EST. 1941

ANNUAL REPORT 2001

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"Classic American style" – for 60 years, these words have defined the character and spirit of the Coach brand.

Today more than ever, Coach embodies "classic American style" – now across a broad and modern product offering of lifestyle accessories in a number of distinctive categories, styles and fabrications. As the brand has grown and evolved, so has the company: from manufacturing to marketing driven; and from a small family business based in a New York loft to a publicly traded company with worldwide sales of $600 million in fiscal 2001.

At Coach, the brand is at the core of the company's vision and strategy. The values of the brand – customer satisfaction, integrity, innovation and collaboration – are the reasons Coach's people come to work each morning. The strength of the Coach brand is, ultimately, what makes Coach the company it is today.

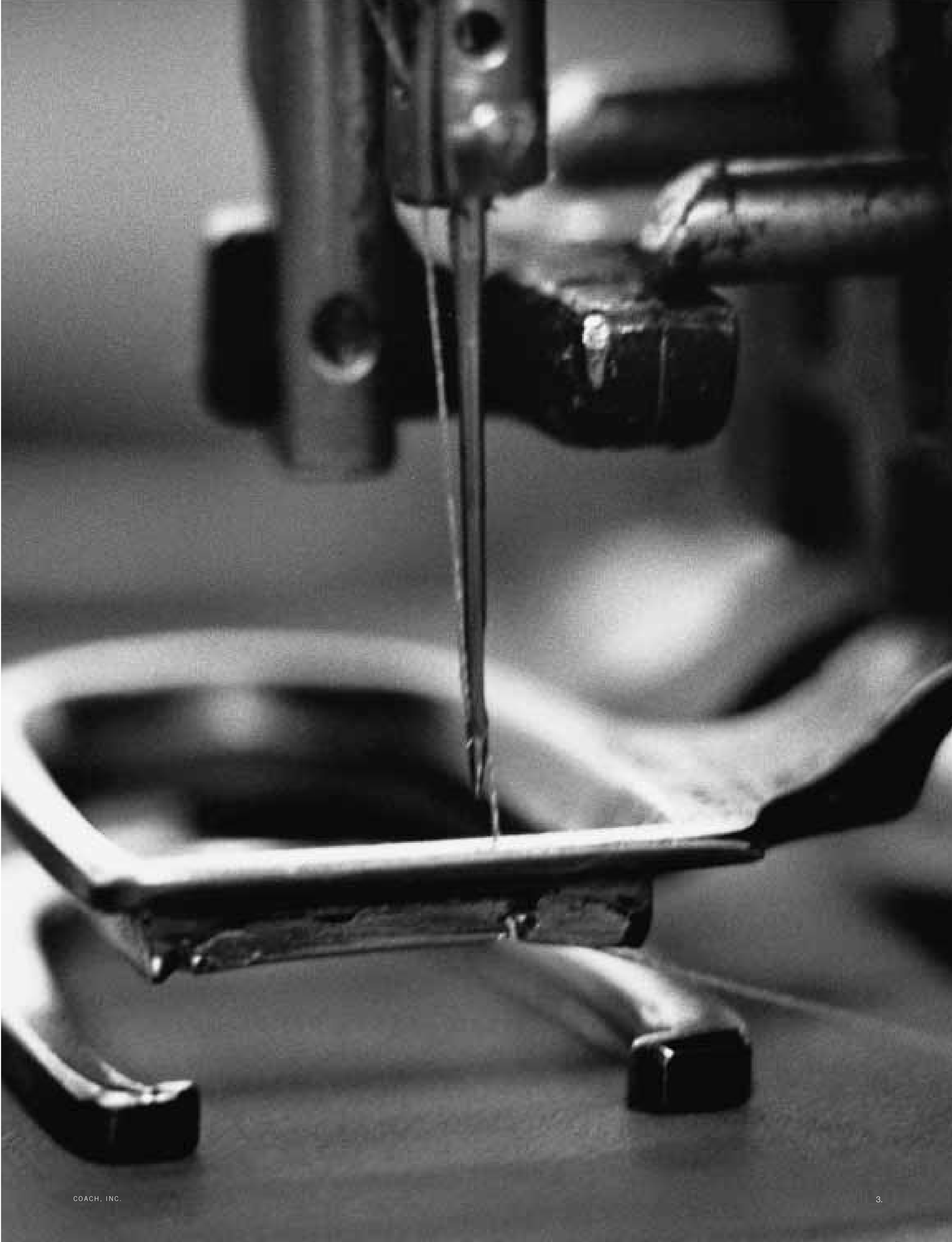
The brand.

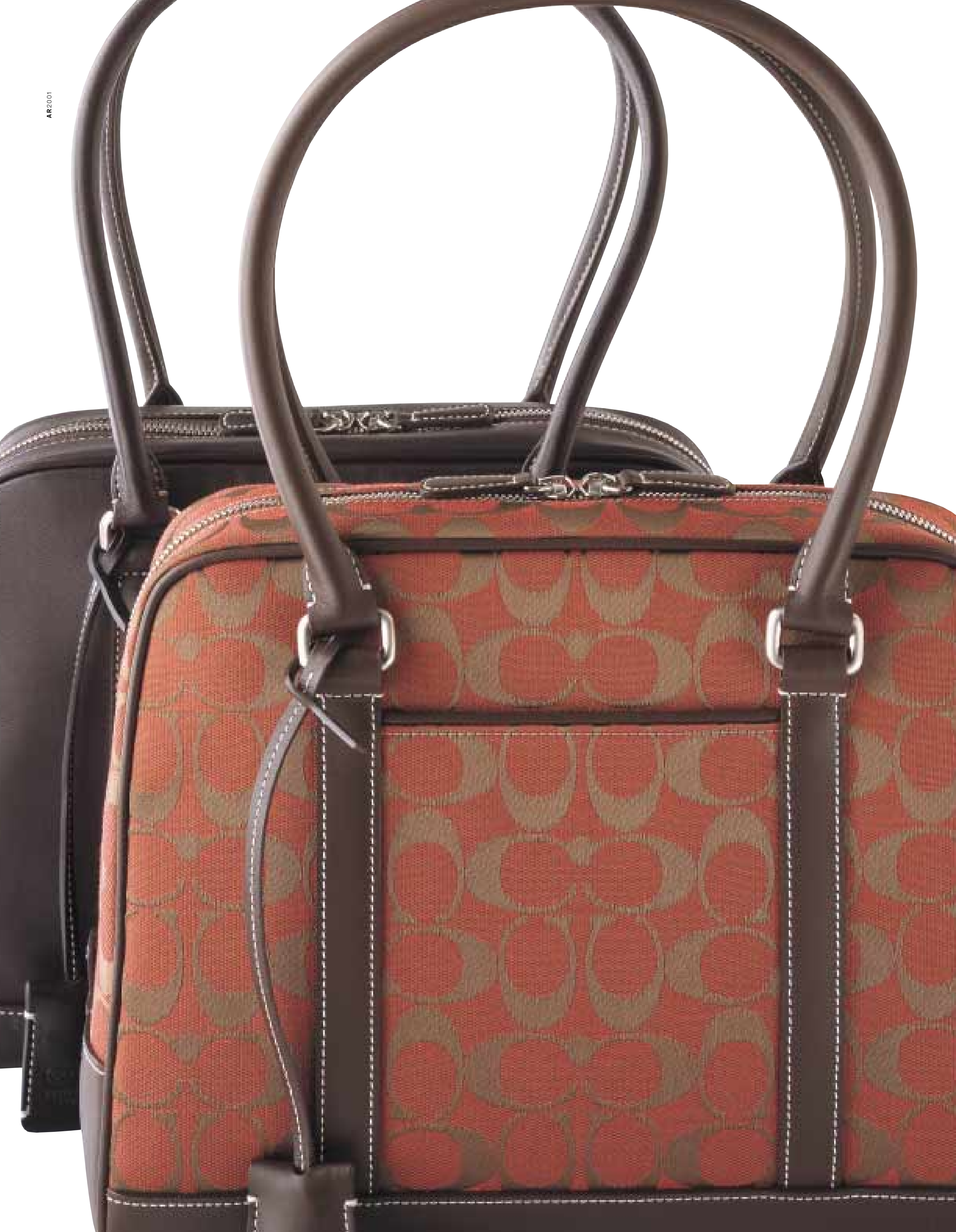
It started with an American icon: a baseball glove.

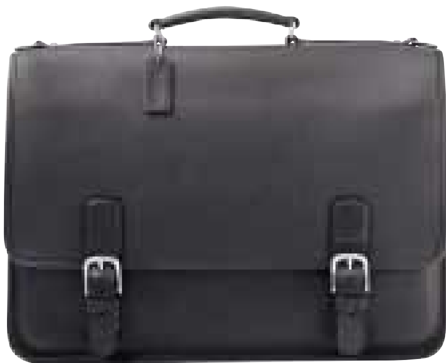
Decades ago, the founder of Coach looked at an old baseball glove and noticed how time and use enhanced the distinctiveness of its leather. He took the same glove-tanned leather, refined it, made it softer to the touch and more durable – and created the first Coach handbag.

Today, Coach offers a broad range of lifestyle products in addition to handbags and small leathergoods including business cases, shoes, luggage and travel accessories, eyewear, outerwear, gloves, scarves, fine jewelry and furniture. While leather continues as a cornerstone of the Coach brand, the company also creates products of other materials, pairing leather with twill, wool, nylon, straw, and, most recently, its custom Signature logo fabric.

Quality craftsmanship has always been a hallmark of the Coach brand. As Coach's offering has diversified, the company has established relationships with manufacturers around the world whose commitment to excellence matches Coach's own.

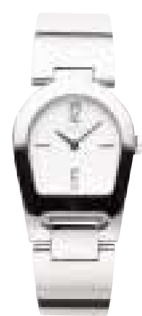




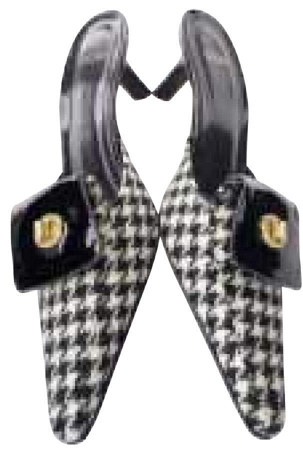


Carefully monitoring its global sourcing structure, Coach still selects all of the raw materials that are used in its products, wherever they are manufactured. Similarly, for licensing and co-branding agreements, Coach chooses partners whose reputations for quality and luxury meet the same high standards.

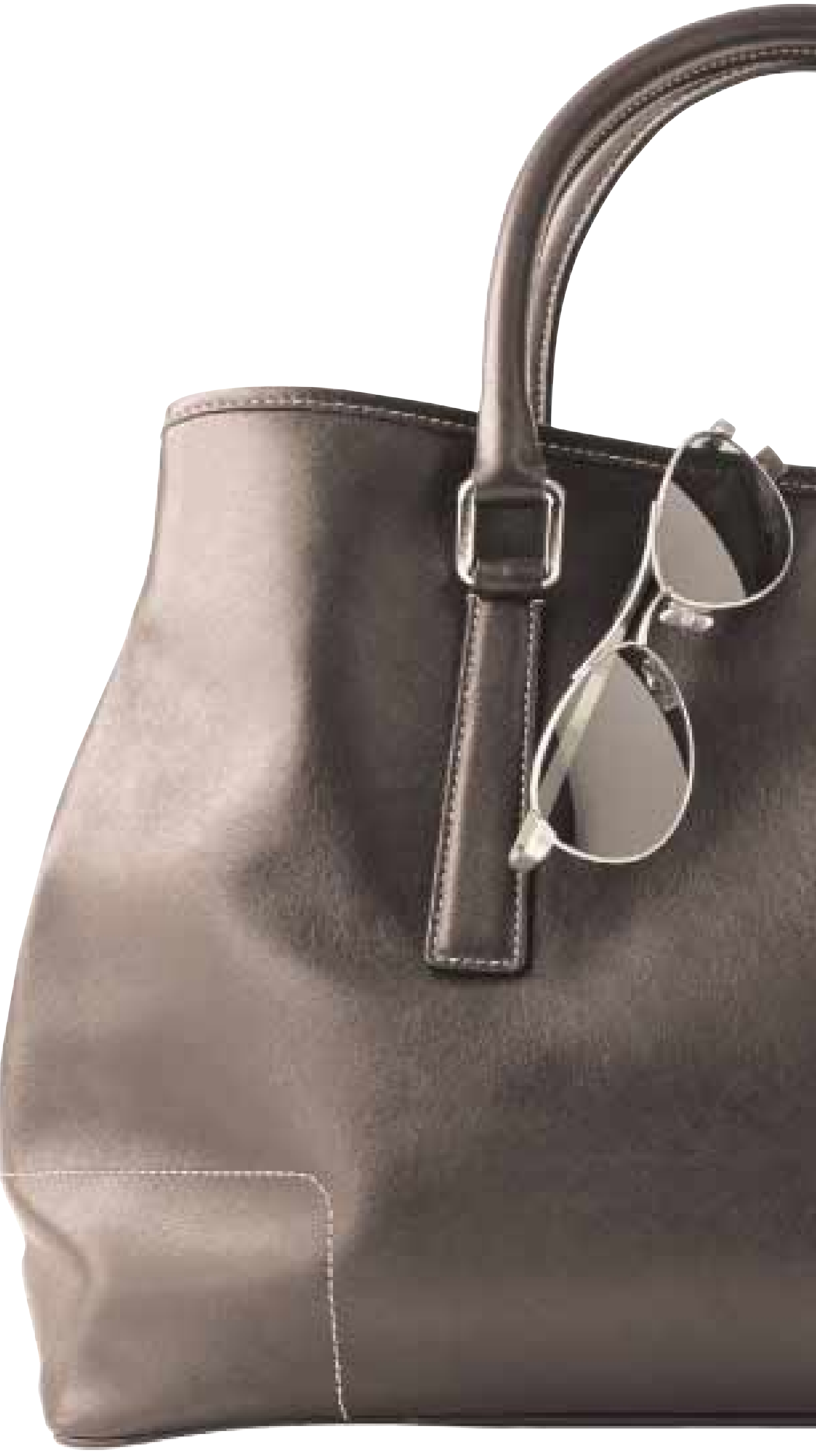
As Coach has evolved, the company has sought to offer products that complement the diverse lifestyles of its consumers. Understanding the consumer has always been key to the Coach strategy. The company spends over $2 million a year in market and consumer research. Every major collection, and each new category, is evaluated to make sure that it fits consumers' needs and expectations. This focus on development ensures that each Coach product – whatever its function, whatever its fabrication, and wherever in the world it is sold – remains true to the definition of Coach.

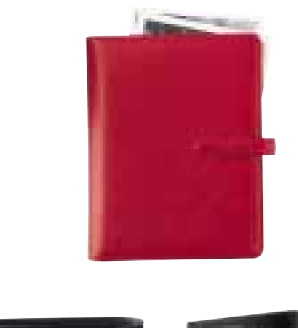


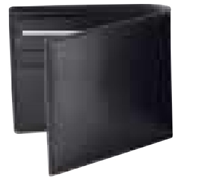
Coach's clean, sophisticated lines, impeccable craftsmanship, and functionality are evident in the Coach watch collection.

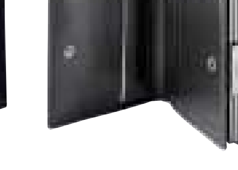


Using signature details from Coach handbags, such as brass turnlocks, immediately identifies these shoes as part of the Coach brand.

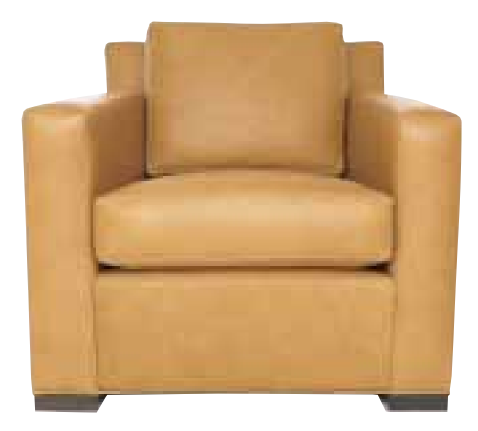




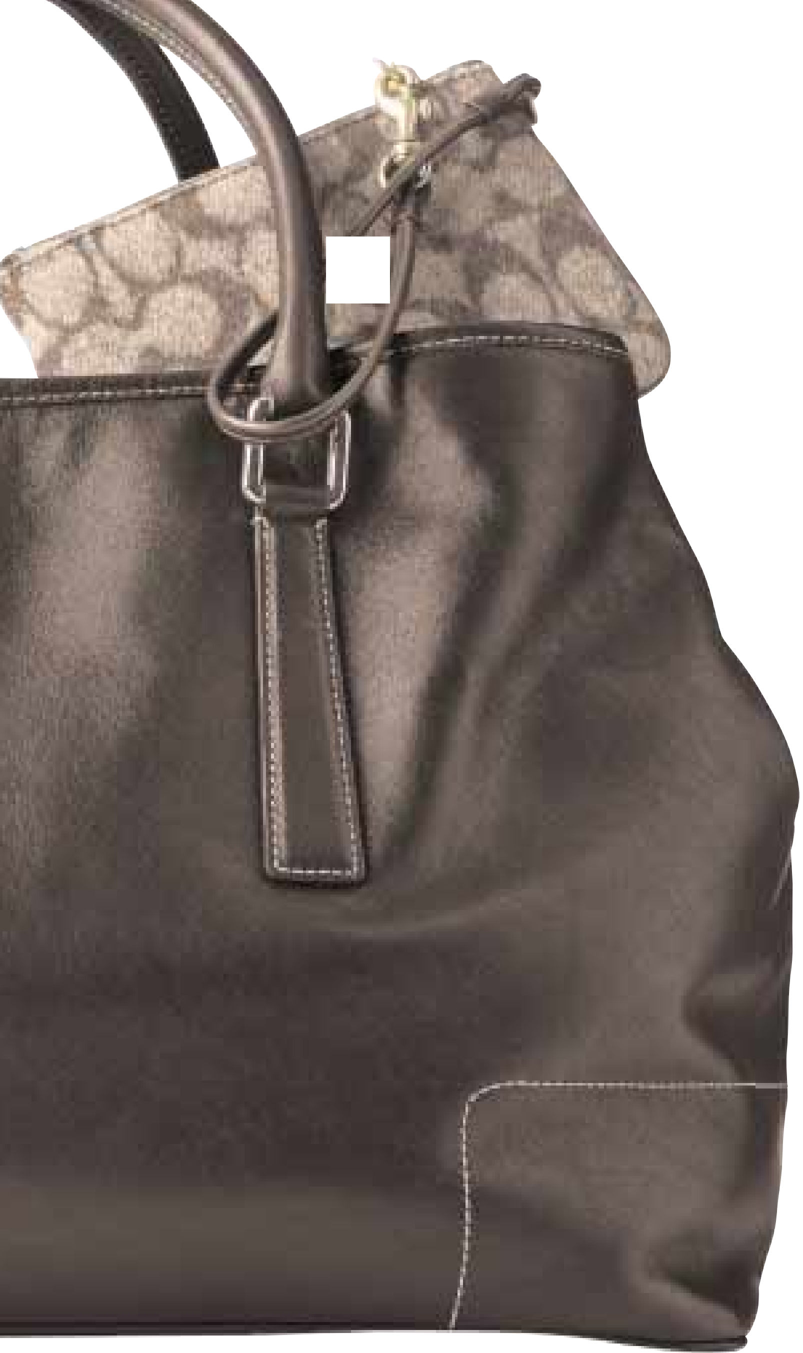




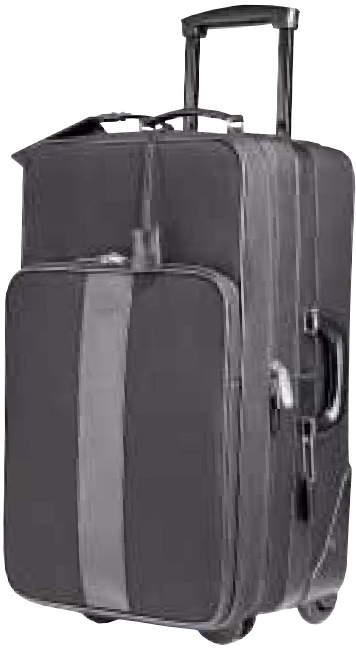
Updating the classics: A range of accessories offering more function for today's consumer needs.



Fine furniture made of high-quality leather extends the Coach brand into the home furnishings arena.



In keeping with the company's focus on creating "lifestyle collections," business and travel products are available in a range of fabrications and styles.

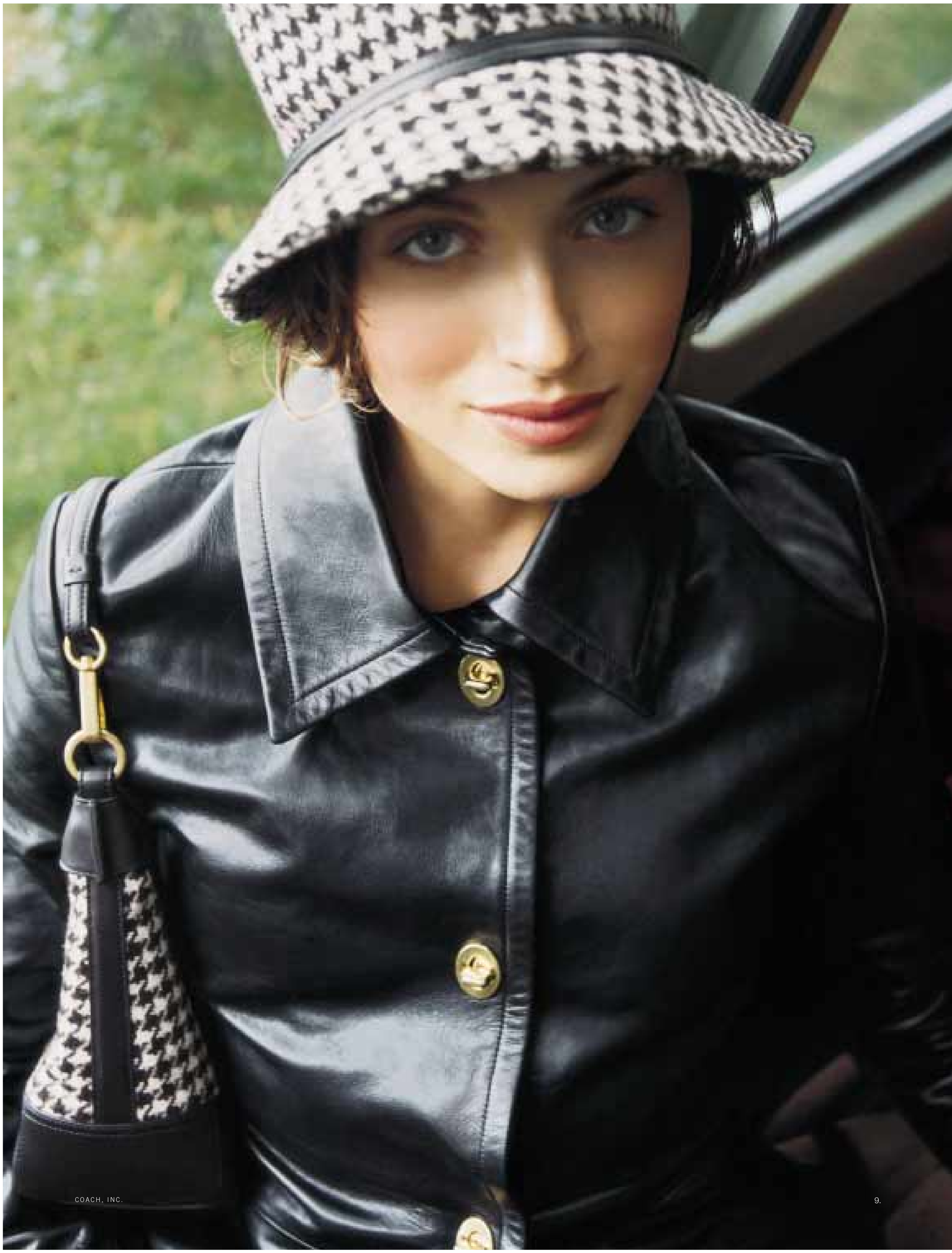


The vision.

Coach grew organically from the product and how consumers experience the brand is essential to building the franchise. A powerful tool in enhancing the brand is through its retail presentation. Coach stores, such as the new Michigan Avenue flagship in Chicago, are designed to be open and modern, presenting the product heroically, and inviting the consumer to come in and browse, and compelling them to purchase. By the end of 2002, every Coach retail store will have the same sleek and inviting look, whether it's in Tokyo, Cincinnati or New York.

A key strategy is to continue to strengthen the role that United States Coach retail stores play in the overall distribution of Coach products. During the next several years, Coach expects to double the number of retail stores in the United States, while continuing to build upon successes already realized through new product and fashion innovation, and driving sales throughout the company's multi-channel distribution.

Complementing this vision is Coach's goal to strengthen and enhance its business abroad. The company's strong international results reflect the enthusiasm that Japanese consumers have continued to show towards Coach's broad and modern offering. The long-term strategic plan is to increase international distribution and to target international consumers, with continuing emphasis on the Japanese consumer. With the formation of Coach Japan, Inc., a joint venture with Sumitomo Corporation, Coach has



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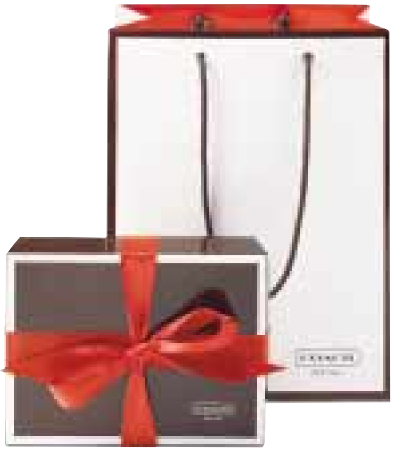
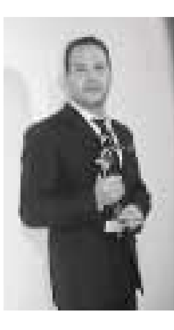


embarked on this significant growth strategy. Intent on maintaining a consistent brand image, domestically and abroad, this partnership provides Coach with greater control of its distribution in Japan. The joint venture plans to build flagship and retail stores around the country, as well as to increase the number of department stores offering Coach products in image-enhancing environments.

Currently, gifts comprise 40% of Coach's sales in the United States, and the company believes it can become an even more significant gift resource for its customers. For the 2001 holiday season, Coach will introduce image-enhancing proprietary packaging: stylish gift boxes and shopping bags to further reinforce the value of giving Coach for all gift occasions. Maximizing Coach's position as a gift destination will significantly drive sales globally.

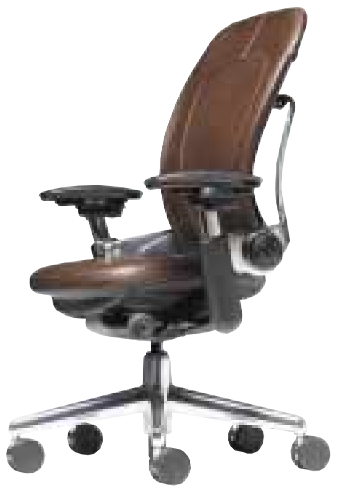
Creative integrated marketing and powerful in-store merchandising further strengthen consumers' awareness of Coach as a gift resource. With a database of seven million households, Coach also benefits from using this as a launching point for highly targeted communications and relationship marketing to make Coach the most convenient and top-of-mind venue for its customers' gift-giving needs.

The people.



Coach employees respect the power of the brand: According to Coach's 2001 employee survey, 94% of employees agreed with the statement, "This company's future is very important to me." The men and women of Coach are passionate about delivering according to the company values – customer satisfaction, integrity and collaboration. Most were Coach consumers before they came to the company. Since the IPO, many of them are also owners. At the time of the IPO, every full-time employee received a grant of stock options.

Led by Coach's management team, the company's employees are, to quote CEO Lew Frankfort, "maniacally focused" on meeting and beating investor expectations. Coach's senior management team has experience growing retail businesses in good times and sustaining them through more challenging ones.



The one member of the management team who has perhaps the most visible influence on the overall brand is Coach's Executive Creative Director, Reed Krakoff. In April 2001, he received the coveted Accessories Designer of the Year award from the Council of Fashion Designers of America (CFDA). The fashion press hailed his selection as "a unique blend of fashion, commercial appeal, tradition and quality." Krakoff notes that "It's particularly rewarding for a commercially successful company to get an award for creativity. For that we're fortunate, and proud."

Pride, passion and determination are recurring themes at Coach. The pride of employees in a job well done. The passion to deliver exceptional products and services. The determination to continually improve our processes and products in order to delight our customers and shareholders. These characteristics have built Coach into a profitable company, a formidable international brand, and they will sustain its success and growth for the future.

The opportunity.

To our Shareholders: Fiscal 2001 has been a year of many accomplishments including our initial public offering, the successful split-off from Sara Lee, the formation of Coach Japan, Inc. and Reed Krakoff's win, on behalf of Coach, of the CFDA Accessories Designer of the Year award.

However, perhaps our most gratifying accomplishment in fiscal 2001 was executing our growth plans for the year and, despite the challenging retail environment, generating a financial performance that outpaced our internal targets.

Our results for the 2001 fiscal year are the strongest we've posted in our 60-year history, with net sales of over $616 million and net income of $67 million. This represents a 66% increase from the previous year. And our gross margin climbed to over 64% in 2001 as sales of our higher margin mixed-materials collections grew, and we continued to benefit from cost savings associated with our global sourcing structure. At the same time, selling, general and administrative expenses decreased to just over 47% of net sales, as we leveraged our growing sales base. During fiscal 2001, sales improved in each of our distribution channels.

- The direct-to-consumer, primarily our Coach retail stores, generated approximately 64% of our fiscal 2001 revenues, or $392 million in sales. That's an 11% increase from the $352 million the previous year.
- Indirect (or wholesale) revenues rose 14% to more than $224 million, and represented 36% of our sales. Our international division posted strong gains, growing more than 30% during fiscal 2001. International sales accounted for 16% of our total revenues, up from 13% a year earlier.

The basis of our business is the product – classic American style, crafted from quality materials, a timeless look, at a fair

price – 365 days a year. And a consistently positioned, clearly expressed, credible, venerable brand. Before Coach was a great brand, it was a great product. A quality that consumers know and respect.

Our array of lifestyle collections draws consumers into our stores and keeps them coming back as new styles and fabrications arrive monthly. Coach's broad and modern product offering is a core component of our business strategy. Products all have unique life cycles – their sales will peak at different times. Coach offers items at a number of different price points that appeal to many consumers, reinforced by an aspirational luxury brand with similarly broad appeal.

Our efficient and flexible supply chain ensures that we can deliver newness rapidly. We manufacture in response to consumer demand, with market testing to gauge interest for new products before launching them to the consumer, so our inventory remains lean.

Four key growth strategies have driven Coach's success in our first year as a public company. We believe that they will continue to give us financial momentum as we go forward. Building on our core brand and business equities, we will:

- drive companywide global sales through the right assortment in fashion-relevant lifestyle collections (new product introductions generated 68% of Coach sales in fiscal 2001);
- expand the retail business in the United States by accelerating new store openings and driving same-store sales;
- increase market share among Japanese consumers worldwide by taking control of our distribution in Japan through Coach Japan, Inc., and leveraging Coach's other worldwide resources; and
- maximize Coach's position as a gift destination for all occasions.

In summary, the past year was one of the most exciting I've experienced in my 20 years with Coach. I'm grateful to our more than 3,000 employees around the world who delivered these achievements – and who, day after day, deliver a product and a brand of which we can all be proud. I remain confident in our ability to implement our key initiatives and achieve our financial goals in the year ahead.

On behalf of Coach, thank you for your interest and support.

Lew Frankfort

Lew Frankfort, Chairman and CEO

The numbers.

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Selected Financial Data (in thousands except for per share data)

The selected historical financial data presented below as of and for each of the fiscal years in the five-year period ended June 30, 2001 have been derived from the Company's audited Consolidated Financial Statements with the exception of fiscal 1997 data, which is unaudited. 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	JUNE 30, 2001	JULY 1, 2000	JULY 3, 1999	JUNE 27, 1998	JUNE 28, 1997
CONSOLIDATED STATEMENTS OF INCOME:[1]					
Net sales	$616,079	$548,918	$507,781	$522,220	$540,366
Cost of sales	218,507	220,085	226,190	235,512	227,086
Gross profit	397,572	328,833	281,591	286,708	313,280
Selling, general and administrative expenses	291,315	272,816	255,008	261,695	269,011
Operating income before reorganization costs	106,257	56,017	26,583	25,013	44,269
Reorganization costs[2]	4,569	–	7,108	–	–
Operating income	101,688	56,017	19,475	25,013	44,269
Net interest expense	2,258	387	414	236	492
Minority interest	–	–	–	(66)	95
Income before provision for income taxes	99,430	55,630	19,061	24,843	43,682
Provision for income taxes	35,400	17,027	2,346	4,180	11,645
Net income	$ 64,030	$ 38,603	$ 16,715	$ 20,663	$ 32,037
Net income per share					
Basic	$ 1.56[3]	$ 1.10[5]	$ 0.48[6]	$ 0.59	$ 0.91
Diluted	$ 1.52[4]	$ 1.10[5]	$ 0.48[6]	$ 0.59	$ 0.91
Shares used in computing net income per share[7]					
Basic	40,930	35,026	35,026	35,026	35,026
Diluted	42,156	35,026	35,026	35,026	35,026
CONSOLIDATED PERCENTAGE OF NET SALES DATA:					
Gross margin	64.5%	59.9%	55.4%	54.9%	58.0%
Selling, general and administrative expenses	47.3%	49.7%	50.2%	50.1%	49.8%
Operating income before reorganization costs	17.2%	10.2%	5.2%	4.8%	8.2%
Operating income	16.5%	10.2%	3.8%	4.8%	8.2%
Net income	10.4%	7.0%	3.3%	4.0%	5.9%
CONSOLIDATED BALANCE SHEET DATA:					
Working capital	$ 47,119	$ 54,089	$ 51,685	$ 95,554	$ 65,709
Total assets	258,711	296,653	282,088	257,710	252,929
Inventory	105,162	102,097	101,395	132,400	102,209
Receivable from Sara Lee	–	63,783	54,150	–	–
Payable to Sara Lee	–	–	–	11,088	8,300
Long-term debt	3,690	3,775	3,810	3,845	3,845
Stockholders' equity	148,314	212,808	203,162	186,859	165,361

(1) Coach's fiscal year ends on the Saturday closest to June 30. Fiscal year 1999 was a 53-week year, while fiscal years 1997, 1998, 2000 and 2001 were 52-week years.

(2) During 1999, Coach committed to and completed a reorganization plan involving the closure of its Carlstadt, New Jersey warehouse and distribution center, the closure of its Italian manufacturing operation, and the reorganization of its Medley, Florida manufacturing facility. During 2001, Coach committed to and completed a reorganization plan involving the complete closure of its Medley, Florida manufacturing operation. These actions were intended to reduce costs, resulted in the transfer of production to lower cost third-party manufacturers and consolidation of all of its distribution functions at the Jacksonville, Florida distribution center.

(3) $1.54 per share after adding back the impact of the reorganization charge and if the common shares sold in the October 2000 initial public offering had been outstanding for the entire year.

(4) $1.50 per share after adding back the impact of the reorganization charge and if the common shares sold in the October 2000 initial public offering had been outstanding for the entire year.

(5) $0.89 per share if the common shares sold in the October 2000 initial public offering had been outstanding for the prior periods.

(6) $0.38 per share if the common shares sold in the October 2000 initial public offering had been outstanding for the prior periods.

(7) The stock dividend in October 2000 was retroactively applied to all prior periods.

Management's Discussion and Analysis of Financial Condition and Results of Operations

OVERVIEW

Coach generates revenue by selling its products through two channels of distribution: direct to consumers and indirectly through wholesale customers and by licensing its brand name to select manufacturers. Direct to consumer sales consist of sales of Coach products through its 121 Company-operated U.S. retail stores, its direct mail catalogs, its e-commerce website and its 68 Company-operated U.S. factory stores. Indirect sales consist of sales of Coach products to approximately 1,400 department store and specialty retailer locations in the U.S., and approximately 175 international department store, retail store and duty free shop locations in 18 countries. In the U.S. 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 manufacturers for the sale of Coach branded watches, footwear and furniture.

Coach's fiscal year ends on the Saturday closest to June 30. Fiscal year 1999 consisted of 53 weeks and fiscal years 2000 and 2001 each consisted of 52 weeks.

RESULTS OF OPERATIONS

The following is a discussion of the results of operations for fiscal 2001 compared to fiscal 2000, and fiscal 2000 compared to fiscal 1999, along with a discussion of the changes in financial condition during fiscal 2001.

This Management's Discussion and Analysis should be read in conjunction with Coach's Consolidated Financial Statements and accompanying Notes thereto.

Net sales by business segment for fiscal 2001 compared to fiscal 2000 and fiscal 1999 are as follows:

	NET SALES			RATE OF INCREASE		PERCENTAGE OF TOTAL NET SALES		
FISCAL YEAR ENDED (DOLLARS IN MILLIONS)	JUNE 30, 2001	JULY 1, 2000	JULY 3, 1999	(2001 v. 2000)	(2000 v. 1999)	JUNE 30, 2001	JULY 1, 2000	JULY 3, 1999
Direct	$391.8	$352.0	$336.5	11.3%	4.6%	63.6%	64.1%	66.3%
Indirect	224.3	196.9	171.3	13.9	15.0	36.4	35.9	33.7
Total net sales	$616.1	$548.9	$507.8	12.2%	8.1%	100.0%	100.0%	100.0%

Consolidated statements of income for fiscal 2001 compared to fiscal 2000 and fiscal 1999 are as follows:

FISCAL YEAR ENDED	JUNE 30, 2001		JULY 1, 2000		JULY 3, 1999	
(DOLLARS IN MILLIONS, EXCEPT FOR EARNINGS PER SHARE)	$	% OF NET SALES	$	% OF NET SALES	$	% OF NET SALES
Net sales	$613.9	99.6%	$547.1	99.7%	$507.0	99.8%
Licensing revenue	2.2	0.4	1.8	0.3	0.8	0.2
Total net sales	616.1	100.0	548.9	100.0	507.8	100.0
Cost of sales	218.5	35.5	220.1	40.1	226.2	44.6
Gross profit	397.6	64.5	328.8	59.9	281.6	55.4
Selling, general and administrative expenses	291.3	47.3	272.8	49.7	255.0	50.2
Operating income before reorganization costs	106.3	17.2	56.0	10.2	26.6	5.2
Reorganization costs	4.6	0.7	–	–	7.1	1.4
Operating income	101.7	16.5	56.0	10.2	19.5	3.8
Net interest expense	2.3	0.4	0.4	0.1	0.4	–
Income before provision for income taxes	99.4	16.1	55.6	10.1	19.1	3.8
Provision for income taxes	35.4	5.7	17.0	3.1	2.4	0.5
Net income	$64.0	10.4%	$38.6	7.0%	$16.7	3.3%

FOR THE FISCAL YEAR ENDED	JUNE 30, 2001	JULY 1, 2000	JULY 3, 1999
Net income per share:			
Basic	$1.56[1]	$1.10[3]	$0.48[4]
Diluted	$1.52[2]	$1.10[3]	$0.48[4]
Weighted average number of common shares:			
Basic	40,930	35,026	35,026
Diluted	42,156	35,026	35,026

(1) $1.54 per share after adding back the impact of the reorganization charge and if the common shares sold in the October 2000 initial public offering had been outstanding for the entire year.

(2) $1.50 per share after adding back the impact of the reorganization charge and if the common shares sold in the October 2000 initial public offering had been outstanding for the entire year.

(3) $0.89 per share if the common shares sold in the October 2000 initial public offering had been outstanding for the prior periods.

(4) $0.38 per share if the common shares sold in the October 2000 initial public offering had been outstanding for the prior periods.

FISCAL 2001 COMPARED TO FISCAL 2000

NET SALES

Net sales increased by 12.2% to $616.1 million in fiscal 2001 from $548.9 million in fiscal 2000. These results reflect increased volume in both the direct to consumer and indirect channels.

DIRECT. Net sales increased 11.3% to $391.8 million in fiscal 2001 from $352.0 million in fiscal 2000. The increase was primarily due to new store openings, store renovations, store expansions and comparable stores sales growth. Comparable store sales growth for retail stores and factory stores open for one full year was 2.1% and 4.3%, respectively. Since the end of fiscal 2000, Coach has opened 15 new retail stores and five new factory stores. In addition, 28 retail stores and five factory stores were remodeled, while three retail stores and one factory store were expanded. No stores were closed during fiscal 2001.

INDIRECT. Net sales attributable to domestic and international wholesale shipments increased 13.9% to $224.3 million in fiscal 2001 from $196.9 million in fiscal 2000. The increase was primarily due to strong gains in the international wholesale channel, highlighted by continued double-digit increases in comparable location sales to Japanese consumers worldwide and increased demand for new products. Licensing revenue increased 23.6% to $2.2 million in fiscal 2001 from $1.8 million in fiscal 2000 due primarily to expanded distribution of licensed footwear product.

GROSS PROFIT

Gross profit increased 20.9% to $397.6 million in fiscal 2001 from $328.8 million in fiscal 2000. Gross margin increased approximately 460 basis points to 64.5% in fiscal 2001 from 59.9% in fiscal 2000. This improvement was driven by a shift in product mix, reflecting the continued diversification into non-leather fabrications with new and successful mixed-material collections. In addition, gross margin benefited from the continuing impact of sourcing cost reductions as well as channel mix, as the international channel continued to expand as a percentage of sales.

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

FISCAL YEAR ENDED JUNE 30, 2001 (UNAUDITED)	FIRST QUARTER	SECOND QUARTER	FIRST HALF	THIRD QUARTER	FOURTH QUARTER	SECOND HALF	TOTAL YEAR
Gross Margin	63.2%	65.4%	64.5%	65.3%	63.8%	64.5%	64.5%

FISCAL YEAR ENDED JULY 1, 2000 (UNAUDITED)	FIRST QUARTER	SECOND QUARTER	FIRST HALF	THIRD QUARTER	FOURTH QUARTER	SECOND HALF	TOTAL YEAR
Gross Margin	53.6%	62.1%	58.9%	61.0%	61.5%	61.3%	59.9%

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses increased 6.8% to $291.3 million in fiscal 2001 from $272.8 million in fiscal 2000. Selling, general and administrative expenses decreased to 47.3% as a percentage of net sales versus 49.7% in fiscal 2000.

Selling expenses increased by 14.8% to $178.3 million, or 28.9% of net sales, in fiscal 2001 from $155.4 million, or 28.3% of net sales, in fiscal 2000. The dollar increase in these expenses was primarily due to $16.3 million of operating costs associated with new retail and factory stores; increased variable costs for comparable store sales; store remodels; costs to support the additional stores; and store sales promotions to enhance sales. The remaining selling expense increase was caused primarily by volume-related costs in our indirect sales channels.

Advertising, marketing, and design expenses increased by 4.0% to $52.2 million, or 8.5% of net sales, in fiscal 2001 from $50.2 million, or 9.1% of net sales, in fiscal 2000. The dollar increase in these expenses was primarily due to increased staffing expenses of $1.0 million and increased advertising expenses of $0.6 million.

Distribution and customer service expenses increased slightly to $25.8 million, or 4.2% of net sales, in fiscal 2001 from $25.3 million, or 4.6% of net sales, in fiscal 2000. The dollar increase in these expenses was due to higher sales volumes, partially offset by efficiency gains at our distribution and customer service facility.

Administrative expenses decreased to $35.0 million, or 5.7% of net sales, in fiscal 2001 from $41.9 million, or 7.6% of net sales, in fiscal 2000. The decrease in these expenses was due to lower fringe benefit costs and lower performance-based compensation expenses, partially offset by higher occupancy costs associated with the lease renewal of our New York City corporate headquarters location and incremental expenses incurred to support new corporate governance activities relating to the Company becoming publicly owned.

REORGANIZATION COSTS

In the first fiscal quarter of 2001 management of Coach committed to and announced a plan to cease production at the Medley, Florida manufacturing facility in October 2000. This reorganization involved the termination of 362 manufacturing, warehousing and management employees at the Medley facility. These actions are intended to reduce costs by the resulting transfer of production to lower cost third-party manufacturers. Coach achieved cost savings of $2.7 million in fiscal 2001 and expects $4.5 million in annual savings in future years from these actions. Coach recorded a reorganization cost of $5.0 million in the first quarter of fiscal year 2001. In the second half of fiscal year 2001, this charge was reduced to $4.6 million. This was due primarily to the complete disposition of the fixed assets, in which the proceeds exceeded original estimates by management. This reorganization cost includes $3.1 million for worker separation costs, $0.8 million for lease termination costs and $0.6 million for the write-down of long-lived assets to net realizable value. By June 30, 2001, production ceased at the Medley facility, disposition of the fixed assets had been accomplished and the termination of the 362 employees had been completed.

OPERATING INCOME

Operating income increased 81.5% to $101.7 million from $56.0 million in fiscal 2000. This increase resulted from higher sales and improved gross margins, partially offset by an increase in selling, general and administrative expenses. Before the impact of reorganization costs, operating income increased 89.7% to $106.3 million, or 17.2% of net sales, in fiscal 2001 from $56.0 million, or 10.2% of net sales, in fiscal 2000.

INTEREST EXPENSE

Net interest expense increased 483% to $2.3 million, or 0.4% of net sales, in fiscal 2001 from $0.4 million or 0.1% of net sales, in fiscal 2000. The increase was due to interest expense on the note payable to an affiliate of the Sara Lee Corporation (“Sara Lee”) that Coach assumed in October 2000 as part of the initial public offering and interest expense on borrowings on its new Fleet National Bank facility (“Fleet” facility), which replaced the facility previously provided by Sara Lee. There was no interest expense incurred on the facility provided by Sara Lee in the prior year.

INCOME TAXES

The effective tax rate increased to 35.6% in fiscal 2001 from 30.6% in fiscal 2000. This increase was caused by a lower percentage of income in fiscal 2001 attributable to Company-owned offshore manufacturing, which is taxed at lower rates.

NET INCOME

Net income increased 65.9% to $64.0 million from $38.6 million in fiscal 2000. This increase was the result of increased operating income partially offset by a higher provision for income taxes and increased interest expense. Before the impact of reorganization costs, net of related tax effect, net income increased 73.5% to $67.0 million, or 10.9% of net sales, in fiscal 2001 from $38.6 million, or 7.0% of net sales, in fiscal 2000.

EARNINGS PER SHARE

Diluted net income per share was $1.52 in fiscal 2001. This reflects a weighted average of the shares outstanding before and after the initial public offering of common stock in October 2000. If the common shares sold in the October 2000 initial public offering had been outstanding for the entire year, net income before the impact of reorganization costs per diluted share would have been $1.50. Prior year diluted net income per share was $1.10 since only the shares owned by Sara Lee are used in the calculation. Comparable net earnings per share in fiscal 2000 would have been $0.89 if the common shares sold in the October 2000 public offering had been outstanding for the prior period.

FISCAL 2000 COMPARED TO FISCAL 1999

NET SALES

Net sales increased by 8.1% to $548.9 million in fiscal 2000 from $507.8 million during fiscal 1999. These results reflect increased volume in the indirect channels and, to a lesser extent, in the direct channel.

DIRECT. Net sales increased 4.6% to $352.0 million in fiscal 2000 from $336.5 million during fiscal 1999. This sales growth was primarily attributable to comparable store sales growth of 7.5% and the opening of eight new retail stores and two new factory stores. Comparable store sales growth for retail stores and factory stores open for one full year was 11.7% and 3.4%, respectively. Coach renovated 23 retail stores during fiscal 2000, which generated incremental sales growth after their renovation. This growth was partially offset by a $7.3 million reduction of warehouse sales events and employee sales, the closing of three retail stores and one factory store and the temporary closure of some stores for renovations.

INDIRECT. Net sales increased 14.9% to $196.9 million in fiscal 2000 from $171.3 million during fiscal 1999. This increase resulted from increased demand for Coach's new product assortments and the economic recovery in Asia. Licensing revenue increased 138% to $1.8 million in fiscal 2000. This increase reflects the full-year impact of the Coach footwear licensing arrangement and the introduction of the furniture licensing arrangement in the Spring of 1999.

GROSS PROFIT

Gross profit increased 16.8% to $328.8 million in fiscal 2000 from $281.6 million in fiscal 1999. Gross margin increased to 59.9% in fiscal 2000 from 55.4% in fiscal 1999. This increase in gross margin was primarily due to manufacturing and sourcing-cost reductions realized during fiscal 2000 from Coach's reorganization that commenced in 1999, as well as increased sales at Coach's retail stores and increased shipments to international distributors. In fiscal 2000, approximately 74% of Coach's total units produced were manufactured by independent manufacturers, compared to approximately 48% in fiscal 1999. Gross profit also increased as a result of the reduction of warehouse sales events and the reduction in employee sales, which have lower gross margins.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses increased 7.0% to $272.8 million in fiscal 2000 from $255.0 million in fiscal 1999. As a percentage of net sales, selling, general and administrative expenses were 49.7%, compared to 50.2% in fiscal 1999. Selling, general and administrative expenses in fiscal 2000 increased in dollars but decreased as a percentage of net sales.

Selling expenses increased by $3.3 million in fiscal 2000, primarily because of $2.5 million in operating costs associated with eight new retail stores, two new factory stores and six store expansions.

Advertising, marketing and design costs increased by $6.5 million in fiscal 2000, primarily as a result of increased advertising expenses of $3.2 million and increased staffing expenses of $2.2 million.

Distribution and customer service costs declined by $1.4 million, reflecting the first full year impact of the consolidation of all of Coach's distribution operations into its Jacksonville, Florida facility.

Administrative expenses increased by $9.3 million in fiscal 2000. The increase in administrative expenses was the result of $11.3 million of incremental performance-based compensation versus fiscal 1999 due to improvements in operating income. Performance-based compensation is calculated utilizing preset financial targets. The compensation increase was partially offset by a $2.0 million reduction in salaries and consulting fees.

OPERATING INCOME

Operating income increased 187.2% to $56.0 million in fiscal 2000 from $19.5 million in fiscal 1999. Before the impact of reorganization costs in fiscal 1999, operating income increased 110.5% to $56.0 million in fiscal 2000 from $26.6 million in fiscal 1999. This increase resulted from the overall increase in sales and improved gross margin in fiscal 2000, which was partially offset by an increase in selling, general and administrative expenses.

INCOME TAXES

Coach's effective tax rate increased to 30.6% in fiscal 2000 from 12.3% during fiscal 1999, due to a lower percentage of income attributable to company-owned offshore manufacturing that is taxed at lower rates.

NET INCOME

Net income increased 131.1% to $38.6 million in fiscal 2000 from $16.7 million during fiscal 1999. This increase was the result of increased operating income partially offset by a higher provision for income taxes.

FINANCIAL CONDITION

LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating and investing activities was $93.3 million in fiscal 2001, 51.4% higher than the $61.6 million provided in fiscal 2000. The $31.7 million year-to-year increase in cash provided from operating activities was primarily the result of higher earnings.

Capital expenditures amounted to $31.9 million in fiscal 2001, compared to $26.1 million in fiscal 2000 and in both periods related primarily to new and renovated retail stores. Our future capital expenditures will depend on the timing and rate of expansion of our businesses, new store openings, store renovations and international expansion opportunities.

On July 2, 2000, we entered into a revolving credit facility with Sara Lee under which Coach could borrow up to $75 million from Sara Lee. This facility was paid off and terminated on February 27, 2001.

To provide funding for working capital for operations and general corporate purposes, on February 27, 2001, Coach, certain lenders and Fleet National Bank, as primary lender and administrative agent, entered into a $100 million senior unsecured revolving credit facility. Indebtedness under this revolving credit facility bears interest calculated, at Coach's option, at either:

- a rate of LIBOR plus 70 to 150 basis points based on a rolling four-quarter fixed-charge coverage grid; or
- the prime rate announced by Fleet.

The initial LIBOR margin under the facility was 125 basis points. As of May 2001, the LIBOR margin was reduced to 100 basis points to reflect an improvement in the fixed-charge coverage ratio, calculated quarterly in accordance with the pricing grid. Under this revolving credit facility, Coach will pay a commitment fee of 20 to 35 basis points based on any unused amounts, based on the same fixed-charge coverage grid. The initial commitment fee was 30 basis points. As of May 2001, the commitment fee was reduced to 25 basis points. This credit facility may be prepaid without penalty or premium.

The Fleet facility contains various covenants and customary events of default, including:

- Maintenance of a cash flow leverage ratio not greater than 1.5 to 1.0;
- Maintenance of a fixed-charge coverage ratio greater than 1.75 to 1.0 until March 30, 2002 and greater than 2.0 to 1.0 thereafter;
- Annual paydown to $25 million for 30 consecutive days during the period November 1 through June 30; and
- Restrictions on other indebtedness, liens, payment of dividends, mergers and acquisitions, dispositions, transactions with affiliates, and sale and leaseback transactions in excess of amounts approved by the lenders.

The Company has been in compliance with all covenants of the Fleet facility since its inception.

The Company opened 15 new retail stores and five factory stores in fiscal year 2001. The Company expects to complete its store renovations program in fiscal 2002. The Company expects that fiscal 2002 capital expenditures for new retail stores will be approximately $16 million and that capital expenditures for store renovations will be approximately $11 million. The Company intends to finance these investments from internally generated cash flow or by using funds from its revolving credit facility.

The Company experiences significant seasonal variations in working capital requirements. During the first fiscal quarter the Company builds up inventory for the holiday selling season, opens new retail stores and generates higher levels of trade receivables. In the second fiscal quarter working capital requirements are reduced substantially as the Company generates consumer sales and collects wholesale accounts receivable. In fiscal 2001, Coach purchased approximately $222 million of inventory, which was funded by operating cash flow and by borrowings under its revolving credit facilities. During fiscal 2001 the peak borrowings under the Sara Lee and Fleet revolving credit facilities were $37.7 million and $31.0 million, respectively. As of June 30, 2001, the outstanding borrowings under the Fleet facility were $7.7 million. Coach believes that its operating cash flow, together with the revolving credit facility, will provide sufficient capital to fund operations for the foreseeable future.

Currently, Sara Lee is a guarantor or a party to many of the Company's store leases. The Company 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. The Company 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. The Company is required to maintain the letter of credit until the annual minimum rental payments under the relevant leases are less than $2.0 million. The initial letter of credit has a face amount of $20.6 million and the Company expects this amount to decrease annually as its guaranteed obligations are reduced and the Company expects that we will be required to maintain the letter of credit for at least 10 years.

SEASONALITY

Because its products are frequently given as gifts, the Company 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. The Company has sometimes experienced, and may continue to experience, reduced income or net losses in any or all of its first, third or fourth quarters. The higher sales in the second quarter typically result in higher operating profits and margins. This is due to higher gross profits, with no substantial corresponding increase in fixed costs, related to operating retail stores and other administrative and selling costs, which remain fairly constant throughout the year. During the holiday season these fixed costs are spread over higher sales, resulting in greater operating income expressed in both dollars and as a percentage of sales in the second quarter compared to the other three quarters. The Company anticipates that its sales and operating profit will continue to be seasonal in nature.

Report of Management

The Company's consolidated financial statements were prepared by management, who are responsible for their integrity and objectivity. The financial statements have been prepared in accordance with accounting principles generally accepted in the United States and, as such, include amounts based on management's best estimates and judgments.

Management is further responsible for maintaining a system of internal accounting control designed to provide reasonable assurance that the Company's assets are adequately safeguarded and that the accounting records reflect transactions executed in accordance with management's authorization. The system of internal control is continually reviewed and is augmented by written policies and procedures, the careful selection and training of qualified personnel and a program of internal audit.

The consolidated financial statements have been audited by Arthur Andersen LLP, Independent Accountants. Their report is shown below.

The Audit Committee of the Board of Directors, which is composed solely of independent directors, meets regularly to discuss specific accounting, financial reporting and internal control matters. Both the independent accountants and the internal auditors have full and free access to the Audit Committee. Each year the Audit Committee selects the firm that is to perform audit services for the Company.

Lew Frankfort
Chairman and Chief Executive Officer

Richard Randall
Senior Vice President, Chief Financial Officer

Report of Independent Public Accountants

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

We have audited the accompanying consolidated balance sheets of Coach, Inc. (a Maryland corporation) as of June 30, 2001 and July 1, 2000, and the related consolidated statements of income, stockholders' equity and cash flows for the fiscal years ended June 30, 2001, July 1, 2000 and July 3, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Coach, Inc. as of June 30, 2001 and July 1, 2000 and the results of its operations and its cash flows for the fiscal years ended June 30, 2001, July 1, 2000 and July 3, 1999, in conformity with accounting principles generally accepted in the United States.

Arthur Andersen LLP
New York, New York
July 26, 2001

(except with respect to the matter discussed in
Note 16 as to which the date is July 31, 2001)

Consolidated Balance Sheets

FISCAL YEAR ENDED (AMOUNTS IN THOUSANDS EXCEPT SHARE DATA)	JUNE 30, 2001	JULY 1, 2000
ASSETS		
Cash and cash equivalents	$ 3,691	$ 162
Trade accounts receivable, less allowances of $6,288 and $5,931, respectively	20,608	15,567
Inventories	105,162	102,097
Deferred income taxes	13,921	8,996
Prepaid expenses and other current assets	8,185	6,866
Total current assets	151,567	133,688
Receivable from Sara Lee	–	63,783
Intangibles and other assets, net	15,695	15,809
Property and equipment, net	72,388	65,184
Deferred income taxes	19,061	18,189
Total assets	$258,711	$296,653
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	$ 14,313	$ 7,866
Accrued liabilities	82,390	71,693
Current portion of long-term debt	45	40
Revolving credit facility	7,700	–
Total current liabilities	104,448	79,599
Long-term debt	3,690	3,735
Other liabilities	2,259	511
Total liabilities	110,397	83,845
Commitments and contingencies (Note 7)		
Stockholders' equity		
Preferred stock: (authorized 25,000,000 shares; $.01 par value) none issued	–	–
Common stock: (authorized 125,000,000 and 100,000,000 shares, respectively; $0.01 par value) issued and outstanding– 43,685,992 and 35,026,333 shares, respectively	437	350
Capital in excess of par value	125,364	–
Retained earnings	23,000	212,753
Accumulated other comprehensive loss	(487)	(295)
Total stockholders' equity	148,314	212,808
Total liabilities and stockholders' equity	$258,711	$296,653

See accompanying Notes to the Consolidated Financial Statements.

Consolidated Statements of Income

FISCAL YEAR ENDED (AMOUNTS IN THOUSANDS EXCEPT PER SHARE DATA)	JUNE 30, 2001 52-WEEK YEAR	JULY 1, 2000 52-WEEK YEAR	JULY 3, 1999 53-WEEK YEAR
Net sales	$616,079	$548,918	$507,781
Cost of sales	218,507	220,085	226,190
Gross profit	397,572	328,833	281,591
Selling, general and administrative expenses	291,315	272,816	255,008
Reorganization costs	4,569	–	7,108
Operating income	101,688	56,017	19,475
Interest expense, net	2,258	387	414
Income before provision for income taxes	99,430	55,630	19,061
Provision for income taxes	35,400	17,027	2,346
Net income	$ 64,030	$ 38,603	$ 16,715
Net income per share			
Basic	$ 1.56	$ 1.10	$ 0.48
Diluted	$ 1.52	$ 1.10	$ 0.48
Shares used in computing net income per share[1]			
Basic	40,930	35,026	35,026
Diluted	42,156	35,026	35,026

[1] The stock dividend issued in October 2000 was retroactively applied to the prior periods.

See accompanying Notes to the 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	ACCUMULATED OTHER COMPRE-HENSIVE INCOME (LOSS)	COMPRE-HENSIVE INCOME (LOSS)	SHARES OF COMMON STOCK
Balances at June 27, 1998	$ 186,859	$ –	$350	$ –	$ 186,901	$(392)		35,026[1]
Net income	16,715	–	–	–	16,715	–	$16,715	
Translation adjustments	(9)	–	–	–	–	(9)	(9)	
Minimum pension liability	(403)	–	–	–	–	(403)	(403)	
Comprehensive income							$16,303	
Balances at July 3, 1999	203,162	–	350	–	203,616	(804)		35,026
Net income	38,603	–	–	–	38,603	–	38,603	
Equity distribution	(29,466)	–	–	–	(29,466)	–	–	
Translation adjustments	152	–	–	–	–	152	152	
Minimum pension liability	357	–	–	–	–	357	357	
Comprehensive income							$39,112	
Balances at July 1, 2000	212,808	–	350	–	212,753	(295)		35,026
Net income	64,030	–	–	–	64,030	–	64,030	
Capitalization of receivable from Sara Lee	(63,783)	–	–	–	(63,783)	–	–	
Assumption of long-term debt	(190,000)	–	–	–	(190,000)	–		
Issuance of common stock, net	122,000	–	85	121,915	–	–		8,487
Exercise of stock options	2,046	–	2	2,044	–	–		173
Tax benefit from exercise of stock options	1,405	–	–	1,405	–	–		
Translation adjustments	338	–	–	–	–	338	338	
Minimum pension liability	(530)	–	–	–	–	(530)	(530)	
Comprehensive income							$63,838	
Balances at June 30, 2001	$ 148,314	$ –	$437	$125,364	$ 23,000	$(487)		43,686

(1) The stock dividend in October 2000 was retroactively applied to the prior periods.

See accompanying Notes to the Consolidated Financial Statements.

Consolidated Statements of Cash Flows

FISCAL YEAR ENDED (AMOUNTS IN THOUSANDS)	JUNE 30, 2001	JULY 1, 2000	JULY 3, 1999
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 64,030	$ 38,603	$ 16,715
Adjustments for noncash charges included in net income:			
Depreciation	23,231	21,729	21,339
Amortization of intangibles	900	899	917
Reorganization costs	4,569	–	7,108
Tax benefit from exercise of stock options	1,405	–	–
Other noncash credits, net	(192)	(1,688)	2,843
Changes in current assets and liabilities:			
(Increase) decrease in trade accounts receivable	(5,041)	(3,751)	1,315
Decrease in receivable from Sara Lee	31,437	22,442	18,651
(Increase) decrease in inventories	(3,065)	(725)	30,977
(Increase) decrease in deferred taxes	(5,797)	2,661	(4,286)
Increase in other current assets and liabilities	(357)	(90)	(1,876)
Increase (decrease) in accounts payable	6,447	(6,279)	(3,918)
Increase in accrued liabilities	6,762	11,154	5,875
Net cash from operating activities	124,329	84,955	95,660
CASH FLOWS FROM INVESTMENT ACTIVITIES			
Purchases of property and equipment	(31,868)	(26,060)	(13,519)
Acquisitions of minority interest	–	–	(896)
Dispositions of property and equipment	799	2,695	2,646
Net cash used in investment activities	(31,069)	(23,365)	(11,769)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of common stock, net	122,000	–	–
Repayment of long-term debt	(190,040)	(35)	(35)
Borrowings from Sara Lee	451,534	541,047	445,154
Repayments to Sara Lee	(482,971)	(573,122)	(529,043)
Equity distribution	–	(29,466)	
Borrowings on Revolving Credit Facility	68,300	–	–
Repayments of Revolving Credit Facility	(60,600)	–	–
Proceeds from exercise of stock options	2,046	–	–
Net cash used in financing activities	(89,731)	(61,576)	(83,924)
Effect of changes in foreign exchange rates on cash	–	–	(2)
Increase (decrease) in cash and equivalents	3,529	14	(35)
Cash and equivalents at beginning of period	162	148	183
Cash and equivalents at end of period	$ 3,691	$ 162	$ 148
Cash paid for income taxes[1]	$ 35,664	$ –	$ –
Cash paid for interest	$ 2,349	$ 361	$ 297

(1) In fiscal 2000 and fiscal 1999 the Company was a division of Sara Lee and did not pay income taxes.

See accompanying Notes to the Consolidated Financial Statements.

(DOLLARS AND SHARES IN THOUSANDS, EXCEPT PER SHARE DATA)

1. BASIS OF PRESENTATION AND ORGANIZATION

Coach ("Coach" or the "Company") was formed in 1941 and was acquired by the Sara Lee Corporation ("Sara Lee") in July 1985. Coach was operated as a division in the United States and a subsidiary in foreign countries. On June 1, 2000, Coach was incorporated under the laws of the State of Maryland. Pursuant to the Separation Agreements (as filed on June 16, 2000), Sara Lee transferred to Coach the assets and liabilities that related to the Coach business on October 2, 2000 (''the Separation Date''), prior to the date of completion of Coach's initial public offering, as further discussed below.

On October 5, 2000, Coach was listed on the New York Stock Exchange and sold 7,380 shares of common stock in an initial public offering, representing 17.4% of the outstanding shares. On October 17, 2000, the underwriters exercised their over-allotment option and purchased an additional 1,107 shares of Coach common stock. In total, Coach sold 8,487 shares of its common stock, representing 19.5% of the outstanding shares. In April 2001, Sara Lee completed a distribution of its ownership in Coach via an exchange offer. That exchange offer allowed Sara Lee stockholders to tender Sara Lee common stock for Coach common stock.

Coach designs, manufactures, markets and sells primarily fine leather handbags and accessories. Coach products are manufactured by third-party suppliers as well as by Coach-operated manufacturing facilities. Coach markets products via Company operated retail stores, direct mail catalogs, an e-commerce website, factory stores, and via selected upscale department and specialty retailer locations and international department, retail and duty-free shop locations.

The consolidated financial statements of Coach reflect the historical results of operations and cash flows of the Coach leather goods and accessories business of Sara Lee during each respective period. Under Sara Lee's ownership, Coach's United States operations were a division of Sara Lee and not a separate legal entity, while Coach's foreign operations were subsidiaries of Sara Lee. The historical financial statements have been prepared using Sara Lee's historical basis in the assets and liabilities and the results of Coach's business. The financial information included herein may not reflect the consolidated financial position, operating results, changes in stockholders' equity and cash flows of Coach in the future, or what they would have been had Coach been a separate, stand-alone entity during Sara Lee's ownership. On the Separation Date, Coach began operating as a separate legal entity.

2. SIGNIFICANT ACCOUNTING POLICIES

FISCAL YEAR. The Company's fiscal year ends on the Saturday closest to June 30. The fiscal year ended July 3, 1999 ("fiscal 1999") was a 53-week year, while the fiscal year ended June 30, 2001 ("fiscal 2001") and the fiscal year ended July 1, 2000 ("fiscal 2000") were 52-week years. Unless otherwise stated, references to years in the financial statements relate to fiscal years.

USE OF ESTIMATES. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities; the disclosure of contingent assets and liabilities at the date of the financial statements; and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

PRINCIPLES OF CONSOLIDATION. The consolidated financial statements include the accounts of the Company. All significant intercompany transactions and balances within the Company are eliminated in consolidation.

RECLASSIFICATIONS. Certain reclassifications have been made to the 2000 and 1999 statements to conform with the 2001 presentation.

CASH AND CASH EQUIVALENTS. Cash consists of cash balances and short term investments with a maturity of less than 90 days.

INVENTORIES. Inventories are valued at the lower of cost (determined by the first-in, first-out method) or market. Inventory cost includes material and conversion costs.

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 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.

INTANGIBLE ASSETS. The excess of cost over fair market value of tangible net assets (goodwill) and trademarks of acquired businesses is amortized on a straight-line basis over the periods of expected benefit, which range from five to 40 years. Accumulated amortization of intangible assets at June 30, 2001 and July 1, 2000 was $10,503 and $9,603, respectively.

IMPAIRMENT OF LONG-LIVED AND INTANGIBLE ASSETS. Long-lived assets primarily include property, identifiable intangible assets and goodwill. Under Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed of" ("SFAS 121"), long-lived assets being retained for use by the Company are periodically reviewed for impairment by comparing the carrying value of the assets with their estimated future undiscounted cash flows. If it is determined that an impairment loss has occurred, the loss would be recognized during the period. The impairment loss is calculated as the difference between asset carrying values and the present value of estimated net cash flows or comparable market values, giving consideration to recent operating performance.

Long-lived assets, which are to be disposed of, are reported at the lower of carrying value or fair value less cost to sell. Reductions in carrying value are recognized in the period in which management commits to a plan to dispose of the assets. No impairment loss was recognized in fiscal 2001, 2000 or 1999.

REVENUE RECOGNITION. Sales are recognized at the "point of sale," which occurs when merchandise is sold in an "over the counter" consumer transaction or upon shipment to a customer. The Company maintains a reserve for potential product returns and records its provision for estimated product returns based upon historical experience. The charge for estimated product returns is recorded against sales for the period. Certain 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 $16,445, $15,764 and $12,598 for the fiscal years 2001, 2000 and 1999, respectively. Advertising costs are expensed when the advertising first appears.

SHIPPING AND HANDLING. Shipping and handling expense is part of the distribution and customer service component of selling, general and administrative expense. These expenses were $6,039, $4,997 and $5,403 for fiscal years 2001, 2000 and 1999, respectively.

INCOME TAXES. The Company's operating results have been included in Sara Lee's consolidated U.S. and state income tax returns and in the tax returns of certain Sara Lee foreign operations, for periods where Sara Lee owned greater than 80% of the Company's outstanding capital stock. During these periods, the provision for income taxes in the Company's financial statements has been prepared as if the Company were a stand-alone entity and filed separate tax returns.

The Company accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes" ("SFAS 109"). Under SFAS 109, a deferred tax liability or asset is recognized for the estimated future tax consequences of temporary differences between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases.

STOCK-BASED COMPENSATION. Employee stock options are accounted for under the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"). APB 25 requires the use of the intrinsic value method, which measures compensation cost as the excess, if any, of the quoted market price of the stock at date of grant over the amount an employee must pay to acquire the stock. The Company makes pro forma disclosures of net earnings and earnings per share as if the fair value based method of accounting had been applied as required by SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123").

FAIR VALUE OF FINANCIAL INSTRUMENTS. The carrying amount of cash, trade accounts receivable, accounts payable and long-term debt approximated fair value as of July 1, 2000 and June 30, 2001. Coach uses the present value technique to estimate fair market value using discount rates which management believes are commensurate with the risks involved.

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 average exchange rates for the period. The resulting translation adjustments are recorded as a component of other comprehensive income within stockholders' equity. Gains and losses from foreign currency transactions were not significant for fiscal 2001, 2000 and 1999.

RECENT ACCOUNTING PRONOUNCEMENTS. Effective July 2, 2000, the Company adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). SFAS 133, as amended, establishes accounting and reporting standards requiring that every derivative instrument be recorded in the balance sheet as either an asset or liability measured at its fair value. The cumulative effect of adoption of SFAS 133 did not result in a material impact on the Company's financial position, results of operations or cash flows. Substantially, all purchases and sales involving international parties are denominated in U.S. dollars and, therefore, are not hedged using any derivative instruments.

In April 2001, the Emerging Issues Task Force ("EITF") of the Financial Accounting Standards Board ("FASB") reached a final consensus on Issue 00-25 "Accounting for Consideration from a Vendor to a Retailer in Connection with the Purchase or Promotion of the Vendor's Products." This issue addresses the recognition, measurement and income statement classification of consideration provided to distributors or retailers. Previously, the Company has recorded these activities within selling, general and administrative expenses. The Company will adopt this consensus in the first quarter of fiscal 2002. The effect on adoption will result in a reclassification of $15,588, $11,224 and $6,837 from selling, general and administrative expenses to a reduction in net sales for fiscal 2001, 2000 and 1999, respectively.

In July 2001, the FASB issued SFAS No. 141, "Business Combinations" ("SFAS 141") and No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). SFAS 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method. Under SFAS 142, goodwill and intangible assets with indefinite lives are no longer amortized but are reviewed annually (or more frequently if impairment indicators arise) for impairment. Separable intangible assets that are not deemed to have indefinite lives will continue to be amortized over their useful lives (but with no maximum life). The amortization provisions of SFAS 142 apply to goodwill and intangible assets acquired after June 30, 2001. With respect to goodwill and intangible assets acquired prior to July 1, 2001, the Company is required to adopt SFAS 142 effective June 30, 2002. The Company is currently evaluating the effect that adoption of the provisions of SFAS 142 will have on its results of operations and financial position.

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, excluding any potential dilution. Diluted net income per share was calculated similarly but includes potential dilution from the exercise of stock options and awards. For comparison purposes only, the weighted-average number of shares outstanding immediately following the completion of the initial public offering was considered to be outstanding in fiscal 2000. The difference between the basic and diluted weighted-average shares outstanding in fiscal 2001 is due to the dilutive effect of stock options and restricted stock awards issued under the Company's stock option plans.

3. BALANCE SHEET COMPONENTS

The components of certain balance sheet accounts are as follows:

FISCAL YEAR ENDED	JUNE 30, 2001	JULY 1, 2000
INVENTORY		
Finished goods	$ 104,326	$ 95,446
Work in process	257	677
Materials and supplies	579	5,974
Total inventory	$ 105,162	$ 102,097
PROPERTY AND EQUIPMENT		
Machinery and equipment	$ 9,849	$ 16,256
Furniture and fixtures	74,452	61,192
Leasehold improvements	108,077	89,448
Construction in progress	10,069	15,048
Less: Accumulated depreciation	(130,059)	(116,760)
Total property and equipment, net	$ 72,388	$ 65,184
ACCRUED LIABILITIES		
Advertising and promotion	$ 4,283	$ 8,760
Income and other taxes	9,968	6,040
Payroll and benefits	34,139	37,994
Rent, utilities, insurance, interest and administrative	12,186	10,224
Product repairs	4,900	5,400
Accrued operating expenses	16,914	3,275
Total accrued liabilities	$ 82,390	$ 71,693

4. INCOME TAXES

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

FISCAL YEAR ENDED	JUNE 30, 2001		JULY 1, 2000		JULY 3, 1999	
	AMOUNT	PERCENT	AMOUNT	PERCENT	AMOUNT	PERCENT
Income (loss) before provision for income taxes:						
United States	$92,163	92.7%	$43,527	78.2%	$ 8,919	46.8%
Puerto Rico	7,847	7.9	13,000	23.4	10,241	53.7
Foreign	(580)	(0.6)	(897)	(1.6)	(99)	(0.5)
	$99,430	100.0%	$55,630	100.0%	$19,061	100.0%
Tax expense at U.S. statutory rate:	$34,801	35.0%	$19,471	35.0%	$ 6,671	35.0%
State taxes, net of federal benefit	3,512	3.5	1,888	3.4	889	4.7
Difference between U.S. and Puerto Rican rates	(2,353)	(2.4)	(3,965)	(7.1)	(3,101)	(16.3)
Nondeductible amortization	103	0.1	315	0.6	187	1.0
Other, net	(663)	(0.7)	(682)	(1.3)	(2,300)	(12.1)
Taxes at effective worldwide tax rates	$35,400	35.6%	$17,027	30.6%	$ 2,346	12.3%

Current and deferred tax provisions (benefits) were:

FISCAL YEAR ENDED	JUNE 30, 2001		JULY 1, 2000		JULY 3, 1999	
	CURRENT	DEFERRED	CURRENT	DEFERRED	CURRENT	DEFERRED
Federal	$34,686	$(5,042)	$10,876	$2,317	$4,680	$(3,643)
Puerto Rico	267	86	585	–	585	(102)
State	6,244	(841)	2,905	344	1,367	(541)
	$41,197	$(5,797)	$14,366	$2,661	$6,632	$(4,286)

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

FISCAL YEAR ENDED	JUNE 30, 2001	JULY 1, 2000	JULY 3, 1999
Depreciation	$(2,909)	$ –	$(1,852)
Employee benefits	(314)	1,843	(3,920)
Advertising accruals	(240)	–	52
Nondeductible reserves	113	1,076	3,788
Other, net	(2,447)	(258)	(2,354)
	$(5,797)	$2,661	$(4,286)

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

FISCAL YEAR ENDED	JUNE 30, 2001	JULY 1, 2000	JULY 3, 1999
Deferred tax assets			
Reserves not deductible until paid	$ 3,224	$ 7,432	$ 7,245
Pension and other employee benefits	9,510	2,727	4,570
Property, plant and equipment	10.288	12,979	14,242
Other	9,960	4,047	3,789
Net deferred tax assets	$32,982	$27,185	$29,846

DEBT

Until February 27, 2001, Coach participated in a cash concentration system requiring that cash balances be deposited with Sara Lee, which were netted against borrowings/billings provided by Sara Lee.

On July 2, 2000, Coach entered into a revolving credit facility with Sara Lee. The maximum borrowing permitted under this facility was $75,000. Interest accrued at U.S. dollar LIBOR plus 30 basis points. Any receivable balance from Sara Lee under this facility earned interest at U.S. dollar LIBOR minus 20 basis points. The credit facility contained certain covenants, with which all were complied. This facility was terminated on February 27, 2001.

During October 2000, Coach completed an equity restructuring which included the assumption of $190,000 of long-term debt payable to a subsidiary of Sara Lee. This long-term debt had an original maturity date of September 30, 2002, accruing interest at U.S. dollar LIBOR plus 30 basis points. The note contained certain covenants, consistent with the above mentioned revolving credit facility. The net proceeds of the initial public offering were used to partially repay this loan resulting in a balance of $68,000 at October 18, 2001. In January 2001, this loan was fully paid off by the Company by redeeming the short-term investments with Sara Lee and drawing down on the Sara Lee revolving credit facility.

To provide funding for working capital for operations and general corporate purposes, on February 27, 2001, Coach, certain lenders and Fleet National Bank, as primary lender and administrative agent, entered into a $100,000 senior unsecured revolving credit facility. Indebtedness under this revolving credit facility bears interest calculated, at Coach's option, at either:

- a rate of LIBOR plus 70 to 150 basis points based on a rolling four-quarter fixed-charge coverage grid; or
- the prime rate announced by Fleet.

The initial LIBOR margin under the facility was 125 basis points. As of May 2001, the LIBOR margin was reduced to 100 basis points to reflect an improvement in the fixed-charge coverage ratio, calculated quarterly in accordance with the pricing grid. Under this revolving credit facility, Coach will pay a commitment fee of 20 to 35 basis points based on any unused amounts, based on the same fixed-charge coverage grid. The initial commitment fee was 30 basis points. As of May 2001, the commitment fee was reduced to 25 basis points. This credit facility may be prepaid without penalty or premium.

The Fleet facility contains various covenants and customary events of default, including:

- Maintenance of a cash flow leverage ratio not greater than 1.5 to 1.0;
- Maintenance of a fixed-charge coverage ratio greater than 1.75 to 1.0 until March 30, 2002 and greater than 2.0 to 1.0 thereafter;
- Annual paydown to $25,000 for 30 consecutive days during the period November 1 through June 30; and
- Restrictions on other indebtedness, liens, payment of dividends, mergers and acquisitions, dispositions, transactions with affiliates, and sale and leaseback transactions in excess of amounts approved by the lenders.

The Company has been in compliance with all covenants of the Fleet facility since its inception.

During fiscal 2001 the peak borrowings under the Sara Lee and Fleet revolving credit facilities were $37,667 and $31,000 respectively. As of June 30, 2001, the outstanding borrowings under the Fleet facility were $7,700.

6. LEASES

Coach, as a division of Sara Lee, leased certain office, distribution, retail and manufacturing facilities. The lease agreements, which expire at various dates through 2015, 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 passthrough 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. Substantially, all previous existing leases were guaranteed by Sara Lee. All leases entered into after the Company's separation from Sara Lee are in the name of Coach, Inc. with no connection to Sara Lee. Rent-free periods and other incentives granted under certain leases and scheduled rent increases are charged to rent expense on a straight-line basis over the related terms of such leases. Contingent rentals are recognized when the achievement of the target, which triggers the related payment, are considered probable. Rent expense for the Company's operating leases consisted of the following:

FISCAL YEAR	2001	2000	1999
Minimum rentals	$28,929	$25,495	$26,191
Contingent rentals	2,902	2,869	2,163
Total rent expense	$31,831	$28,364	$28,354

Future minimum rental payments under non-cancellable operating leases are as follows:

FISCAL YEAR	AMOUNT
2002	$ 28,518
2003	28,161
2004	27,555
2005	26,897
2006	25,717
Subsequent to 2006	125,113
Total minimum future rental payments	$261,961

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.

7. COMMITMENTS AND CONTINGENCIES

Currently, Sara Lee is a guarantor or a party to many of Coach's store leases. The Company 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. The Company 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 the Company by Sara Lee but for which Sara Lee retains contingent liability. The Company is required to maintain the letter of credit until the annual minimum rental payments under the relevant leases are less than $2,000. The initial letter of credit has a face amount of $20,600 and the Company expects this amount to decrease annually as its guaranteed obligations are reduced. The Company expects that it will be required to maintain the letter of credit for at least 10 years.

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 should not have a material effect on Coach's results of operations or financial position.

8. REORGANIZATION COSTS

In the first quarter of fiscal year 2001, management of Coach committed to and announced a plan to cease production at the Medley, Florida manufacturing facility in October 2000, (the "Medley reorganization"). This reorganization involved the termination of 362 manufacturing, warehousing and management employees at the Medley facility. These actions are intended to reduce costs by the resulting transfer of production to lower cost third-party manufacturers. The Medley facility is a cost center and separate profitability measures are not available. This facility was treated as a held-for-sale facility under SFAS 121 since the decision to dispose of it was made. Depreciation expense of $252 and $852 for fiscal year 2001 and 2000, respectively, was recognized for this facility.

Coach recorded reorganization costs of $4,950 in the first quarter of fiscal year 2001. In the second half of fiscal year 2001, this charge was reduced to $4,569. These reductions were primarily due to the complete disposition of the fixed assets. The net proceeds from the disposition were greater than the estimate. These reorganization costs include $3,103 for worker separation costs, $832 for lease termination costs, and $634 for the write-down of long-lived assets to their net realizable values. The $4,569 of Medley reorganization cost recognized in the financial statements for fiscal year 2001 differs from management's earlier estimate of $6,300 included in the notes to the fiscal year 2000 financial statements. This change is attributable to management's continued negotiations with both the landlord and the employees at the facility and the resulting refinement of the cost estimates made prior to the finalization and recognition of this plan of reorganization.

The composition of the reorganization reserve is set forth in the table below. By June 30, 2001, production ceased at the Medley facility, disposition of the fixed assets had been accomplished and the termination of the 362 employees had been completed. The Medley reorganization actions are complete and the reserve was fully utilized.

	REVISED REORGANIZATION RESERVES	WRITE-DOWN OF LONG-LIVED ASSETS TO NET REALIZABLE VALUE	CASH PAYMENTS	REORGANIZATION RESERVES AS OF JUNE 30, 2001
Workers' separation costs	$3,103	$ –	$(3,103)	$ –
Lease termination costs	832	–	(832)	–
Losses on disposal of fixed assets	634	(634)	–	–
Total reorganization reserve	$4,569	$(634)	$(3,935)	$ –

During 1999, Coach closed its Carlstadt, New Jersey warehouse and distribution center, and its Italian manufacturing operation and reorganized its Medley, Florida manufacturing facility (the "Carlstadt reorganization"). As contemplated in the original plan, a portion of the Carlstadt facility remains in use for product development. Related to these facility closures and the reorganization activities, 737 employees were terminated. At July 1, 2000 these reorganization actions were complete and certain workers' separation costs remained to be paid subject to the separation agreements with each employee. During fiscal 2001 workers' separation costs of $142 were paid. The Carlstadt reorganization is now complete and the reserve was fully utilized.

9. STOCK-BASED COMPENSATION

SARA LEE STOCK-BASED PLANS

For the period through the completion of the exchange offer in April 2001 Coach employees participated in stock-based compensation plans of Sara Lee. Sara Lee maintains various stock option, employee stock purchase and stock award plans.

STOCK OPTIONS. The exercise price of each stock option equals 100% of the market price of Sara Lee's stock on the date of grant and generally has a maximum term of 10 years. Options generally vest ratably over three years. During 1998, Sara Lee instituted a broad-based stock option incentive program under which Sara Lee granted options, to essentially all full-time Coach employees, to purchase a total of approximately 449 shares of Sara Lee common stock. Under certain stock option plans, an active employee may receive a Sara Lee 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.

A summary of options held by Coach employees and retirees under Sara Lee option plans follows:

	NUMBER OF SARA LEE OUTSTANDING OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE	EXERCISABLE SHARES	WEIGHTED-AVERAGE EXERCISE PRICE
Outstanding at June 27, 1998	1,429	$22.43	246	$20.96
Granted	584	24.92		
Exercised	(232)	17.74		
Canceled/Expired	(263)	22.63		
Outstanding at July 3, 1999	1,518	22.63	603	23.02
Granted	563	22.69		
Exercised	(167)	24.01		
Canceled/Expired	(216)	21.89		
Transfers	111	19.26		
Outstanding at July 1, 2000	1,809	23.06	935	23.44
Converted	(1,204)	24.11		
Granted	6	19.87		
Exercised	(67)	17.70		
Canceled/Expired	(240)	22.21		
Outstanding at June 30, 2001	304	$20.21	298	$20.13

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

FISCAL YEAR ENDED	JUNE 30, 2001	JULY 1, 2000	JULY 3, 1999
Expected lives (years)	3.0	4.0	3.5
Risk-free interest rate	5.4%	5.9%	5.2%
Expected volatility	33.6%	27.0%	24.1%
Dividend yield	2.8%	2.6%	1.8%

The weighted-average fair value of individual options granted during 2001, 2000 and 1999 was $4.65, $4.96 and $4.73, respectively.

EMPLOYEE STOCK PURCHASE PLAN ("ESPP"). Sara Lee maintained an ESPP that permitted full-time Coach employees to purchase a limited number of Sara Lee common shares at 85% of market value. Under the plan, Sara Lee sold 57, 100 and 81 shares to Coach employees in fiscal years 2001, 2000 and 1999, respectively. Pro forma compensation expense is calculated for the fair value of the employees' purchase rights using the Black-Scholes model. Assumptions include an expected life of ¼ of a year and weighted-average risk-free interest rates of 5.4%, 5.4% and 4.6% in fiscal years 2001, 2000 and 1999, respectively. Other underlying assumptions are consistent with those used for the Sara Lee stock option plans described above.

STOCK UNIT AWARDS. Restricted stock unit awards of Sara Lee stock are granted to Coach employees as performance awards and retention awards. The value of performance awards is determined assuming the employee meets the performance requirements and based upon the estimated fair value of the stock earned at the end of the performance cycle. The value is accrued through a charge to earnings as the award vests. The vesting period is typically three years. The value of retention awards is determined assuming the employee meets the retention requirements and based upon the fair value of the Sara Lee stock at the grant date. The value is accrued through a charge to earnings over the retention period. The retention period is typically three years.

All stock unit awards are restricted and subject to forfeiture and entitle the participant to dividends that are escrowed until the participant receives the shares. The expense related to these awards for fiscal years 2001, 2000 and 1999 was $1,043, $963 and $660, respectively.

COACH STOCK-BASED PLANS

Coach established 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 our Board of Directors. 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.

Concurrent with the initial public offering in October 2000, Coach granted 3,191 options to essentially all full-time employees and 15 options to outside members of the Board of Directors at the initial public offering price of $16.

Certain employees with the title of Director or above who held Sara Lee stock options at the initial public offering date were given the right to convert the Sara Lee options into Coach options. Any Sara Lee option converted into a Coach option generally may not be exercised until the earlier of one year following conversion, or at the time Sara Lee ceases to own at least 80% of Coach's outstanding capital stock, subject to the original vesting requirements. Coach employees, at the initial public offering date, converted 1,204 Sara Lee options into the same number of Coach options while maintaining the same exercise price.

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

	NUMBER OF COACH OUTSTANDING OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE	EXERCISABLE SHARES	EXERCISE PRICE
Outstanding at July 1, 2000	–	$ –	–	$ –
Granted at the initial public offering	3,206	16.00		
Sara Lee options converted	1,204	24.12		
Granted	672	28.33		
Exercised	(241)	18.11		
Canceled/Expired	(119)	17.66		
Outstanding at June 30, 2001	4,722	$19.81	875	$24.12

The following table summarizes information about stock options held by Coach employees under Coach option plans at June 30, 2001.

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING AT JUNE 30, 2001	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE (YEARS)	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE AT JUNE 30, 2001	WEIGHTED-AVERAGE EXERCISE PRICE
$16.00–20.00	2,943	8.6	$16.03	86	$16.59
$20.01–25.00	934	7.6	22.91	462	22.86
$25.01–37.10	845	6.5	29.36	327	27.89
	4,722	8.0	$19.81	875	$24.12

The fair value of each Coach option grant is estimated on the date of grant using the Black-Scholes option-pricing model and the assumption for expected lives of three years, a risk-free interest rate of 5.97%, expected volatility of 49% and no dividend yield.

The weighted-average fair value of individual options granted during fiscal 2001 was $6.67. Under APB 25, no compensation cost is recognized for stock options and replacement stock options under the stock-based compensation plans and shares purchased under ESPP. Had compensation cost for the grants for stock-based compensation been determined consistent with the SFAS 123, net income and net income per share basic and diluted for fiscal 2001 would have been as follows:

FISCAL YEAR ENDED	JUNE 30, 2001	JULY 1, 2000	JULY 3, 1999
Net income	$58,884	$36,051	$14,615
Net income per share			
Basic	$ 1.44	$ 1.03	$ 0.42
Diluted	$ 1.40	$ 1.03	$ 0.42

10. RETIREMENT PLANS

Coach sponsors a noncontributory defined benefit plan, The Coach Leatherware Company, Inc. Supplemental Pension Plan, for individuals who are a part of collective bargaining arrangements.

Employees who meet certain eligibility requirements and are not part of a collective bargaining arrangement participate in defined benefit pension plans sponsored by Sara Lee. These defined benefit pension plans include employees from a number of domestic Sara Lee business units. The annual cost of the Sara Lee defined benefit plans is allocated to all of the participating businesses based upon a specific actuarial computation. All obligations pursuant to these plans are obligations of Sara Lee and will continue to be obligations of Sara Lee.

The annual expense incurred by Coach for the defined benefit plans is as follows:

FISCAL YEAR ENDED	JUNE 30, 2001	JULY 1, 2000	JULY 3, 1999
Coach Leatherware Company, Inc.			
Supplemental Pension Plan	$ 110	$ 173	$ 386
Participation in Sara Lee sponsored defined benefit plans	3,542	2,154	2,304
Total expense	$3,652	$2,327	$2,690

The components of the Coach Leatherware Company, Inc. Supplemental Pension Plan were:

FISCAL YEAR ENDED	JUNE 30, 2001	JULY 1, 2000	JULY 3, 1999
Components of defined benefit net periodic pension cost (benefit):			
Service cost	$ 183	$ 192	$ 436
Interest cost	337	314	282
Expected return on assets	(415)	(359)	(361)
Amortization of:			
Net initial asset	(48)	(50)	(50)
Prior service cost	29	29	59
Net actuarial loss	24	47	20
Net periodic pension cost	$ 110	$ 173	$ 386

The funded status of the Coach Leatherware Company, Inc. Supplemental Pension Plan at the respective year-ends was:

FISCAL YEAR ENDED	JUNE 30, 2001	JULY 1, 2000	JULY 3, 1999
Projected benefit obligation:			
Beginning of year	$5,289	$5,109	$4,583
Service cost	183	192	436
Interest cost	337	314	282
Benefits paid	(177)	(148)	(105)
Actuarial gain	(117)	(178)	(87)
Benefit obligation at end of year	$5,515	$5,289	$5,109

FISCAL YEAR ENDED	JUNE 30, 2001	JULY 1, 2000	JULY 3, 1999
Fair value of plan assets:			
Beginning of year	$4,990	$4,306	$4,313
Actual return (loss) on plan assets	(208)	541	(99)
Employer contributions	–	291	197
Benefits paid	(177)	(148)	(105)
Fair value of plan assets at end of year	$4,605	$4,990	$4,306

FISCAL YEAR ENDED	JUNE 30, 2001	JULY 1, 2000	JULY 3, 1999
Funded Status	$ (909)	$(299)	$ (803)
Unrecognized:			
Prior service cost	$ 1	$ 205	$ 234
Net actuarial loss	1,156	674	1,081
Net initial asset	–	(48)	(98)
Prepaid benefit cost recognized	$ 248	$ 532	$ 414
Amounts recognized on the consolidated balance sheets:			
Other noncurrent assets	$ 1	$ 205	$ 234
Noncurrent benefit liability	(909)	(299)	(803)
Accumulated other comprehensive income	1,156	626	983
Prepaid benefit cost recognized	$ 248	$ 532	$ 414

Net pension expense for the Coach Leatherware Company, Inc. Plan is determined using assumptions as of the beginning of each year. Funded status is determined using assumptions as of the end of each year.

The assumptions used at the respective year-ends were:

FISCAL YEAR ENDED	JUNE 30, 2001	JULY 1, 2000	JULY 3, 1999
Discount rate	6.50%	6.50%	6.25%
Long-term rate of return on plan assets	8.50%	8.25%	8.50%
Rate of compensation increase	5.50%	5.50%	4.50%

11. SEGMENT INFORMATION

The Company operates its business in two reportable segments: Direct to Consumer and Indirect. The Company's reportable segments represent channels of distribution that offer similar merchandise, service and marketing strategies. Sales of Coach products through Company-owned retail and factory stores, the Coach catalogue and the internet constitute the Direct to Consumer segment. Indirect refers to sales of Coach products to other retailers. 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 at standard cost less direct expenses of the segment. Unallocated corporate expenses include manufacturing variances, general marketing, administration and information systems, distribution and customer service expenses.

FISCAL 2001	DIRECT TO CONSUMER	INDIRECT	CORPORATE UNALLOCATED	TOTAL
Net sales	$391,776	$224,303	$ –	$616,079
Operating income (loss)	120,330	89,516	(108,158)	101,688
Interest expense, net	–	–	2,258	2,258
Income (loss) before provision for income taxes	120,330	89,516	(110,416)	99,430
Provision for income taxes	–	–	35,400	35,400
Depreciation and amortization	14,600	1,525	8,006	24,131
Total assets	135,760	60,374	62,577	258,711
Additions to long-lived assets	24,823	2,568	4,477	31,868

FISCAL 2000	DIRECT TO CONSUMER	INDIRECT	CORPORATE UNALLOCATED	TOTAL
Net sales	$352,006	$196,912	$ –	$548,918
Operating income (loss)	103,161	68,011	(115,155)	56,017
Interest expense, net	–	–	387	387
Income (loss) before provision for income taxes	103,161	68,011	(115,542)	55,630
Provision for income taxes	–	–	17,027	17,027
Depreciation and amortization	10,952	1,585	10,091	22,628
Total assets	122,029	51,953	122,671	296,653
Additions to long-lived assets	18,930	1,202	5,928	26,060

FISCAL 1999	DIRECT TO CONSUMER	INDIRECT	CORPORATE UNALLOCATED	TOTAL
Net sales	$336,506	$171,275	$ –	$507,781
Operating income (loss)	80,615	53,193	(114,333)	19,475
Interest expense, net	–	–	414	414
Income (loss) before provision for income taxes	80,615	53,193	(114,747)	19,061
Provision for income taxes	–	–	2,346	2,346
Depreciation and amortization	9,876	2,153	10,227	22,256
Total assets	116,200	48,539	117,349	282,088
Additions to long-lived assets	6,308	434	6,777	13,519

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

FISCAL YEAR ENDED	JUNE 30, 2001	JULY 1, 2000	JULY 3, 1999
Manufacturing variances	$ (170)	$ (10,230)	$ (13,641)
Advertising, marketing and design	(44,837)	(40,336)	(32,514)
Administration and information systems	(35,011)	(41,928)	(35,187)
Distribution and customer service	(23,571)	(22,661)	(25,883)
Reorganization costs	(4,569)	–	(7,108)
Total corporate unallocated	$(108,158)	$(115,155)	$(114,333)

GEOGRAPHIC AREA INFORMATION. As of June 30, 2001, Coach operates 121 retail stores and 68 factory stores in the United States, two retail locations in the United Kingdom, and operates five manufacturing, distribution, product development and quality control locations in the United States, Puerto Rico, Italy and China. Geographic revenue information is based on the location of the end customer. Geographic long-lived asset information is based on the physical location of the assets at the end of each period.

FISCAL 2001	UNITED STATES	JAPAN	OTHER INTERNATIONAL[1]	TOTAL
Net sales	$533,058	$45,596	$37,425	$616,079
Long-lived assets	86,871	572	338	87,781

FISCAL 2000	UNITED STATES	JAPAN	OTHER INTERNATIONAL[1]	TOTAL
Net sales	$488,843	$31,443	$28,632	$548,918
Long-lived assets	80,382	–	611	80,993

FISCAL 1999	UNITED STATES	JAPAN	OTHER INTERNATIONAL[1]	TOTAL
Net sales	$463,027	$25,166	$19,588	$507,781
Long-lived assets	77,272	–	677	77,949

(1) Other International sales reflect shipments to third-party distributors primarily in East Asia and sales from Coach-operated retail stores in the United Kingdom, Germany and Italy. The German stores and the Italian store were closed in 1999.

12. EARNINGS PER SHARE

Prior to October 2, 2000, Coach operated as a division of Sara Lee and did not have any shares outstanding. The initial capitalization of Coach, Inc. was one share. On October 2, 2000, a stock dividend was declared resulting in 35,026 shares held by Sara Lee. The number of shares outstanding has been restated to reflect the effect of this stock dividend for all periods presented. During October 2000, the initial public offering of our common stock was accomplished resulting in the issuance of an additional 8,487 shares. Following the offering, 43,513 shares were outstanding. Dilutive securities include share equivalents held in employee benefit programs and the impact of stock option programs.

The following is a reconciliation of the weighted-average shares outstanding:

FISCAL YEAR ENDED	JUNE 30, 2001	JULY 1, 2000	JULY 3, 1999
Shares held by Sara Lee[1]	26,943	35,026	35,026
Shares held by the public	13,987	–	–
Total basic shares	40,930	35,026	35,026
DILUTIVE SECURITIES			
Employee benefit and stock award plans	122	–	–
Stock option programs	1,104	–	–
Total diluted shares	42,156	35,026	35,026

(1) As of April 5, 2001, Sara Lee divested all its shares in Coach.

Diluted net income per share was $1.52 in fiscal 2001. This reflects a weighted-average of the shares outstanding before and after the public offering of common stock in October 2000. If the common shares sold in the October 2000 initial public offering had been outstanding for the entire year, net income before the impact of reorganization costs per diluted share would have been $1.50. Prior years' diluted net income per share was $1.10 and $0.48 for fiscal 2000 and 1999, respectively, since only the shares owned by Sara Lee are used in the calculation. Comparable net earnings per share would have been $0.89 and $0.38 for fiscal 2000 and 1999, respectively, if the common shares sold in the October 2000 initial public offering had been outstanding for the prior periods.

13. RELATIONSHIP WITH SARA LEE

For the periods presented, intercompany transactions and balances between Coach and Sara Lee consisted of the following:

FISCAL YEAR ENDED	JUNE 30, 2001	JULY 1, 2000	JULY 3, 1999
(Receivable) payable balance at beginning of period	$ (63,783)	$ (54,150)	$ 11,088
Capitalization of intercompany balance	63,783	–	–
Cash collections from operations	(482,971)[1]	(573,122)	(529,043)
Cash borrowings	451,534[1]	541,047	445,154
Allocations of corporate expenses and charges	31,437	22,442	18,651
Receivable balance at end of period	$ –	$ (63,783)	$ (54,150)

(1) Activity through February 27, 2001.

Three types of intercompany transactions were recorded in the Coach intercompany account with Sara Lee: cash collections from Coach's operations that were deposited into the intercompany account; cash borrowings which were used to fund operations; and allocations of corporate expenses and charges. Cash collections included all cash receipts required to be deposited into the intercompany account as part of the Sara Lee cash concentration system. Cash borrowings made by Coach from the Sara Lee cash concentration system were used to fund operating expenses.

Allocations of corporate expenses and charges consisted of expenses for business insurance, medical insurance, employee benefit plan amounts, income, employment and other tax amounts and allocations from Sara Lee for certain centralized administration costs for treasury, real estate, accounting, auditing, tax, risk management, human resources and benefits administration.

14. 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 Coach's 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. The Company is currently aware of two institutional shareholders whose common stock holdings exceed the 10% threshold established by the rights plan. Each of these holders has been given permission to increase its ownership in the Company to a maximum of 15%, subject to certain exceptions, before triggering the provision of the rights plan.

15. FORMATION OF COACH JAPAN, INC.

In June 2001, Coach Japan, Inc. ("CJI") was formed. This entity is a joint venture with Sumitomo Corporation and will manage the Coach business in Japan. Coach owns 50% of CJI and has appointed a majority of the Board of Directors. It will be accounted for as a consolidated subsidiary.

CJI plans to open additional locations within existing major retailers, enter new department store relationships and open freestanding retail locations. There are currently a total of 76 Coach locations in Japan including 62 department stores and 14 retail stores managed by two distributors.

16. SUBSEQUENT EVENT

On July 31, 2001, CJI completed the purchase of PDC from the Mitsukoshi Department Store Group ("Mitsukoshi") for a total purchase price of $7,194. Mitsukoshi established PDC in 1991 to expand Coach distribution to select department stores throughout Japan. With this acquisition, CJI will manage all locations currently operated by Mitsukoshi, who will remain a key retailer for the brand. Excess purchase price over fair market value of the underlying net assets was allocated to goodwill based on preliminary estimates of fair values, and is subject to adjustment. Goodwill will be reviewed annually for impairment. The fair value of assets acquired was $21,042 and liabilities assumed was $15,394. Included in the liabilities is an assumption of debt of $13,430. Annual net sales of PDC in 2001 was $47,476 for the fiscal year ended February 28, 2001. In August 2001 operations commenced. Unaudited pro forma information related to this acquisition is not included, as the impact of this transaction is not material to the consolidated results of the Company. The acquisition does not violate the covenants of the Fleet facility.

17. QUARTERLY FINANCIAL DATA (UNAUDITED)

	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
FISCAL 2001				
Net sales	$134,552	$214,158	$130,598	$136,771
Gross profit	84,988	140,012	85,326	87,246
Net income	7,591	39,204	7,993	9,242
Earnings per common shares:				
Basic	$ 0.17	$ 0.90	$ 0.18	$ 0.21
Diluted	$ 0.17	$ 0.88	$ 0.18	$ 0.20
FISCAL 2000				
Net sales	$118,032	$194,128	$115,072	$121,686
Gross profit	63,305	120,487	70,237	74,804
Net income	2,049	28,262	3,034	5,258
Earnings per common shares:				
Basic	$ 0.05	$ 0.81	$ 0.09	$ 0.15
Diluted	$ 0.05	$ 0.81	$ 0.09	$ 0.15

The sum of the quarterly net earnings per share amounts 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 H. ELLIS
Advisory Director,
Goldman, Sachs & Co.

PAUL FULTON
Chairman of the Board,
Bassett Furniture
Industries, Inc.

GARY GROM
Senior Vice President,
Sara Lee Corporation

IRENE R. MILLER
Chief Executive Officer,
Akim, Inc.

KEITH MONDA
Executive Vice 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
Executive Vice President,
Chief Operating Officer

DAVID DEMATTEI
President,
Retail Division

REED KRAKOFF
President,
Executive Creative Director

RICHARD RANDALL
Senior Vice President,
Chief Financial Officer

CAROLE SADLER
Senior Vice President,
General Counsel and Secretary

FELICE SCHULANER
Senior Vice President,
Human Resources

SENIOR MANAGEMENT OF THE COMPANY

KATE BUGGELN
Senior Vice President,
Strategic Planning and
Business Development

PETER EMMERSON
President,
International

JOANN KUSS
Senior Vice President,
Worldwide Merchandising

DANIEL NOCKELS
Senior Vice President, Operations

MARY WANG
President,
U.S. Wholesale

IAN BICKLEY
President,
Japan

LAWRENCE BREWER
Vice President,
Business Applications

ARLENE BRICKNER
Vice President,
Creative Services and
Public Relations

THOMAS BRITT
Vice President,
Chief Information Officer

DAVID DUPLANTIS
Vice President,
Merchandise Planning

FRED FRIESENHAHN
Vice President,
Leather Management

RANDEE JACKSON
Vice President,
Retail Stores

ANDREA LALIBERTE
Vice President,
Distribution and
Customer Service

RICHARD MYERS
Vice President,
Logistics and Planning

GEORGE NUNNO
Vice President,
Design

JAMES OFFUTT
Vice President,
Factory Stores

GABRIEL SACA
Vice President,
Global Sourcing

PAUL SPITZBERG
Vice President,
Special Markets

ELIZABETH STANLEY-BROWN
Vice President,
Product Development
and Quality

PATRICK WADE
Vice President,
Visual Merchandising
and Store Design

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 7, 2001,
9:00 a.m.
The Hudson
356 West 58th Street
New York, New York

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, Divisional 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 our Investor Relations Department 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 2001 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

Arthur Andersen LLP
1345 Avenue of the Americas
New York, New York 10105

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". Prior to our October 5, 2000 initial public offering, there was no established public trading market for any of the Company's securities. The following table sets forth, for the fiscal year 2001, 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 30	$ –	$ –
December 30	28.75	16.00
March 31	36.00	22.44
June 30	38.49	23.59
Closing price	$38.05	

Coach has never declared or paid any cash dividends on our common stock. Coach currently intends to retain future earnings, if any, for use in its business and does not anticipate paying 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

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