cities where Coach is targeting to expand, were selected as flagship locations to broaden Coach's appeal with Japanese consumers. We remain underdeveloped in these major markets, and we believe our growth potential is significant.

Second, we will improve the productivity of our store locations by gaining a greater share of our consumers accessories wardrobe. We are intensifying awareness as an everyday lifestyle accessory resource by offering aspirational, stylish, well-made product at a great price. We're also emphasizing new usage occasions, and offering items at a broader range of prices. We've evolved our marketing programs to create a more satisfying shopping experience. Finally, we introduced a tiered merchandising strategy enabling us to tailor our product assortment to different consumer segments, capitalizing on the opportunity within our total retail sales base.





our results

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Keith Monda
President, Chief Operating Officer

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 3, 2004 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	JULY 3, 2004	JUNE 28, 2003	JUNE 29, 2002	JUNE 30, 2001	JULY 1, 2000
CONSOLIDATED STATEMENTS OF INCOME:⁽¹⁾					
Net sales	\$ 1,321,106	\$ 953,226	\$ 719,403	\$ 600,491	\$ 537,694
Cost of sales	331,024	275,797	236,041	218,507	220,085
Gross profit	990,082	677,429	483,362	381,984	317,609
Selling, general and administrative expenses	545,617	433,667	346,354	275,727	261,592
Reorganization costs ⁽²⁾	—	—	3,373	4,569	—
Operating income	444,465	243,762	133,635	101,688	56,017
Interest (income) expense, net	(3,192)	(1,059)	299	2,258	387
Income before provision for income taxes and minority interest	447,657	244,821	133,336	99,430	55,630
Provision for income taxes	167,866	90,585	47,325	35,400	17,027
Minority interest, net of tax	18,043	7,608	184	—	—
Net income	<u>\$ 261,748</u>	<u>\$ 146,628</u>	<u>\$ 85,827</u>	<u>\$ 64,030</u>	<u>\$ 38,603</u>
Net income per share					
Basic	<u>\$ 1.41</u>	<u>\$ 0.82</u>	<u>\$ 0.49</u>	<u>\$ 0.39</u>	<u>\$ 0.28</u>
Diluted	<u>\$ 1.36</u>	<u>\$ 0.79</u>	<u>\$ 0.47</u>	<u>\$ 0.38</u>	<u>\$ 0.28</u>
Shares used in computing net income per share: ⁽³⁾					
Basic	<u>186,060</u>	<u>179,558</u>	<u>176,096</u>	<u>163,720</u>	<u>140,105</u>
Diluted	<u>192,779</u>	<u>185,842</u>	<u>181,904</u>	<u>168,624</u>	<u>140,105</u>
CONSOLIDATED PERCENTAGE OF NET SALES DATA:					
Gross margin	74.9%	71.1%	67.2%	63.6%	59.1%
Selling, general and administrative expenses	41.3%	45.5%	48.1%	45.9%	48.7%
Operating income	33.6%	25.6%	18.6%	16.9%	10.4%
Net income	19.8%	15.4%	11.9%	10.7%	7.2%
CONSOLIDATED BALANCE SHEET DATA:					
Working capital	\$ 523,678	\$ 287,077	\$ 128,160	\$ 47,119	\$ 54,089
Total assets	1,028,658	617,652	440,571	258,711	296,653
Inventory	161,913	143,807	136,404	105,162	102,097
Receivable from Sara Lee	—	—	—	—	63,783
Revolving credit facility	1,699	26,471	34,169	7,700	—
Long-term debt	3,420	3,535	3,615	3,690	3,775
Stockholders' equity	<u>\$ 782,286</u>	<u>\$ 426,929</u>	<u>\$ 260,356</u>	<u>\$ 148,314</u>	<u>\$ 212,808</u>

(1) Coach's fiscal year ends on the Saturday closest to June 30. Fiscal year 2004 was a 53-week year, while fiscal years 2003, 2002, 2001 and 2000 were 52-week years.

(2) During fiscal 2001, Coach committed to and completed a reorganization plan involving the complete closure of its Medley, Florida, manufacturing operation. These actions, intended to reduce costs, resulted in the transfer of production to lower cost third-party manufacturers and the consolidation of all of its distribution functions at the Jacksonville, Florida, distribution center. During fiscal 2002, Coach committed to and completed a reorganization plan involving the complete closure of its Lares, Puerto Rico, manufacturing operation. These actions, also intended to reduce costs, resulted in the transfer of production to lower cost third-party manufacturers.

(3) The two-for-one stock splits in August 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.

EXECUTIVE OVERVIEW

Founded in 1941, Coach is a designer and marketer of high-quality, modern American classic accessories. Coach's primary product offerings include handbags, women's and men's accessories, business cases, weekend and travel accessories, outerwear and related accessories.

Coach generates revenue by selling its products directly to consumers, indirectly through wholesale customers and Coach Japan, and by licensing its brand name to select manufacturers. Direct-to-consumer sales consist of sales of Coach products through its 174 Company-operated North American retail stores, 76 Company-operated North American factory stores, its on-line store and its catalogs. Indirect sales consist of sales of Coach products to nearly 1,100 department store locations in the United States, 115 international department store, retail store, factory store and duty-free shop locations in 17 countries and 100 department store shop-in-shops, and retail and factory store locations managed by its joint venture, Coach Japan, Inc. Coach generates additional wholesale sales through business-to-business programs, in which companies purchase Coach products to use as gifts or incentive rewards. Licensing revenues consist of royalties paid to Coach under licensing arrangements with select partners for the sale of Coach branded watches, footwear, eyewear and office furniture. Net sales were \$1,321.1 million, \$953.2 million and \$719.4 million, in fiscal 2004, 2003 and 2002, respectively, representing a 38.6% increase in fiscal 2004 as compared to fiscal 2003 and a 32.5% increase in fiscal 2003 as compared to fiscal 2002. These net sales increases were driven by growth across all distribution channels.

Coach's cost of sales consists of the costs associated with the sourcing of its products. 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, and fluctuations in material costs. These factors, among others, may cause gross profit to fluctuate from quarter to quarter. Gross profit increased to \$990.1 million in fiscal 2004, from \$677.4 million in fiscal 2003 and \$483.4 million in fiscal 2002. Gross margin increased to 74.9% in fiscal 2004, as compared to 71.1% in fiscal 2003 and 67.2% in fiscal 2002, representing an increase of 380 basis points in fiscal 2004 as compared to fiscal 2003 and 390 basis points in fiscal 2003 as compared to fiscal 2002. These increases were primarily driven by the factors discussed above.

Selling, general and administrative expenses comprise four categories: selling; advertising, marketing and design; distribution and customer service; and administration and information services. 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 services expenses include warehousing, order fulfillment, shipping and handling, customer service and bag repair costs. Administration and information services 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.

As part of Coach's transformation from a manufacturer to a marketer, in April 2002, Coach ceased production at its Lares, Puerto Rico, manufacturing facility. This reorganization, intended to reduce costs by transferring production to lower cost third-part manufacturers, involved the termination of 394 manufacturing, warehousing and management employees at the Lares facility.

Operating income was \$444.5 million, \$243.8 million and \$133.6 million in fiscal 2004, 2003, and 2002, respectively. The 82.3% increase in fiscal 2004 from fiscal 2003 and 82.4% increase in fiscal 2003 from fiscal 2002 were both driven by the increases in net sales and gross profit discussed previously, partially offset by increases in selling, general and administrative expenses.

Net income was \$261.7 million, \$146.6 million and \$85.8 million in fiscal 2004, 2003 and 2002, respectively. In all fiscal years, the increases in net income were primarily attributable to the increases in operating income, discussed above, partially offset by higher provisions for income taxes and higher minority interest charges.

Coach's fiscal year ends on the Saturday closest to June 30. Fiscal 2004 was 53-weeks, whereas fiscal 2003 and 2002 were each 52-week periods. The 53rd week in fiscal 2004 contributed approximately \$19.5 million of additional net sales.

The following is a discussion of the results of operations for fiscal 2004 compared to fiscal 2003 and fiscal 2002 as well as a discussion of the changes in financial condition during fiscal 2004.

RESULTS OF OPERATIONS

Consolidated statements of income for fiscal 2004, 2003 and 2002 are as follows:

FISCAL YEAR ENDED (DOLLARS AND SHARES IN MILLIONS, EXCEPT PER SHARE DATA)	JULY 3, 2004 ⁽¹⁾		JUNE 28, 2003		JUNE 29, 2002	
	\$	% OF NET SALES	\$	% OF NET SALES	\$	% OF NET SALES
Net sales	\$ 1,316.3	99.6%	\$ 949.4	99.6%	\$ 716.5	99.6%
Licensing revenue	4.8	0.4	3.8	0.4	2.9	0.4
Total net sales	1,321.1	100.0	953.2	100.0	719.4	100.0
Cost of sales	331.0	25.1	275.8	28.9	236.0	32.8
Gross profit	990.1	74.9	677.4	71.1	483.4	67.2
Selling, general and administrative expenses	545.6	41.3	433.7	45.5	346.4	48.1
Reorganization costs	-	-	-	-	3.4	0.5
Operating income	444.5	33.6	243.7	25.6	133.6	18.6
Interest (income) expense, net	(3.2)	(0.2)	(1.1)	(0.1)	0.3	0.1
Income before provision for income taxes and minority interest	447.7	33.9	244.8	25.7	133.3	18.5
Provision for income taxes	168.0	12.7	90.6	9.5	47.3	6.6
Minority interest, net of tax	18.0	1.4	7.6	0.8	0.2	-
Net income	\$ 261.7	19.8%	\$ 146.6	15.4%	\$ 85.8	11.9%
Net income per share:						
Basic	\$ 1.41		\$ 0.82		\$ 0.49	
Diluted	\$ 1.36		\$ 0.79		\$ 0.47	
Weighted-average number of common shares:						
Basic	186.1		179.6		176.1	
Diluted	192.8		185.8		181.9	

(1) 53-week fiscal year

Net sales by business segment for fiscal 2004 compared to fiscal 2003 and fiscal 2002 are as follows:

FISCAL YEAR ENDED (DOLLARS IN MILLIONS)	NET SALES			RATE OF INCREASE		PERCENTAGE OF TOTAL NET SALES		
	JULY 3, 2004 ⁽¹⁾	JUNE 28, 2003	JUNE 29, 2002	('04 V. '03)	('03 V. '02)	JULY 3, 2004	JUNE 28, 2003	JUNE 29, 2002
Direct	\$ 726.5	\$ 559.5	\$ 447.1	29.8%	25.1%	55.0%	58.7%	62.1%
Indirect	594.6	393.7	272.3	51.0	44.6	45.0	41.3	37.9
Total net sales	\$ 1,321.1	\$ 953.2	\$ 719.4	38.6%	32.5%	100.0%	100.0%	100.0%

(1) 53-week fiscal year

FISCAL 2004 COMPARED TO FISCAL 2003

NET SALES

Coach excludes new locations from the comparable store base for the first year of operation. Similarly, stores that are expanded by more than 15% 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 fiscal 2004, 53 weeks of sales were reported and compared to the equivalent 53-week period.

DIRECT Net sales increased 29.8% to \$726.5 million during fiscal 2004 from \$559.5 million in fiscal 2003, driven by increased comparable store sales, new store sales and expanded store sales in our North American retail and factory stores divisions. This net sales increase was also driven by an additional week of sales, which represented approximately \$11.6 million of the total. Sales growth in comparable stores was 21.9% for retail stores and 10.3% for factory stores. Comparable store sales growth for the entire North American store chain was 16.9%, which accounted for \$95.7 million of the net sales increase. Since the end of fiscal 2003, Coach has opened 19 retail stores and two factory stores. Sales from these new stores, as well as the noncomparable portion of sales from stores opened during fiscal 2003, accounted for \$53.0 million of the net sales increase. Since the end of fiscal 2003, Coach also expanded nine retail stores. Sales from these expanded stores, as well as the noncomparable portion of sales from stores expanded during fiscal 2003, accounted for \$15.3 million of the net sales increase. Sales growth in the Internet business accounted for the remaining sales increase. These increases were slightly offset by a decline in the direct marketing channel and store closures. Since the end of fiscal 2003, Coach has closed one retail store and two factory stores.

INDIRECT Net sales increased 51.0% to \$594.6 million in fiscal 2004 from \$393.7 million during fiscal 2003. The increase was primarily driven by growth at our Japanese joint venture, Coach Japan, Inc. in which net sales increased \$100.4 million over the comparable period of the prior year, including \$4.1 million of sales during the additional week of the fiscal year. Since the end of fiscal 2003, we have opened eight locations in Japan. Sales from these new stores, as well as the noncomparable portion of sales from stores opened during fiscal 2003, accounted for \$44.0 million of the net sales increase. Our Japan locations experienced double-digit comparable net sales gains from the prior year, which represented \$33.3 million of the net sales increase. Since the end of fiscal 2003, we have also expanded 16 locations in Japan, which accounted for \$7.3 million of the net sales increase. Finally, the impact of foreign currency exchange rates resulted in an increase in reported net sales of \$21.7 million. These net sales increases were slightly offset by store closures. Since the end of fiscal 2003, Coach Japan has closed one location. The increase in indirect net sales was also driven by growth in the U.S. wholesale, international wholesale and business-to-business divisions, which contributed increased sales of \$37.5 million, \$33.5 million and \$22.0 million, respectively, as compared to the same period in the prior year. The remaining net sales increase is attributable to increases in other indirect channels.

GROSS PROFIT

Gross profit increased 46.2% to \$990.1 million in fiscal 2004 from \$677.4 million in fiscal 2003. Gross margin increased 380 basis points to 74.9% in fiscal 2004 from 71.1% in fiscal 2003. This improvement was driven by: a shift in channel mix, as our higher gross margin channels grew faster than the business as a whole, which contributed approximately 140 additional basis points; a shift in product mix, reflecting increased penetration of higher margin mixed material product and accessories, which contributed approximately 120 additional basis points; and the continuing impact of sourcing cost initiatives, which contributed approximately 120 additional basis points.

The following chart illustrates the gross margin performance we have experienced over the last 12 quarters:

	FIRST QUARTER	SECOND QUARTER	FIRST HALF	THIRD QUARTER	FOURTH QUARTER	SECOND HALF	TOTAL YEAR
Fiscal 2004	72.7%	74.2%	73.6%	75.9%	76.7%	76.3%	74.9%
Fiscal 2003	68.1%	70.3%	69.4%	72.5%	73.2%	72.9%	71.1%
Fiscal 2002	64.1%	68.6%	66.8%	68.8%	66.6%	67.6%	67.2%

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses increased 25.8% to \$545.6 million in fiscal 2004 from \$433.7 million in fiscal 2003. The dollar increase was caused primarily by increased variable expenses related to Coach Japan, increased variable expenses to support increased net sales, and increased store operating expenses attributable to new stores opened both domestically and in Japan, as compared to the prior year. As a percentage of net sales, selling, general and administrative expenses during fiscal 2004 were 41.3% compared to 45.5% during fiscal 2003. This improvement was due to leveraging our expense base on higher sales.

Selling expenses increased 31.0% to \$386.2 million, or 29.2% of net sales, in fiscal 2004 from \$294.9 million, or 30.9% of net sales, in fiscal 2003. 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 2003. The increase in Coach Japan expenses was \$42.8 million, driven by new stores operating expenses, increased variable expenses related to higher sales, and the nonrecurrence of a \$3.4 million favorable fair value adjustment for open foreign currency forward contracts. In addition, the impact of foreign currency exchange rates increased reported expenses by \$10.0 million. Domestically, Coach has opened 19 new retail stores and two new factory stores since the end of fiscal 2003. Expenses from these new stores, as well as the noncomparable portion of expenses from stores opened in fiscal 2003, increased total expenses by \$16.2 million. The remaining increase in selling expenses was due to increased variable expenses to support sales growth.

Advertising, marketing, and design costs increased by 10.8% to \$63.5 million, or 4.8% of net sales, in fiscal 2004, from \$57.3 million, or 6.0% of net sales, in fiscal 2003. This dollar increase was primarily due to increased staffing costs and increased design expenditures.

Distribution and customer service expenses increased to \$32.4 million in fiscal 2004 from \$29.7 million in fiscal 2003. 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 3.1% in fiscal 2003 to 2.5% in fiscal 2004.

Administrative expenses increased 22.6% to \$63.5 million, or 4.8% of net sales, in fiscal 2004 from \$51.8 million, or 5.5% of net sales, in fiscal 2003. The dollar increase in these expenses was primarily due to increased compensation costs as well as increased professional and consulting fees. These increases were offset by an increase in business interruption proceeds of \$1.2 million, related to our World Trade Center location.

INTEREST INCOME, NET

Net interest income was \$3.2 million in fiscal 2004, as compared to \$1.1 million in fiscal 2003. This dollar change was due to increased positive cash balances during fiscal 2004 as well as higher returns on investments. During fiscal 2004, Coach began investing in marketable securities with maturities greater than 90 days, which yielded greater rates of return.

PROVISION FOR INCOME TAXES

The effective tax rate increased to 37.5% in fiscal 2004 compared with the 37.0% recorded in fiscal 2003.

MINORITY INTEREST

Minority interest expense, net of tax, increased to \$18.0 million, or 1.4% of net sales, in fiscal 2004 from \$7.6 million, or 0.8% of net sales, in fiscal 2003. This increase was due to increased profits from the operations of Coach Japan and the impact of a stronger yen.

FISCAL 2003 COMPARED TO FISCAL 2002

NET SALES

DIRECT Net sales increased 25.1% to \$559.5 million during fiscal 2003, from \$447.1 million in fiscal 2002. Comparable store sales growth for retail stores and factory stores open for one full year was 24.6% and 5.0%, respectively. Comparable store growth for the entire domestic store chain was 15.2%, which represented approximately \$62 million of the net sales increase. Since the end of fiscal 2002, Coach opened 20 retail stores and three factory stores, expanded four retail and five factory stores and had wrap from fiscal 2002 openings, which accounted for approximately \$45 million of the increase in net sales. The Internet and direct marketing businesses accounted for the remaining sales increase. The increase in net sales was partially offset by the two retail stores and one factory store that were closed since the end of fiscal 2002.

INDIRECT Net sales increased 44.6% to \$393.7 million in fiscal 2003 from \$272.3 million during fiscal 2002. The increase was primarily driven by Coach Japan, in which net sales increased \$89.4 million over the prior year. We opened 14 locations in Japan since the end of fiscal 2002, which represented approximately \$42 million of the increase. Our Japan locations experienced double-digit net sales gains in comparable locations over the prior year, which represented approximately \$30 million of the increase. In addition, fiscal 2002 only included 11 months of Coach Japan operations, while fiscal 2003 included a full year. In the third quarter of fiscal 2002, Coach Japan acquired the distribution rights and assets of J. Osawa. The effect of the incremental month of operations and acquisition of J. Osawa locations represented approximately \$19 million of the increase in net sales. These increases were partially offset by the closure of four locations since the end of fiscal 2002. This decrease was approximately \$2 million. The U.S. wholesale and business-to-business divisions contributed increased sales of \$21.3 million and \$8.3 million, respectively. The increase in net sales was partially offset by decreased net sales in the international wholesale division of \$1.3 million. The remaining change in net sales was due to increases in other indirect channels.

GROSS PROFIT

Gross profit increased 40.1% to \$677.4 million in fiscal 2003 from \$483.4 million in fiscal 2002. Gross margin increased 390 basis points to 71.1% in fiscal 2003 from 67.2% in fiscal 2002. This improvement was primarily driven by a shift in product mix reflecting the continued diversification into new and successful fabric and leather collections, which contributed approximately 140 basis points. There were sourcing cost initiatives, which contributed approximately 120 basis points. In addition, there was a shift in channel mix, which contributed approximately 100 basis points. The remaining improvement was driven primarily by the consolidation of Coach Japan.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses increased 25.2% to \$433.7 million in fiscal 2003 from \$346.4 million in fiscal 2002. The dollar increase was caused primarily by increased operating expenses in Coach Japan and the U.S. stores. These increased expenses were due to new stores and variable expenses to support increased net sales. Fiscal 2002 selling, general and administrative expenses included 11 months of Coach Japan, while fiscal 2003 included a full year. As a percentage of net sales, selling, general and administrative expenses during fiscal 2003 were 45.5% compared to 48.1% during fiscal 2002. This improvement was due to leveraging our expense base on higher sales.

Selling expenses increased by 28.6% to \$294.9 million in fiscal 2003 from \$229.3 million in fiscal 2002. The dollar increase in these expenses was primarily due to the operating costs associated with Coach Japan and operating costs associated with new retail and factory stores. Fiscal 2002 expenses included 11 months of Coach Japan, while fiscal 2003 included a full year. The increase in Coach Japan expenses was \$34.6 million. Included in the current year costs was a \$3.4 million favorable fair value adjustment for foreign currency forward contracts, compared to a \$3.3 million unfavorable fair value adjustment in fiscal 2002. Domestically, Coach opened 20 new retail stores and three new factory stores since the end of fiscal 2002. The increase in the U.S. stores expense was \$28.1 million. The remaining increase to selling expenses was due to increased variable expenses to support comparable store growth. As a percentage of net sales, selling expenses improved from 31.9% in fiscal 2002 to 30.9% in fiscal 2003. The decline was due to leveraging higher sales in the domestic stores division.

Advertising, marketing, and design costs increased by 10.8% to \$57.3 million, or 6.0% of net sales, in fiscal 2003, from \$51.7 million, or 7.2% of net sales, in fiscal 2002. The dollar increase was primarily due to increased staffing costs and increased design expenditures.

Distribution and customer service expenses increased to \$29.7 million in fiscal 2003 from \$26.9 million in fiscal 2002. 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 a decline in the ratio to net sales from 3.7% in fiscal 2002 to 3.1% in fiscal 2003.

Administrative expenses increased by 34.5% to \$51.8 million, or 5.5% of net sales, in fiscal 2003 from \$38.5 million, or 5.4% of net sales, in fiscal 2002. The absolute dollar increase in these expenses was due in part to increased total compensation cost of approximately \$8 million. The increase was due primarily to increased base salary and employment agreements with certain executives, which accounted for \$9 million of the increase. The increase was partially offset by decreased temporary employee costs. There were higher occupancy costs of approximately \$2 million associated with the full year impact of acquiring additional space in our New York City headquarters. Insurance settlement proceeds decreased approximately \$2 million due to the nonrecurrence of store inventory and fixed asset recoveries relating to our World Trade Center location.

REORGANIZATION COSTS

In March 2002, Coach ceased production at its Lares, Puerto Rico, manufacturing facility. This reorganization involved the termination of 394 manufacturing, warehousing and management employees and the disposition of the fixed assets at the Lares facility. These actions were intended to reduce costs by the resulting transfer of production to lower cost third-party manufacturers. Coach recorded a reorganization cost of \$3.4 million. The reorganization cost included \$2.2 million for worker separation costs, \$0.7 million for lease termination costs and \$0.5 million for the write-down of long-lived assets to net realizable value.

INTEREST INCOME, NET

Net interest income was \$1.1 million in fiscal 2003, as compared to an expense of \$0.3 million in fiscal 2002. The dollar change was due to reduced borrowings and positive cash balances during fiscal 2003.

PROVISION FOR INCOME TAXES

The effective tax rate increased to 37.0% in fiscal 2003 compared with the 35.5% recorded in fiscal 2002. This increase was due in part to the closure of our facility in Lares, Puerto Rico and the elimination of related tax benefits.

MINORITY INTEREST

Minority interest, net of tax, increased to \$7.6 million, or 0.8% of net sales, in fiscal 2003 from \$0.2 million in fiscal 2002. The dollar change was due to increased profitability in Coach Japan coupled with a stronger yen.

FINANCIAL CONDITION

LIQUIDITY AND CAPITAL RESOURCES

Net cash provided from operating activities was \$448.6 million in fiscal 2004 compared to \$221.6 million in fiscal 2003. This \$227.0 million increase was primarily the result of increased earnings of \$115.1 million and increased tax benefit from the exercise of stock options of \$65.0 million.

Net cash used in investment activities was \$369.4 million in fiscal 2004 compared to \$57.1 million in fiscal 2003. The increase in net cash used in investment activities is primarily attributable to the \$301.7 million purchase of investments. During fiscal 2004, Coach began investing in marketable securities with maturities greater than 90 days in order to maximize the rate of return on our investments. In addition, capital expenditures also increased by \$10.6 million, which related primarily to new and renovated retail stores in the United States and Japan as well as technology enhancements. Coach's future capital expenditures will depend on the timing and rate of expansion of our businesses, new store openings, store renovations and international expansion opportunities.

Net cash used in financing activities was \$45.7 million in fiscal 2004 compared to \$29.3 million in fiscal 2003. The \$16.4 million increase in cash used resulted from an additional \$17.1 million of repayments related to Coach Japan's credit facilities and an additional \$5.0 million of funds expended to repurchase common stock, offset by an additional \$5.7 million of proceeds received from the exercise of stock options.

On October 16, 2003, Coach, certain lenders and Fleet National Bank ("Fleet"), as primary lender and administrative agent, renewed the \$100 million senior unsecured revolving credit facility (the "Fleet facility"), extending the facility expiration to October 16, 2006. At Coach's request, the Fleet facility can be expanded to \$125 million, and during the first two years of its term, the expiration can be extended for one additional year, to October 16, 2007. Indebtedness under this revolving credit facility bears interest calculated, at Coach's option, at either a rate of LIBOR plus a margin or the prime rate announced by Fleet. This facility is available for seasonal working capital requirements or general corporate purposes. The facility may be prepaid without penalty or premium.

During fiscal 2004 and fiscal 2003 there were no borrowings under the Fleet facility. As of July 3, 2004, there were no outstanding borrowings under the Fleet facility.

Under this revolving credit facility, Coach pays a commitment fee of 12.5 to 30 basis points, based on the Company's fixed charge coverage ratio, on any unused amounts of the revolving credit facility. The initial commitment fee was 30 basis points. At July 3, 2004, the commitment fee was 15 basis points. The initial LIBOR margin under the facility was 125 basis points. At July 3, 2004, the LIBOR margin was 62.5 basis points, reflecting an improvement in our fixed-charge coverage ratio.

The Fleet 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 8.6 billion yen or approximately \$79 million at July 3, 2004. Interest is based on the Tokyo Interbank rate plus a margin of up to 50 basis points.

During fiscal 2004 and fiscal 2003, the peak borrowings under the Japanese credit facilities were \$36.1 million and \$43.4 million, respectively. At July 3, 2004 and June 28, 2003, outstanding borrowings under the Japanese facilities were \$1.7 million and \$26.5 million, respectively.

These Japanese 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 these facilities.

The Coach Board of Directors has authorized the establishment of a common stock repurchase program. Under this program, up to \$180 million may be utilized to repurchase Coach's outstanding common stock. 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 will be retired and may be reissued in the future for general corporate or other uses. This stock repurchase program expires in January 2006. The Company may terminate or limit the stock repurchase program at any time.

During fiscal 2004 and fiscal 2003, Coach repurchased 1.5 million and 3.9 million shares, respectively, of common stock, at an average cost of \$36.36 and \$12.95 per share, respectively. As of July 3, 2004, Coach had approximately \$65 million remaining in the stock repurchase program.

On August 12, 2004, the Coach Board of Directors approved a \$200 million increase to the Company's existing common stock repurchase program and extended the duration of this program through August 2006.

During August 2004, the Company repurchased 2.4 million shares of common stock at an average cost of \$39.06 per share. These stock repurchases of approximately \$95 million were financed from cash on hand. As of September 4, 2004, Coach had expended approximately \$210 million of the \$380 million authorized to date under the stock repurchase program.

In fiscal 2004, total capital expenditures were \$67.7 million. Coach opened 19 new retail and two new factory stores in North America, which represented \$19.5 million of capital expenditures, as well as expanded nine stores, which represented \$11.8 million of capital expenditures. Spending on department store renovations and distributor locations was \$3.9 million. In addition, \$16.5 million was used for information systems and corporate facilities. These investments were financed from internally generated cash flows and on hand cash. In Japan, we invested \$16.0 million, primarily for the opening of eight new locations, store expansions and information systems. These investments were financed by using funds from our Japanese revolving credit facilities and operating cash flow.

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 2004, Coach purchased approximately \$349 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.

Currently, Sara Lee is 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 3, 2004, the letter of credit was \$16.8 million. We expect that we will be required to maintain the letter of credit for at least 10 years.

As of July 3, 2004, the scheduled maturities of Coach's long-term contractual obligations are as follows:

(AMOUNTS IN MILLIONS)	PAYMENTS DUE BY PERIOD				TOTAL
	LESS THAN 1 YEAR	1-3 YEARS	4-5 YEARS	AFTER 5 YEARS	
Operating leases	\$ 56.6	\$ 109.4	\$ 98.8	\$ 184.9	\$ 449.7
Revolving credit facility	1.7	—	—	—	1.7
Long-term debt including the current portion	0.1	0.3	0.5	2.6	3.5
Total	\$ 58.4	\$ 109.7	\$ 99.3	\$ 187.5	\$ 454.9

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, facility. This loan has a remaining balance of \$3.5 million and bears interest at 8.77%. 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 nonholiday quarters, which has reduced these seasonal fluctuations. We expect that these trends will continue and we will further balance our year round business.

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.

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 policies that involve the selection of alternative methods are accounting for stock options and inventories.

STOCK-BASED COMPENSATION

Two alternative methods for accounting for stock options are available: the intrinsic value method and the fair value method. The Company uses the intrinsic value method of accounting for stock options and, accordingly, no compensation expense has been recognized. Under either method, the determination of the pro forma amounts involves several assumptions including option life and future volatility. See Note 1 of the Consolidated Financial Statements for expanded disclosures.

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.

For more information on Coach's accounting policies please refer to the Notes to Consolidated Financial Statements. Other critical accounting policies are as follows:

VALUATION OF LONG-LIVED ASSETS

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which the Company adopted effective with the beginning of fiscal 2002, 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 2004 or fiscal 2003. See Note 18 of the Consolidated Financial Statements for long-lived asset write-downs recorded in connection with the Company's fiscal 2002 reorganization plan.

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 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.

NEW ACCOUNTING STANDARDS

During fiscal 2004, the Company adopted SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure," which amends SFAS No. 123, "Accounting for Stock-Based Compensation." SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. As the Company does not expense stock options, the adoption of this statement did not have an impact on Coach's consolidated financial position or results of operations. SFAS No. 148 also amends the disclosure requirements of SFAS No. 123 to require more prominent and more frequent disclosures in financial statements of the effects of stock-based compensation. See Note 1 to the Consolidated Financial Statements for these expanded disclosures.

In April 2003, the Financial Accounting Standards Board ("FASB") issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities," to amend and clarify financial accounting and reporting for derivative instruments embedded in other contracts and for hedging activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 149 requires that contracts with comparable characteristics be accounted for similarly and clarifies under what circumstances a contract with an initial net investment meets the characteristics of a derivative as discussed in SFAS No. 133. In addition, it clarifies when a derivative contains a financing component that warrants special reporting in the statement of cash flows. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. The adoption of SFAS No. 149 did not have an impact on Coach's financial position or results of operations.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity." SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). The provisions of SFAS No. 150 are effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of SFAS No. 150 did not have an impact on Coach's financial position or results of operations.

In December 2003, the FASB issued SFAS No. 132 (revised 2003), "Employers' Disclosures about Pensions and Other Postretirement Benefits." This statement revises employers' disclosures about pension plans and other postretirement benefits. However, it does not change the measurement or recognition of those plans, as previously required by SFAS No. 87, "Employers' Accounting for Pensions," No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits," and No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." In addition to the disclosure requirements contained in SFAS No. 132, the revised statement requires additional disclosures about the assets, obligations, cash flows, and net periodic benefit cost of defined benefit pension plans and other defined postretirement plans. See Note 9, "Retirement Plans," for these additional disclosures.

In March 2004, the Emerging Issues Task Force ("EITF") reached consensus on EITF 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." EITF 03-1 provides guidance on the new requirements for other-than-temporary impairment and its application to debt and marketable equity investments that are accounted for under SFAS No. 115. The new requirements on disclosures are effective for fiscal years ending after December 15, 2003. The implementation of EITF 03-1 did not have an impact on Coach's financial position or results of operations.

Independent Registered Public Accounting Firm Report

To the Board of Directors and Shareholders of Coach, Inc.:

We have audited the accompanying consolidated balance sheets of Coach, Inc. and subsidiaries (the "Company") as of July 3, 2004 and June 28, 2003 and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended July 3, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the 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, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of July 3, 2004 and June 28, 2003, and the results of its operations and its cash flows for each of the three years in the period ended July 3, 2004, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

Deloitte & Touche LLP
New York, New York
September 15, 2004

Consolidated Balance Sheets

(AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

	JULY 3, 2004	JUNE 28, 2003
ASSETS		
Cash and cash equivalents	\$ 262,720	\$ 229,176
Short-term investments	171,723	–
Trade accounts receivable, less allowances of \$5,456 and \$6,095, respectively	55,724	35,470
Inventories	161,913	143,807
Deferred income taxes	34,521	21,264
Prepaid expenses and other current assets	19,015	18,821
Total current assets	<u>705,616</u>	<u>448,538</u>
Property and equipment, net	148,524	118,547
Long-term investments	130,000	–
Deferred income taxes	–	9,112
Goodwill	13,605	13,009
Indefinite life intangibles	9,788	9,389
Other noncurrent assets	21,125	19,057
Total assets	<u>\$ 1,028,658</u>	<u>\$ 617,652</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	\$ 44,771	\$ 26,637
Accrued liabilities	135,353	108,273
Revolving credit facility	1,699	26,471
Current portion of long-term debt	115	80
Total current liabilities	<u>181,938</u>	<u>161,461</u>
Deferred income taxes	15,791	–
Long-term debt	3,420	3,535
Other liabilities	5,025	3,572
Minority interest, net of tax	40,198	22,155
Total liabilities	<u>246,732</u>	<u>190,723</u>
Commitments and contingencies (Note 6)		
Stockholders' equity		
Preferred stock: (authorized 25,000,000 shares; \$0.01 par value) none issued	–	–
Common stock: (authorized 500,000,000 shares; \$0.01 par value) issued and outstanding – 189,618,201 and 183,009,256 shares, respectively	1,896	1,830
Capital in excess of par value	357,026	214,484
Retained earnings	430,461	217,622
Accumulated other comprehensive income (loss)	2,195	(1,359)
Unearned compensation	(9,292)	(5,648)
Total stockholders' equity	<u>782,286</u>	<u>426,929</u>
Total liabilities and stockholders' equity	<u>\$ 1,028,658</u>	<u>\$ 617,652</u>

See accompanying Notes to Consolidated Financial Statements

Consolidated Statements of Income

FISCAL YEAR ENDED (AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA)

	JULY 3, 2004 ⁽¹⁾	JUNE 28, 2003	JUNE 29, 2002
Net sales	\$ 1,321,106	\$ 953,226	\$ 719,403
Cost of sales	331,024	275,797	236,041
Gross profit	990,082	677,429	483,362
Selling, general and administrative expenses	545,617	433,667	346,354
Reorganization costs	—	—	3,373
Operating income	444,465	243,762	133,635
Interest income	(4,000)	(1,754)	(825)
Interest expense	808	695	1,124
Income before provision for income taxes and minority interest	447,657	244,821	133,336
Provision for income taxes	167,866	90,585	47,325
Minority interest, net of tax	18,043	7,608	184
Net income	<u>\$ 261,748</u>	<u>\$ 146,628</u>	<u>\$ 85,827</u>
Net income per share			
Basic	<u>\$ 1.41</u>	<u>\$ 0.82</u>	<u>\$ 0.49</u>
Diluted	<u>\$ 1.36</u>	<u>\$ 0.79</u>	<u>\$ 0.47</u>
Shares used in computing net income per share			
Basic	<u>186,060</u>	<u>179,558</u>	<u>176,096</u>
Diluted	<u>192,779</u>	<u>185,842</u>	<u>181,904</u>

(1) 53-week fiscal year

See accompanying Notes to Consolidated Financial Statements

Consolidated Statement of Stockholders' Equity

(AMOUNTS IN THOUSANDS)	TOTAL STOCK- HOLDERS' EQUITY	PREFERRED STOCK- HOLDERS' EQUITY	COMMON STOCK- HOLDERS' EQUITY	CAPITAL IN EXCESS OF PAR	RETAINED EARNINGS	ACCUMU- LATED OTHER COMPRE- HENSIVE INCOME (LOSS)	UNEARNED COMPEN- SATION	COMPRE- HENSIVE INCOME (LOSS)	SHARES OF COMMON STOCK
Balances at June 30, 2001	\$ 148,314	\$ -	\$ 1,748	\$ 124,403	\$ 22,650	\$ (487)	\$ -		174,744
Net income	85,827	-	-	-	85,827	-	-	\$ 85,827	
Shares issued for stock options and employee benefit plans	20,802	-	58	20,744	-	-	-		5,844
Tax benefit from exercise of stock options	13,793	-	-	13,793	-	-	-		
Repurchase of common stock	(9,848)	-	(18)	(6,862)	(2,968)	-	-		(1,720)
Grant of restricted stock awards	-	-	2	2,430	-	-	(2,432)		-
Amortization of restricted stock awards	766	-	-	-	-	-	766		-
Translation adjustments	396	-	-	-	-	396	-	396	
Minimum pension liability	306	-	-	-	-	306	-	306	
Comprehensive income								\$ 86,529	
Balances at June 29, 2002	\$ 260,356	\$ -	\$ 1,790	\$ 154,508	\$ 105,509	\$ 215	\$ (1,666)		178,908
Net income	146,628	-	-	-	146,628	-	-	\$ 146,628	
Shares issued for stock options and employee benefit plans	28,395	-	78	28,317	-	-	-		7,900
Tax benefit from exercise of stock options	41,503	-	-	41,503	-	-	-		
Repurchase of common stock	(49,947)	-	(38)	(15,394)	(34,515)	-	-		(3,858)
Grant of restricted stock awards	-	-	-	5,550	-	-	(5,500)		-
Amortization of restricted stock awards	1,568	-	-	-	-	-	1,568		59
Unrealized gain on cash flow hedging derivatives, net	168	-	-	-	-	168	-	168	
Translation adjustments	(348)	-	-	-	-	(348)	-	(348)	
Minimum pension liability	(1,394)	-	-	-	-	(1,394)	-	(1,394)	
Comprehensive income								\$ 145,054	
Balances at June 28, 2003	\$ 426,929	\$ -	\$ 1,830	\$ 214,484	\$ 217,622	\$ (1,359)	\$ (5,648)		183,009
Net income	261,748	-	-	-	261,748	-	-	261,748	
Shares issued for stock options and employee benefit plans	34,141	-	81	34,060	-	-	-		8,120
Tax benefit from exercise of stock options	106,458	-	-	106,458	-	-	-		
Repurchase of common stock	(54,954)	-	(15)	(6,030)	(48,909)	-	-		(1,511)
Grant of restricted stock awards	-	-	-	8,054	-	-	(8,054)		-
Amortization of restricted stock awards	4,410	-	-	-	-	-	4,410		-
Unrealized loss on cash flow hedging derivatives, net	(460)	-	-	-	-	(460)	-	(460)	
Translation adjustments	2,892	-	-	-	-	2,892	-	2,892	
Minimum pension liability	1,122	-	-	-	-	1,122	-	1,122	
Comprehensive income								\$ 265,302	
Balances at July 3, 2004	\$ 782,286	\$ -	\$ 1,896	\$ 357,026	\$ 430,461	\$ 2,195	\$ (9,292)		189,618

See accompanying Notes to the Consolidated Financial Statements.

Consolidated Statements of Cash Flows

FISCAL YEAR ENDED (AMOUNTS IN THOUSANDS)	JULY 3, 2004 ⁽¹⁾	JUNE 28, 2003	JUNE 29, 2002
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 261,748	\$ 146,628	\$ 85,827
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation and amortization	42,854	30,231	25,494
Minority interest	18,043	7,608	184
Reorganization costs	—	—	3,373
Tax benefit from exercise of stock options	106,458	41,503	13,793
Decrease (increase) in deferred taxes	11,646	8,778	(4,969)
Other noncash credits, net	3,372	(969)	1,482
Changes in current assets and liabilities:			
Increase in trade accounts receivable	(20,254)	(4,545)	(5,855)
Increase in inventories	(18,106)	(7,403)	(16,638)
Increase in other assets and liabilities	(2,408)	(9,933)	(12,843)
Increase in accounts payable	18,134	818	8,671
Increase in accrued liabilities	27,080	8,908	9,418
Net cash from operating activities	<u>448,567</u>	<u>221,624</u>	<u>107,937</u>
CASH FLOWS USED IN INVESTMENT ACTIVITIES			
Purchases of property and equipment	(67,693)	(57,112)	(42,764)
Acquisitions of distributors, net of cash acquired	—	—	(14,805)
Proceeds from disposition of property and equipment	58	27	1,592
Purchases of investments	(301,723)	—	—
Net cash used in investment activities	<u>(369,358)</u>	<u>(57,085)</u>	<u>(55,977)</u>
CASH FLOWS USED IN FINANCING ACTIVITIES			
Partner contribution to joint venture	—	—	14,363
Repurchase of common stock	(54,954)	(49,947)	(9,848)
Repayment of long-term debt	(80)	(75)	(45)
Borrowings on revolving credit facility	168,865	63,164	200,006
Repayments of revolving credit facility	(193,637)	(70,862)	(186,967)
Proceeds from exercise of stock options	34,141	28,395	20,802
Net cash (used in) from financing activities	<u>(45,665)</u>	<u>(29,325)</u>	<u>38,311</u>
Increase in cash and cash equivalents	33,544	135,214	90,271
Cash and cash equivalents at beginning of period	229,176	93,962	3,691
Cash and cash equivalents at end of period	<u>\$ 262,720</u>	<u>\$ 229,176</u>	<u>\$ 93,962</u>
Cash paid for income taxes	<u>\$ 33,136</u>	<u>\$ 56,083</u>	<u>\$ 33,263</u>
Cash paid for interest	<u>\$ 330</u>	<u>\$ 679</u>	<u>\$ 786</u>

(1) 53-week fiscal year

See accompanying Notes to Consolidated Financial Statements

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS

Coach, Inc. (the "Company") designs, produces 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, business cases, weekend and travel accessories, outerwear and related accessories. Coach's products are sold through direct-to-consumer channels, including Company-operated retail and factory stores, an on-line store and Coach catalogs, as well as through indirect channels, including department store locations in the United States, international department, retail and duty-free shop locations as well as department store shop-in-shops, and retail and factory store locations operated by Coach Japan, Inc.

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 year ended July 3, 2004 ("fiscal 2004") was a 53-week period, whereas the fiscal years ended June 28, 2003 ("fiscal 2003") and June 29, 2002 ("fiscal 2002") were each 52-week periods.

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

PRINCIPLES OF CONSOLIDATION The consolidated financial statements include the accounts of the Company, all 100% owned subsidiaries and Coach Japan. 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.

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, using the effective interest method. 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's allowance for bad debts, returns and allowances was \$5,456 at July 3, 2004 and \$6,095 at June 28, 2003. 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 2004 and fiscal 2003, inventories recorded at LIFO were \$2,409 and \$650 higher, respectively, than if they were valued at FIFO. Inventories valued under LIFO amounted to \$34,508 and \$23,484 in fiscal 2004 and 2003, 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.

GOODWILL AND OTHER INTANGIBLE ASSETS The Company adopted Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets," effective with the beginning of fiscal 2002. In accordance with SFAS No. 142, the Company's goodwill account is no longer amortized but rather is evaluated for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. Based on this annual evaluation, the Company has concluded that there is no impairment of its goodwill or indefinite life intangible assets.

VALUATION OF LONG-LIVED ASSETS In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which the Company adopted effective with the beginning of fiscal 2002, 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 2004 or fiscal 2003. See Note 18 to the Consolidated Financial Statements for long-lived asset write-downs recorded in connection with the Company's fiscal 2002 reorganization plan.

MINORITY INTEREST IN SUBSIDIARY Minority interest in the statements of income represents Sumitomo Corporation's share of the equity in Coach Japan. The minority interest in the consolidated balance sheets reflects the original investment by Sumitomo in that consolidated subsidiary, along with their proportional share of the cumulative income, net of tax.

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 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. 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, which include media and production, totaled \$21,574, \$19,885 and \$17,279 in fiscal years 2004, 2003 and 2002, respectively, and are included in selling, general and administrative expenses. Advertising costs are expensed when the advertising first appears.

SHIPPING AND HANDLING Shipping and handling costs incurred were \$13,080, \$11,290, and \$10,694 in fiscal years 2004, 2003 and 2002, respectively and are included in selling, general and administrative expenses.

INCOME TAXES The Company accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes." Under SFAS No. 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.

STOCK-BASED COMPENSATION The Company's stock-based compensation plans and the employee stock purchase plan, as more fully described in Note 8, "Stock-Based Compensation," are accounted for in accordance with Accounting Principles Board Opinion 25, "Accounting for Stock Issued to Employees," and related Interpretations. Accordingly, no compensation cost is recognized for stock options and replacement stock options issued under stock-based compensation plans or for shares purchased under the employee stock purchase plan. The compensation cost that has been charged against income, reflecting amortization of restricted stock units, was \$4,410, \$1,568 and \$766 in fiscal 2004, 2003 and 2002, respectively. The following illustrates the effect on net income and earnings per share as if the fair value based method of accounting, defined in SFAS No. 123, "Accounting for Stock-Based Compensation," had been applied:

FISCAL YEAR ENDED	JULY 3, 2004	JUNE 28, 2003	JUNE 29, 2002
Net income, as reported	\$ 261,748	\$ 146,628	\$ 85,827
Deduct:			
Total stock-based employee compensation expense determined under the fair value based method for all awards, net of related tax effects	<u>(23,799)</u>	<u>(15,947)</u>	<u>(10,227)</u>
Pro forma net income	<u>\$ 237,949</u>	<u>\$ 130,681</u>	<u>\$ 75,600</u>
Earnings per share:			
Basic – as reported	<u>\$ 1.41</u>	<u>\$ 0.82</u>	<u>\$ 0.49</u>
Basic – pro forma	<u>\$ 1.28</u>	<u>\$ 0.73</u>	<u>\$ 0.43</u>
Diluted – as reported	<u>\$ 1.36</u>	<u>\$ 0.79</u>	<u>\$ 0.47</u>
Diluted – pro forma	<u>\$ 1.23</u>	<u>\$ 0.70</u>	<u>\$ 0.42</u>

FAIR VALUE OF FINANCIAL INSTRUMENTS The fair value of the revolving credit facility at July 3, 2004 and June 28, 2003 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 3, 2004 and June 28, 2003, 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 7, "Investments," for the fair values of the Company's investments as of July 3, 2004.

Coach, through Coach Japan, enters into foreign currency forward contracts that hedge certain U.S. dollar denominated inventory risk, that 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. Translation adjustment gains in fiscal 2004 were \$2,892 compared to translation adjustment losses in fiscal 2003 of \$348. Translation adjustment gains in fiscal 2002 were \$396.

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

STOCK SPLIT In May 2002, Coach's Board of Directors authorized a two-for-one split of the Company's common stock, to be effected in the form of a special dividend of one share of the Company's common stock for each share outstanding. The additional shares issued as a result of the stock split were distributed on July 3, 2002 to stockholders of record on June 19, 2002.

In August 2003, Coach's Board of Directors authorized a two-for-one split of the Company's common stock, to be effected in the form of a special dividend of one share of the Company's common stock for each share outstanding. The additional shares issued as a result of the stock split were distributed on October 1, 2003 to stockholders of record on September 17, 2003.

The effect of these stock splits on the number of shares and earnings per share was retroactively applied to all periods presented.

RECENT ACCOUNTING PRONOUNCEMENTS During fiscal 2004, the Company adopted SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure," which amends SFAS No. 123, "Accounting for Stock-Based Compensation." SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. As the Company does not expense stock options, the adoption of this statement did not have an impact on Coach's consolidated financial position or results of operations. SFAS No. 148 also amends the disclosure requirements of SFAS No. 123 to require more prominent and more frequent disclosures in financial statements of the effects of stock-based compensation. See above, "Stock-Based Compensation," for these expanded disclosures.

In April 2003, the Financial Accounting Standards Board ("FASB") issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities," to amend and clarify financial accounting and reporting for derivative instruments embedded in other contracts and for hedging activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 149 requires that contracts with comparable characteristics be accounted for similarly and clarifies under what circumstances a contract with an initial net investment meets the characteristics of a derivative as discussed in SFAS No. 133. In addition, it clarifies when a derivative contains a financing component that warrants special reporting in the statement of cash flows. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. The adoption of SFAS No. 149 did not have an impact on Coach's financial position or results of operations.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity." SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). The provisions of SFAS No. 150 are effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of SFAS No. 150 did not have an impact on Coach's financial position or results of operations.

In December 2003, the FASB issued SFAS No. 132 (revised 2003), "Employers' Disclosures about Pensions and Other Postretirement Benefits." This statement revises employers' disclosures about pension plans and other postretirement benefits. However, it does not change the measurement or recognition of those plans, as previously required by SFAS No. 87, "Employers' Accounting for Pensions," No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits" and No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." In addition to the disclosure requirements contained in SFAS No. 132, the revised statement requires additional disclosures about the assets, obligations, cash flows and net periodic benefit cost of defined benefit pension plans and other defined postretirement plans. See Note 9, "Retirement Plans," for these additional disclosures.

In March 2004, the Emerging Issues Task Force ("EITF") reached consensus on EITF 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." EITF 03-1 provides guidance on the new requirements for other-than-temporary impairment and its application to debt and marketable equity investments that are accounted for under SFAS No. 115. The new requirements on disclosures are effective for fiscal years ending after December 15, 2003. The implementation of EITF 03-1 did not have an impact on Coach's financial position or results of operations.

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

2. BALANCE SHEET COMPONENTS

The components of certain balance sheet accounts are as follows:

	JULY 3, 2004	JUNE 28, 2003
PROPERTY AND EQUIPMENT		
Machinery and equipment	\$ 8,346	\$ 10,789
Furniture and fixtures	140,005	101,137
Leasehold improvements	196,233	153,442
Construction in progress	11,522	26,470
Less: accumulated depreciation	<u>(207,582)</u>	<u>(173,291)</u>
Total property and equipment, net	<u>\$ 148,524</u>	<u>\$ 118,547</u>
ACCRUED LIABILITIES		
Income and other taxes	\$ 16,699	\$ 8,335
Payroll and employee benefits	54,291	41,173
Occupancy costs	16,648	14,007
Operating expenses	<u>47,715</u>	<u>44,758</u>
Total accrued liabilities	<u>\$ 135,353</u>	<u>\$ 108,273</u>

3. 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 3, 2004		JUNE 28, 2003		JUNE 29, 2002	
	AMOUNT	PERCENT	AMOUNT	PERCENT	AMOUNT	PERCENT
Income (loss) before provision for income taxes and minority interest:						
United States	\$ 388,862	86.9%	\$ 224,380	91.7%	\$ 125,273	94.0%
Puerto Rico	-	-	-	-	7,831	5.9
Foreign	<u>58,795</u>	<u>13.1</u>	<u>20,441</u>	<u>8.3</u>	<u>232</u>	<u>0.1</u>
Total income before provision for income taxes and minority interest:	<u>\$ 447,657</u>	<u>100.0%</u>	<u>\$ 244,821</u>	<u>100.0%</u>	<u>\$ 133,336</u>	<u>100.0%</u>
Tax expense at U.S. statutory rate:	\$ 156,680	35.0%	\$ 85,687	35.0%	\$ 46,668	35.0%
State taxes, net of federal benefit	16,179	3.6	10,358	4.2	3,894	2.9
Difference between U.S. and Puerto Rico tax rates	-	-	-	-	(1,411)	(1.1)
Nontaxable foreign sourced income	(5,182)	(1.2)	(2,069)	(0.8)	(300)	(0.2)
Other, net	<u>189</u>	<u>(0.0)</u>	<u>(3,391)</u>	<u>(1.3)</u>	<u>(1,526)</u>	<u>(1.0)</u>
Taxes at effective worldwide rates	<u>\$ 167,866</u>	<u>37.5%</u>	<u>\$ 90,585</u>	<u>37.0%</u>	<u>\$ 47,325</u>	<u>35.5%</u>

Current and deferred tax provisions (benefits) were:

FISCAL YEAR ENDED	JULY 3, 2004		JUNE 28, 2003		JUNE 29, 2002	
	CURRENT	DEFERRED	CURRENT	DEFERRED	CURRENT	DEFERRED
Federal	\$ 128,449	\$ (7,314)	\$ 67,432	\$ 1,728	\$ 41,497	\$ 245
Puerto Rico	–	–	31	(1,182)	50	12
Foreign	2,302	19,538	402	6,239	5,089	(5,559)
State	25,468	(577)	13,942	1,993	5,658	333
Total current and deferred tax provisions (benefits)	\$ 156,219	\$ 11,647	\$ 81,807	\$ 8,778	\$ 52,294	\$ (4,969)

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 3, 2004	JUNE 28, 2003	JUNE 29, 2002
DEFERRED TAX PROVISIONS (BENEFITS)			
Depreciation	\$ (3)	\$ 2,269	\$ (261)
Employee benefits	(3,267)	1,048	5,346
Advertising accruals	(280)	348	–
Nondeductible reserves	(5,228)	(2,025)	(65)
Earnings of foreign subsidiaries	23,920	9,296	(3,637)
Other, net	(3,495)	(2,158)	(6,352)
Total deferred tax provisions (benefits)	\$ 11,647	\$ 8,778	\$ (4,969)

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

FISCAL YEAR ENDED	JULY 3, 2004	JUNE 28, 2003
DEFERRED TAX ASSETS		
Reserves not deductible until paid	\$ 31,060	\$ 19,071
Pension and other employee benefits	7,041	4,523
Property, plant and equipment	11,499	11,439
Other	5,212	7,345
Total deferred tax assets	\$ 54,812	\$ 42,378
DEFERRED TAX LIABILITIES		
Earnings of foreign subsidiaries	\$ 29,578	\$ 5,657
Other	6,504	6,345
Total deferred tax liabilities	\$ 36,082	\$ 12,002
Net deferred tax assets	\$ 18,730	\$ 30,376

At July 3, 2004, state gross tax loss carryforwards totaled approximately \$24,945. These loss carryforwards will begin to expire in fiscal year 2008.

The Company has received tax benefit from the exercise of stock options. This benefit is reflected as a credit to stockholders' equity and not reflected in the provision for income taxes. The amount of this benefit was \$106,458, \$41,503 and \$13,793 in fiscal 2004, 2003 and 2002, respectively.

4. DEBT

REVOLVING CREDIT FACILITIES On February 27, 2001, Coach, certain lenders and Fleet National Bank ("Fleet"), as primary lender and administrative agent, entered into a \$100,000 senior unsecured three-year revolving credit facility (the "Fleet facility"). On October 16, 2003, this facility was renewed, extending the facility expiration to October 16, 2006. At Coach's request, the Fleet facility can be expanded to \$125,000 and, during the first two years of its term, the expiration date can be extended for one additional year, to October 16, 2007. This facility is available for seasonal working capital requirements or general corporate purposes and may be prepaid without penalty or premium.

During fiscal 2004 and 2003, there were no borrowings under the Fleet facility. As of July 3, 2004, there were no outstanding borrowings under the Fleet facility.

Coach pays a commitment fee of 12.5 to 30 basis points based on any unused amounts of the Fleet facility. The initial commitment fee was 30 basis points. At July 3, 2004, the commitment fee was 15 basis points. The initial LIBOR margin under the Fleet facility was 125 basis points. At July 3, 2004, the LIBOR margin was 62.5 basis points, reflecting an improvement in our fixed-charge coverage ratio.

The Fleet facility prohibits Coach from paying dividends while the credit facility is in place, with certain exceptions. 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.

The Fleet 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 8.6 billion yen or approximately \$79,000 at July 3, 2004. 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 2004 and 2003, the peak borrowings under the Japanese credit facilities were \$36,084 and \$43,443. As of July 3, 2004 and June 28, 2003, outstanding borrowings under the Japanese credit facilities were \$1,699 and \$26,471, respectively.

LONG-TERM DEBT Coach is party to an Industrial Revenue Bond related to its Jacksonville, Florida, facility. This loan has a remaining balance of \$3,535 and bears interest at 8.77%. Principal and interest payments are made semiannually, with the final payment due in 2014. Future principal payments under the Industrial Revenue Bond are as follows:

FISCAL YEAR	AMOUNT
2005	\$ 115
2006	150
2007	170
2008	235
2009	285
Subsequent to 2009	2,580
Total	<u>\$ 3,535</u>

5. LEASES

Coach leases certain office, distribution and retail facilities. The lease agreements, which expire at various dates through 2016, 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 3, 2004	JUNE 28, 2003	JUNE 29, 2002
Minimum rentals	\$ 55,352	\$ 47,098	\$ 36,965
Contingent rentals	7,555	4,885	3,292
Total rent expense	<u>\$ 62,907</u>	<u>\$ 51,983</u>	<u>\$ 40,257</u>

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

FISCAL YEAR	AMOUNT
2005	\$ 56,635
2006	57,234
2007	52,188
2008	51,304
2009	47,449
Subsequent to 2009	184,914
Total minimum future rental payments	<u>\$ 449,724</u>

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

6. COMMITMENTS AND CONTINGENCIES

At July 3, 2004 and June 28, 2003, the Company had letters of credit outstanding totaling \$50,473 and \$48,336, respectively. Of these amounts, \$16,764 and \$19,820, respectively, related 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 at least 10 years. The remaining letters of credit, which expire at various dates through 2007, 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.

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. INVESTMENTS

At June 28, 2003, the Company had no investments. During fiscal 2004, the Company began investing in marketable securities with maturities greater than 90 days, in order to maximize the rate of return on 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 Company's investment securities are as follows:

FISCAL YEAR ENDED	JULY 3, 2004	
	AMORTIZED COST	FAIR VALUE
Short-term investments:		
U.S. government and agency securities	\$ 50,000	\$ 49,930
Commercial paper	74,260	74,187
Corporate debt securities	22,500	22,500
Certificates of deposit	24,963	24,860
Short-term investments	<u>\$ 171,723</u>	<u>\$ 171,477</u>
Long-term investments:		
U.S. government and agency securities	\$ 130,000	\$ 129,975
Long-term investments	<u>\$ 130,000</u>	<u>\$ 129,975</u>

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. At July 3, 2004, the maturity dates of long-term investments, based on current contractual maturities, extend to December 2005. Actual maturities could differ from contractual maturities as some borrowers have the right to call certain obligations.

The difference between amortized cost and fair value is the result of unrecognized losses in fiscal 2004.

8. STOCK-BASED COMPENSATION

COACH STOCK-BASED PLANS Coach maintains the 2000 Stock Incentive Plan and the 2000 Non-Employee Director Stock Plan to award stock options 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 during fiscal 2002. The exercise price of each stock option equals 100% of 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.

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 is 100% of the market value at the date of exercise of the original option and will remain exercisable for the remaining term of the original option. Replacement stock options generally vest six months from the grant date. Replacement stock options of 5,632, 3,680 and 2,168 were granted in fiscal 2004, 2003 and 2002, respectively.

A summary of options held by Coach employees under the Coach option plans is as follows:

	NUMBER OF COACH OUTSTANDING OPTIONS	WEIGHTED- AVERAGE EXERCISE PRICE	EXERCISABLE SHARES	WEIGHTED- AVERAGE EXERCISE PRICE
Outstanding at June 30, 2001	18,888	\$ 4.95	3,502	\$ 6.03
Granted	8,904	9.63		
Exercised	(7,116)	5.09		
Canceled/expired	(656)	5.04		
Outstanding at June 29, 2002	20,020	\$ 6.99	3,184	\$ 6.82
Granted	9,520	15.33		
Exercised	(10,176)	7.51		
Canceled/expired	(1,834)	7.91		
Outstanding at June 28, 2003	17,530	\$ 11.12	2,874	\$ 10.87
Granted	11,374	33.09		
Exercised	(12,060)	16.23		
Canceled/expired	(502)	13.73		
Outstanding at July 3, 2004	16,342	\$ 22.56	2,639	\$ 13.04

The following table summarizes information about stock options under the Coach option plans at July 3, 2004.

RANGE OF EXERCISE PRICES	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
	NUMBER OUTSTANDING AT JULY 3, 2004	WEIGHTED- AVERAGE REMAINING CONTRACTUAL LIFE (YEARS)	WEIGHTED- AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE AT JULY 3, 2004	WEIGHTED- AVERAGE EXERCISE PRICE
\$ 4.00-10.00	3,296	6.27	\$ 7.78	1,514	\$ 6.30
\$10.01-20.00	4,002	7.85	12.51	660	13.82
\$20.01-30.00	5,400	8.91	25.62	116	26.02
\$30.01-45.60	3,644	6.08	42.39	349	36.01
	16,342	7.49	\$ 22.56	2,639	\$ 13.04

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 3, 2004	JUNE 28, 2003	JUNE 29, 2002
Expected lives (years)	1.6	1.5	1.6
Risk-free interest rate	1.6%	1.7%	3.3%
Expected volatility	32.4%	35.2%	48.3%
Dividend yield	—%	—%	—%

The weighted-average fair values of individual options granted during fiscal 2004, 2003, and 2002 were \$4.90, \$2.45 and \$2.41, respectively.

EMPLOYEE STOCK PURCHASE PLAN During fiscal 2002, Coach established the employee stock purchase plan and received stockholder approval of this program. Under this 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 100, 134 and 52 shares to employees in fiscal 2004, 2003 and 2002, respectively. Pro forma 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 3, 2004	JUNE 28, 2003	JUNE 29, 2002
Expected lives (years)	0.5	0.5	0.4
Risk-free interest rate	1.2%	1.2%	1.9%
Expected volatility	28.8%	38.3%	35.6%
Dividend yield	—%	—%	—%

The weighted-average fair value of the purchase rights granted during fiscal 2004, 2003, and 2002 was \$9.70, \$5.19 and \$2.94, respectively.

STOCK UNIT AWARDS Restricted stock unit awards of Coach common stock have been granted to employees as retention awards. The value of retention awards is determined based upon the fair value of Coach stock at the grant date. Stock awards are restricted and subject to forfeiture until the retention period is completed. The retention period is generally three years. As of July 3, 2004, retention awards of 796 shares were outstanding. This value is initially recorded as unearned compensation and is charged to earnings over the retention period. The amortization expense related to these awards was \$4,410, \$1,568 and \$766 for fiscal 2004, 2003 and 2002, 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 3, 2004 and June 28, 2003 were \$4,263 and \$2,915, respectively, and are included in other noncurrent liabilities in the consolidated balance sheets.

9. 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 \$7,620, \$5,308 and \$3,926 in fiscal 2004, 2003, and 2002, respectively.

Coach also sponsors a noncontributory defined benefit plan, The Coach Leatherware Company, Inc. Supplemental Pension Plan, for individuals who are part of collective bargaining arrangements. The plan provides benefits based on years of service.

The Company uses a March 31 measurement date for its defined benefit retirement plan. Obligation and funded status information for the Company's defined benefit retirement plan is as follows:

FISCAL YEAR ENDED	JULY 3, 2004	JUNE 28, 2003
CHANGE IN BENEFIT OBLIGATION		
Benefit obligation at beginning of year	\$ 5,983	\$ 5,414
Service cost	13	15
Interest cost	381	370
Benefits paid	(249)	(218)
Actuarial loss (gain)	797	402
Plan settlements ⁽¹⁾	(1,665)	-
Benefit obligation at end of year	<u>\$ 5,260</u>	<u>\$ 5,983</u>
CHANGE IN PLAN ASSETS		
Fair value of plan assets at beginning of year	\$ 3,863	\$ 4,740
Actual return (loss) on plan assets	757	(659)
Employer contributions	-	-
Benefits paid	(249)	(218)
Plan settlements ⁽¹⁾	(1,665)	-
Fair value of plan assets at end of year	<u>\$ 2,706</u>	<u>\$ 3,863</u>
FUNDED STATUS		
Funded status at end of year	\$ (2,554)	\$ (2,120)
Unrecognized prior service cost	1	1
Unrecognized net actuarial loss	1,766	2,244
Net amount recognized	<u>\$ (788)</u>	<u>\$ 125</u>
AMOUNTS RECOGNIZED IN THE CONSOLIDATED BALANCE SHEETS		
Other noncurrent assets	\$ -	\$ 1
Accrued benefit liability	(2,554)	(2,120)
Accumulated other comprehensive income	1,766	2,244
Net amount recognized	<u>\$ (788)</u>	<u>\$ 125</u>

(1) Reflects additional lump sum payments made after the measurement date and before fiscal year end.

The accumulated benefit obligation for the defined benefit pension plan was \$5,260 and \$5,983 at July 3, 2004 and June 28, 2003, respectively.

FISCAL YEAR ENDED	JULY 3, 2004	JUNE 28, 2003
INFORMATION FOR PENSION PLANS WITH AN ACCUMULATED BENEFIT OBLIGATION IN EXCESS OF PLAN ASSETS		
Projected benefit obligation	\$ 5,260	\$ 5,983
Accumulated benefit obligation	5,260	5,983
Fair value of plan assets	2,706	3,863
ADDITIONAL INFORMATION		
Increase in minimum liability included in other comprehensive income	\$ (479)	\$ 1,394
WEIGHTED-AVERAGE ASSUMPTIONS USED TO DETERMINE BENEFIT OBLIGATIONS		
Discount rate	6.00%	6.50%
Rate of compensation increase	N/A	N/A
WEIGHTED-AVERAGE ASSUMPTIONS USED TO DETERMINE NET PERIODIC BENEFIT COST		
Discount rate	6.50%	7.00%
Expected long-term return on plan assets	7.50%	8.25%
Rate of compensation increase	N/A	N/A

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 7.50% assumption for fiscal 2004.

FISCAL YEAR ENDED	JULY 3, 2004	JUNE 28, 2003	JUNE 29, 2002
COMPONENTS OF NET PERIODIC BENEFIT COST			
Service cost	\$ 13	\$ 15	\$ 15
Interest cost	381	370	350
Expected return on assets	(281)	(381)	(381)
Amortization of prior service cost	-	1	1
Amortization of net actuarial loss	246	46	86
Settlement loss	559	-	-
Net periodic benefit cost	<u>\$ 918</u>	<u>\$ 51</u>	<u>\$ 71</u>

The Company's pension plan weighted-average asset allocations, by asset category, as of the measurement dates, are as follows:

ASSET CATEGORY	PLAN ASSETS	
	FISCAL 2004	FISCAL 2003
Domestic equities	69.0%	46.6%
International equities	4.1	2.5
Fixed income	25.1	36.9
Real estate	—	8.0
Cash equivalents	1.8	6.0
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 Leatherware Company, Inc. Supplemental Pension Plan and to provide returns that, 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, on a weighted-average basis, are as follows:

	LOW	TARGET	HIGH
Equity securities	30%	45%	60%
Fixed income	25%	40%	55%
Cash equivalents	5%	15%	25%

The equity securities category includes common stocks, preferred stocks, and commingled 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.

The Company expects to contribute \$769 to its defined benefit pension plan during the year ending July 2, 2005.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

FISCAL YEAR	PENSION BENEFITS
2005	\$ 278
2006	294
2007	315
2008	332
2009	345
2010–2014	1,826

10. 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 retail and factory stores, the Internet and the Coach catalog constitute the direct-to-consumer segment. Indirect refers to sales of Coach products to other retailers and includes sales through Coach Japan. 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 customer service expenses.

FISCAL 2004	DIRECT-TO- CONSUMER	INDIRECT	CORPORATE UNALLOCATED	TOTAL
Net sales	\$ 726,457	\$ 594,649	\$ –	\$ 1,321,106
Operating income (loss)	293,626	288,648	(137,809)	444,465
Interest income	–	–	4,000	4,000
Interest expense	–	–	808	808
Income (loss) before provision for income taxes and minority interest	293,626	288,648	(134,617)	447,657
Provision for income taxes	–	–	167,866	167,866
Minority interest, net of tax	–	–	18,043	18,043
Depreciation and amortization	24,965	6,940	10,949	42,854
Total assets	211,890	176,568	640,200	1,028,658
Additions to long-lived assets	35,588	19,919	12,186	67,693

FISCAL 2003	DIRECT-TO- CONSUMER	INDIRECT	CORPORATE UNALLOCATED	TOTAL
Net sales	\$ 559,553	\$ 393,673	\$ –	\$ 953,226
Operating income (loss)	198,247	166,604	(121,089)	243,762
Interest income	–	–	1,754	1,754
Interest expense	–	–	695	695
Income (loss) before provision for income taxes and minority interest	198,247	166,604	(120,030)	244,821
Provision for income taxes	–	–	90,585	90,585
Minority interest, net of tax	–	–	7,608	7,608
Depreciation and amortization	17,484	5,327	7,420	30,231
Total assets	194,157	137,587	285,908	617,652
Additions to long-lived assets	32,520	16,602	7,990	57,112

FISCAL 2002	DIRECT-TO- CONSUMER	INDIRECT	CORPORATE UNALLOCATED	TOTAL
Net sales	\$ 447,062	\$ 272,341	\$ –	\$ 719,403
Operating income (loss)	135,831	106,720	(108,916)	133,635
Interest income	–	–	825	825
Interest expense	–	–	1,124	1,124
Income (loss) before provision for income taxes and minority interest	135,831	106,720	(109,215)	133,336
Provision for income taxes	–	–	47,325	47,325
Minority interest, net of tax	–	–	184	184
Depreciation and amortization	16,192	1,986	7,316	25,494
Total assets	150,315	108,764	181,492	440,571
Additions to long-lived assets	28,461	21,162	7,398	57,021

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

FISCAL YEAR ENDED	JULY 3, 2004	JUNE 28, 2003	JUNE 29, 2002
Production variances	\$ 12,581	\$ 6,755	\$ 2,180
Advertising, marketing and design	(56,714)	(48,491)	(44,526)
Administration and information systems	(63,521)	(51,843)	(38,512)
Distribution and customer service	(30,155)	(27,510)	(24,685)
Reorganization costs	-	-	(3,373)
Total corporate unallocated	<u>\$ (137,809)</u>	<u>\$ (121,089)</u>	<u>\$ (108,916)</u>

GEOGRAPHIC AREA INFORMATION As of July 3, 2004, Coach operated 174 retail stores and 76 factory stores in North America and operated distribution, product development and quality control locations in the United States, Italy, Hong Kong, China and South Korea. Geographic revenue information is based on the location of our customer. Geographic long-lived asset information is based on the physical location of the assets at the end of each period. Indirectly, through Coach Japan, Coach operates 100 department store shop-in-shops, and retail and factory store locations in Japan.

FISCAL 2004	UNITED STATES	JAPAN	OTHER INTERNATIONAL ⁽¹⁾	TOTAL
Net sales	\$ 982,668	\$ 278,011	\$ 60,427	\$ 1,321,106
Long-lived assets	265,171	55,487	2,384	323,042
FISCAL 2003	UNITED STATES	JAPAN	OTHER INTERNATIONAL ⁽¹⁾	TOTAL
Net sales	\$ 735,890	\$ 177,821	\$ 39,515	\$ 953,226
Long-lived assets	127,251	31,966	785	160,002
FISCAL 2002	UNITED STATES	JAPAN	OTHER INTERNATIONAL ⁽¹⁾	TOTAL
Net sales	\$ 590,237	\$ 95,702	\$ 33,464	\$ 719,403
Long-lived assets	106,600	20,647	705	127,952

(1) Other International sales reflect shipments to third-party distributors primarily in East Asia and, in fiscal 2002, sales from Coach-operated retail stores in the United Kingdom.

11. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Substantially all purchases and sales involving international parties are denominated in U.S. dollars, the majority of which are not hedged using any derivative instruments. However, the Company is exposed to market risk from foreign currency exchange rate fluctuations with respect to Coach Japan as a result of its U.S. dollar-denominated inventory purchases. Coach Japan enters into certain foreign currency derivative contracts, primarily foreign exchange forward contracts, to manage these risks. In addition, the Company is exposed to foreign currency exchange rate fluctuations related to the euro-denominated expenses of its Italian sourcing office. During the third quarter of fiscal 2003, the Company began a program to enter into certain foreign currency derivative

contracts, primarily foreign exchange forward contracts, in order to manage these fluctuations. However, during the second quarter of fiscal 2004, the Company reassessed this program and determined, based on current business conditions, that the Company would discontinue hedging against the euro.

The foreign currency contracts entered into by the Company have durations no greater than 12 months. The fair values of open foreign currency derivatives included in accrued liabilities at July 3, 2004 and June 28, 2003 were \$486 and \$0, respectively. The fair value of open foreign currency derivatives included in current assets at July 3, 2004 and June 28, 2003 was \$0 and \$405, respectively. As of July 3, 2004, open foreign currency forward contracts designated as hedges with a notional amount of \$63,600 were fair valued, resulting in a reduction to equity as a charge to other comprehensive income of \$460, net of taxes. As of June 28, 2003, open foreign currency forward contracts designated as hedges with a notional amount of \$39,300 were fair valued, resulting in an increase to equity as a benefit to other comprehensive income of \$168, net of taxes. Also, for fiscal 2003, open foreign currency forward contracts not designated as hedges with a notional amount of \$33,150 were fair valued and resulted in a pretax noncash benefit to earnings of \$3,357. The fair value adjustment is included as a component of selling, general and administrative expenses.

12. GOODWILL

Changes in the carrying amounts of net goodwill for the years ended July 3, 2004 and June 28, 2003 are as follows:

	DIRECT-TO- CONSUMER	INDIRECT	TOTAL
Balance at June 29, 2002	\$ 3,408	\$ 9,598	\$ 13,006
Foreign exchange impact	-	3	3
Balance at June 28, 2003	\$ 3,408	\$ 9,601	\$ 13,009
Foreign exchange impact	-	596	596
Balance at July 3, 2004	<u>\$ 3,408</u>	<u>\$ 10,197</u>	<u>\$ 13,605</u>

13. BUSINESS INTERRUPTION INSURANCE

As a result of the September 11, 2001 attack, the World Trade Center store was completely destroyed. Losses relating to the Company's business interruption coverage were filed with the insurers. Coach has held discussions with its insurance carriers and expects to fully recover these losses.

During fiscal 2004, 2003 and 2002, Coach received payments of \$2,657, \$1,484 and \$1,413, respectively, under its business interruption coverage. These amounts are included as a reduction to selling, general and administrative expenses.

14. 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 3, 2004	JUNE 28, 2003	JUNE 29, 2002
Net earnings	\$ 261,748	\$ 146,628	\$ 85,827
Total basic shares	186,060	179,558	176,096
Dilutive securities:			
Employee benefit and stock award plans	1,289	920	684
Stock option programs	5,430	5,364	5,124
Total diluted shares	192,779	185,842	181,904
Earnings per share:			
Basic	\$ 1.41	\$ 0.82	\$ 0.49
Diluted	\$ 1.36	\$ 0.79	\$ 0.47

15. STOCK REPURCHASE PROGRAM

On September 17, 2001, the Coach Board of Directors authorized the establishment of a common stock repurchase program. Under this program, up to \$80,000 may be utilized to repurchase common stock through September 2004. On January 30, 2003, the Coach Board of Directors approved an additional common stock repurchase program to acquire up to \$100,000 of Coach's outstanding common stock through January 2006 and extended the duration of Coach's existing repurchase program through January 2006. 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 will become authorized but unissued shares and may be issued in the future for general corporate and other uses. The Company may terminate or limit the stock repurchase program at any time.

During fiscal 2004, 2003 and 2002, the Company repurchased and retired 1,511, 3,858 and 1,720 shares of common stock at an average cost of \$36.36, \$12.95 and \$5.73 per share, respectively. As of July 3, 2004, Coach had approximately \$65,000 remaining in the stock repurchase program.

16. RELATED-PARTY TRANSACTION

On July 26, 2001, Coach made a loan to Reed Krakoff, its President, Executive Creative Director, in the principal amount of \$2,000. The loan bore interest at a rate of 5.12% per annum, compounded annually. The loan amount and applicable accrued interest, less payments received, was recorded as a component of other noncurrent assets in the accompanying balance sheets. Included in the loan agreement was a repayment schedule requiring full repayment on or before July 26, 2006.

On November 7, 2002, Mr. Krakoff paid Coach the first principal payment of \$400 under the loan agreement. On March 11, 2004, Mr. Krakoff made an accelerated payment to retire the full outstanding principal and interest under the loan agreement.

17. COACH JAPAN, INC. AND THE ACQUISITION OF DISTRIBUTORS

In order to expand its presence in the Japanese market and to exercise greater control over its brand in that country, Coach formed Coach Japan, Inc. and has completed a program to acquire the existing distributors. This entity, which manages the Coach business in Japan, is a joint venture with Sumitomo. Coach owns 50% of Coach Japan and is deemed to have control as Coach appoints a majority of the Board of Directors, and, as such, Coach Japan is accounted for as a consolidated subsidiary. Under the terms of the joint venture agreement, Coach supplies its merchandise to Coach Japan for distribution and sale in Japan. Additionally, the joint venture agreement contains provisions to enable Coach to purchase the remaining minority interest in Coach Japan after the beginning of the seventh year of the joint venture agreement. Alternatively, Sumitomo could require Coach to purchase its ownership interest in the joint venture after such time as established in the terms of the joint venture agreement.

On July 31, 2001, Coach Japan completed the purchase of 100% of the capital stock of P.D.C. Co. Ltd. ("PDC") from the Mitsukoshi Department Store Group ("Mitsukoshi") for a total purchase price of \$9,018. Mitsukoshi established PDC in 1991 to expand Coach distribution to select department stores throughout Japan. At the time of acquisition PDC operated 63 retail and department store locations in Japan. The strength of the going concern and the established locations supported a premium above the fair value of the individual assets. The fair value of assets acquired was \$22,351, and liabilities assumed were \$20,732. Excess purchase price over fair market value is reported as goodwill. Results of the acquired business are included in the consolidated financial statements from August 1, 2001, onward. Unaudited pro forma information related to this acquisition is not included, as the impact of this transaction was not material to the consolidated results of the Company.

On January 1, 2002, Coach Japan completed the buyout of the distribution rights and assets, related to the Coach business, from J. Osawa and Company, Ltd. ("Osawa") for \$5,792 in cash. At the time of the acquisition, Osawa operated 13 retail and department store locations in Japan. The strength of the going concern and the established locations supported a premium above the fair value of the individual assets. The assets acquired of \$5,371 were recorded at estimated fair values as determined by the Company's management. Goodwill of \$421 has been recognized for the excess of the purchase price over the estimate of fair market value of the net assets acquired. Results of the acquired business are included in the consolidated financial statements from January 1, 2002, onward. Unaudited pro forma information related to this acquisition is not included, as the impact of this transaction was not material to the consolidated results of the Company.

As of July 3, 2004, there were 102 Coach locations in Japan, including 77 department store shop-in-shops, three flagship locations, and 10 retail and 10 factory store locations, managed by Coach Japan, as well as two airport locations operated by a distributor.

18. REORGANIZATION COSTS

In March 2002, Coach ceased production at its Lares, Puerto Rico, manufacturing facility. This reorganization involved the termination of 394 manufacturing, warehousing and management employees and the disposition of the fixed assets at the Lares, Puerto Rico, facility. These actions reduced costs by the resulting transfer of production to lower cost third-party manufacturers. Coach recorded reorganization costs of \$3,373 in fiscal 2002. The reorganization costs included \$2,229 for worker separation costs, \$659 for lease termination costs and \$485 for the write-down of long-lived assets to net realizable value. The composition of the reorganization reserve, included in accrued liabilities, is set forth in the following table:

	PROVISION RECORDED IN FISCAL 2002 REORGANIZATION RESERVES	WRITE-DOWN OF LONG-LIVED ASSETS TO NET REALIZABLE VALUE	CASH PAYMENTS	REORGANIZATION RESERVES AS OF JUNE 29, 2002	CASH PAYMENTS	REORGANIZATION RESERVES AS OF JUNE 28, 2003
Workers' separation costs	\$ 2,229	\$ -	\$ (2,073)	\$ 156	\$ (156)	\$ -
Lease termination costs	659	-	(616)	43	(43)	-
Losses on disposal of fixed assets	485	(485)	-	-	-	-
Total reorganization reserve	<u>\$ 3,373</u>	<u>\$ (485)</u>	<u>\$ (2,689)</u>	<u>\$ 199</u>	<u>\$ (199)</u>	<u>\$ -</u>

19. 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 \$0.001 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 2004, there were no shareholders whose common stock holdings exceeded the 10% threshold established by the rights plan.

20. SUBSEQUENT EVENT

On August 12, 2004, the Coach Board of Directors approved a \$200,000 increase to the Company's existing common stock repurchase program and extended the duration of this program through August 2006.

During August 2004, the Company repurchased 2,430 shares of common stock at an average cost of \$39.06 per share. These stock repurchases of approximately \$95,000 were financed from cash on hand. As of September 4, 2004, Coach had expended approximately \$210,000 of the \$380,000 authorized to date under the stock repurchase program.

21. QUARTERLY FINANCIAL DATA (UNAUDITED)

	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER	TOTAL FISCAL YEAR
FISCAL 2004					
Net sales	\$ 258,375	\$ 411,513	\$ 313,073	\$ 338,145	\$ 1,321,106
Gross profit	187,909	305,143	237,517	259,313	990,082
Net income	42,329	95,438	58,311	65,670	261,748
Earnings per common share:					
Basic	\$ 0.23	\$ 0.52	\$ 0.31	\$ 0.35	\$ 1.41
Diluted	\$ 0.22	\$ 0.50	\$ 0.30	\$ 0.34	\$ 1.36
FISCAL 2003					
Net sales	\$ 192,791	\$ 308,523	\$ 220,396	\$ 231,516	\$ 953,226
Gross profit	131,224	216,842	159,807	169,556	677,429
Net income	22,480	62,431	31,853	29,864	146,628
Earnings per common share:					
Basic	\$ 0.13	\$ 0.35	\$ 0.18	\$ 0.16	\$ 0.82
Diluted	\$ 0.12	\$ 0.34	\$ 0.17	\$ 0.16	\$ 0.79
FISCAL 2002					
Net sales	\$ 150,702	\$ 235,750	\$ 161,571	\$ 171,380	\$ 719,403
Gross profit	96,571	161,618	111,106	114,067	483,362
Net income	12,538	44,166	11,817	17,306	85,827
Earnings per common share:					
Basic	\$ 0.07	\$ 0.25	\$ 0.07	\$ 0.10	\$ 0.49
Diluted	\$ 0.07	\$ 0.25	\$ 0.06	\$ 0.09	\$ 0.47

The sum of the quarterly earnings per common share may not equal the full-year amount since the computations of the weighted-average number of common-equivalent shares outstanding for each quarter and the full year are made independently.

Corporate Information

BOARD OF DIRECTORS

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

JOSEPH ELLIS
Limited Partner,
Goldman, Sachs & Co.

SALLY FRAME KASAKS
Marketing and Retail Consultant,
ISTA Incorporated

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

IRENE MILLER
Chief Executive Officer,
Akim, Inc.

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

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

EXECUTIVE OFFICERS OF THE COMPANY

LEW FRANKFORT
Chairman and
Chief Executive Officer

KEITH MONDA
President,
Chief Operating Officer

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

REED KRAKOFF
President,
Executive Creative Director

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

FELICE SCHULANER
Senior Vice President,
Human Resources

MICHAEL TUCCI
President,
North America/Retail Division

SENIOR MANAGEMENT OF COACH, INC.

IAN BICKLEY
President,
Coach Japan

PETER EMMERSON
President,
International

JOANN KUSS
Senior Vice President,
Worldwide Merchandising

KATHERINE NEDOROSTEK
President,
U.S. Wholesale

DANIEL NOCKELS
Senior Vice President,
Operations

THOMAS BRITT
Senior Vice President,
Chief Information Officer

GEORGE NUNNO
Senior Vice President,
Design

GABRIEL SACA
Senior Vice President,
Global Sourcing

DAVID DUPLANTIS
Vice President,
Retail Merchandise Planning

FRED FRIESENHAHN
Vice President,
Leather Management

RANDEE JACKSON
Vice President,
Full Price Stores

MICHAEL KINGSTON
Vice President,
Information Systems

ANDREA LALIBERTE
Vice President,
Distribution and
Customer Service

WALKER MACWILLIAM
Vice President,
Men's Design

SERGE MINASSIAN
Vice President,
Information Systems

RICHARD MYERS
Vice President,
Planning and Logistics

JAMES OFFUTT
Vice President,
Factory Stores

MARY LYNN PHILLIPS
Vice President,
Retail Finance and
Store Operations

ANDREA SHAW RESNICK
Vice President,
Investor Relations

JANET SANDIFER
Vice President,
International Wholesale

PAUL SPITZBERG
Vice President,
Special Markets

JOSEPH STAFINIAC
Vice President,
General Manager – Footwear

NANCY WALSH
Vice President,
Treasurer

Shareholder Information

COMPANY HEADQUARTERS

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

ANNUAL MEETING OF SHAREHOLDERS

Wednesday, November 3, 2004
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
Overpeck Centre
85 Challenger Road
Ridgefield Park, New Jersey 07660
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, 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 2004 Annual Report and Form 10-K as filed with the Securities and Exchange Commission by writing to Daniel Ross, Associate Counsel, at the Company's headquarters.

INDEPENDENT PUBLIC ACCOUNTANTS

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

CATALOGS

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

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 2004, the high and low closing prices per share of Coach's common stock as reported on the New York Stock Exchange Composite Tape.

QUARTER ENDED	HIGH	LOW
September 27, 2003	\$ 29.64	\$ 24.87
December 27, 2003	39.92	27.08
March 27, 2004	43.67	34.15
July 3, 2004	46.19	39.50
Closing price at July 2, 2004	\$ 46.09	

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 on its common stock. The Fleet facility prohibits Coach from paying dividends while the credit facility is in place, with certain exceptions. 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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COACH

516 West 34th Street, New York, New York 10001