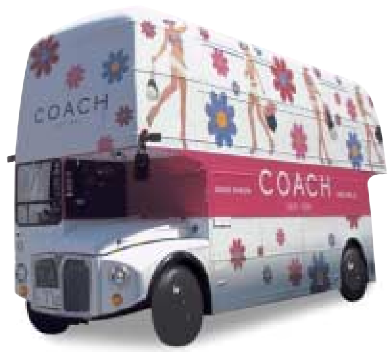
COACH

EST. 1941

ANNUAL REPORT 2003



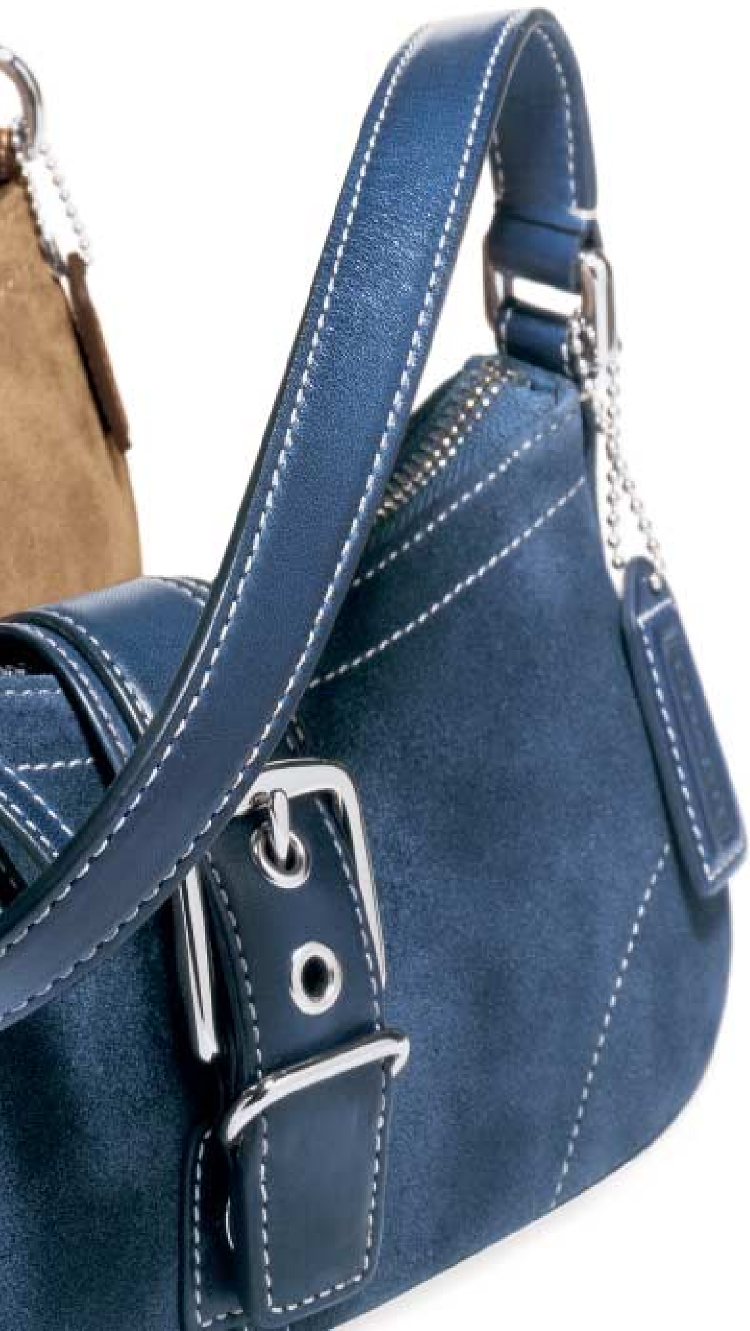
“our road map for growth is unique”

Lew Frankfort, Chairman and CEO

FINANCIAL HIGHLIGHTS

(SHARES AND DOLLARS IN MILLIONS, EXCEPT FOR PER SHARE AMOUNTS)
(Note: Amounts disclosed below exclude the impact of reorganization costs)

	2003	2002	INCREASE/(DECREASE)
Net sales	**$953.2**	$719.4	32.5%
Gross margin	**71.1 %**	67.2 %	388 bps
Operating income	**$243.8**	$137.0	77.9%
Operating income as a percentage of net sales	**25.6 %**	19.0 %	
Net income	**$146.6**	$ 88.0	66.6%
Net income as a percentage of net sales	**15.4 %**	12.2 %	
Net income per diluted share	**$ 1.58**	$ 0.97	63.1%
Weighted-average number of common shares (diluted)	**92.9**	91.0	
Net cash position	**$202.7**	$ 59.8	$142.9
Stockholders' equity per share	**$ 4.67**	$ 2.91	



TO OUR SHAREHOLDERS:

Fiscal 2003 was another successful year for our company, as we generated superior results on every financial metric. Our performance reflected the increasing vitality of the Coach brand, and the relevance of the product offering across all of our business units.

Coach's continued success is built upon an unwavering commitment to the brand's core values and to the long-term growth strategies that we have put into place. And most importantly, to the loyal Coach consumer, who anchors our brand and will continue to be our focus as we grow in the future.

Furthermore, we have built a unique business model based on key differentiating elements that set our company apart from the competitive landscape and make Coach a truly distinctive proposition. Our strategies for growth build upon this model and should allow our company to continue to generate superior financial results over the planning horizon.

Sales for fiscal 2003 rose 32% to $953.2 million, with all channels of distribution posting increases from prior year levels. We were particularly pleased with the performance of our retail stores in the United States and in Japan, as we continued to expand our market share. Both new and existing stores outpaced our expectations, driven by new product introductions, which addressed an increasing portion of our consumers' usage occasions. In addition, we saw ongoing momentum in collections such as Signature and Hamptons, which were enhanced during the fiscal year.

Gross margin for the year climbed to over 71% driven by channel mix, product mix and sourcing cost initiatives; as well as by the consolidation of Coach Japan, Inc. At the same time, selling, general, and administrative expenses as a percentage of net sales declined to about 46% due to operating leverage achieved in the U.S. and other non-Japan businesses. For the full year the company's operating margin rose to nearly 26%, a remarkable expansion of over 600 basis points from fiscal 2002 levels.

• Direct-to-consumer sales, which consist primarily of sales at Coach stores, rose 25% to $559.6 million in fiscal 2003. These results were generated by higher comparable store sales as well as new and expanded stores.

• Indirect sales increased 45% to $393.7 million, driven primarily by strong gains at Coach Japan. The results in Japan reflected both double-digit gains in comparable location sales and the outstanding performance of new stores. In fiscal 2003, sales at Coach Japan accounted for over 18% of revenues.

Fiscal 2003 was a year of continued progress in all geographies and channels. In Japan, we continued to strengthen the infrastructure necessary to support significant additional growth in this market. Additionally, we opened our second Japanese flagship store, located in the Shibuya section of Tokyo, with great success. In the United States, we added 20 net new stores and expanded nine others. Also in the United States, we reaped the benefit of our department store reassortment strategy and realized significant increases in market share and point-of-sale revenues in this channel.

While the past year was truly spectacular, perhaps the most significant learning gleaned from our results was that substantial organic growth remains in the core concept as it exists today. We have become a true, year-round fashion resource, highlighted by the fact that our most significant growth occurred in the nonholiday quarters. Looking ahead, we believe that our competitive strengths, along with the growth strategies that we have implemented, will enable us to achieve continued financial success.

Lew Frankfort

Lew Frankfort,
Chairman and CEO

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Key Elements of Success

THE COACH

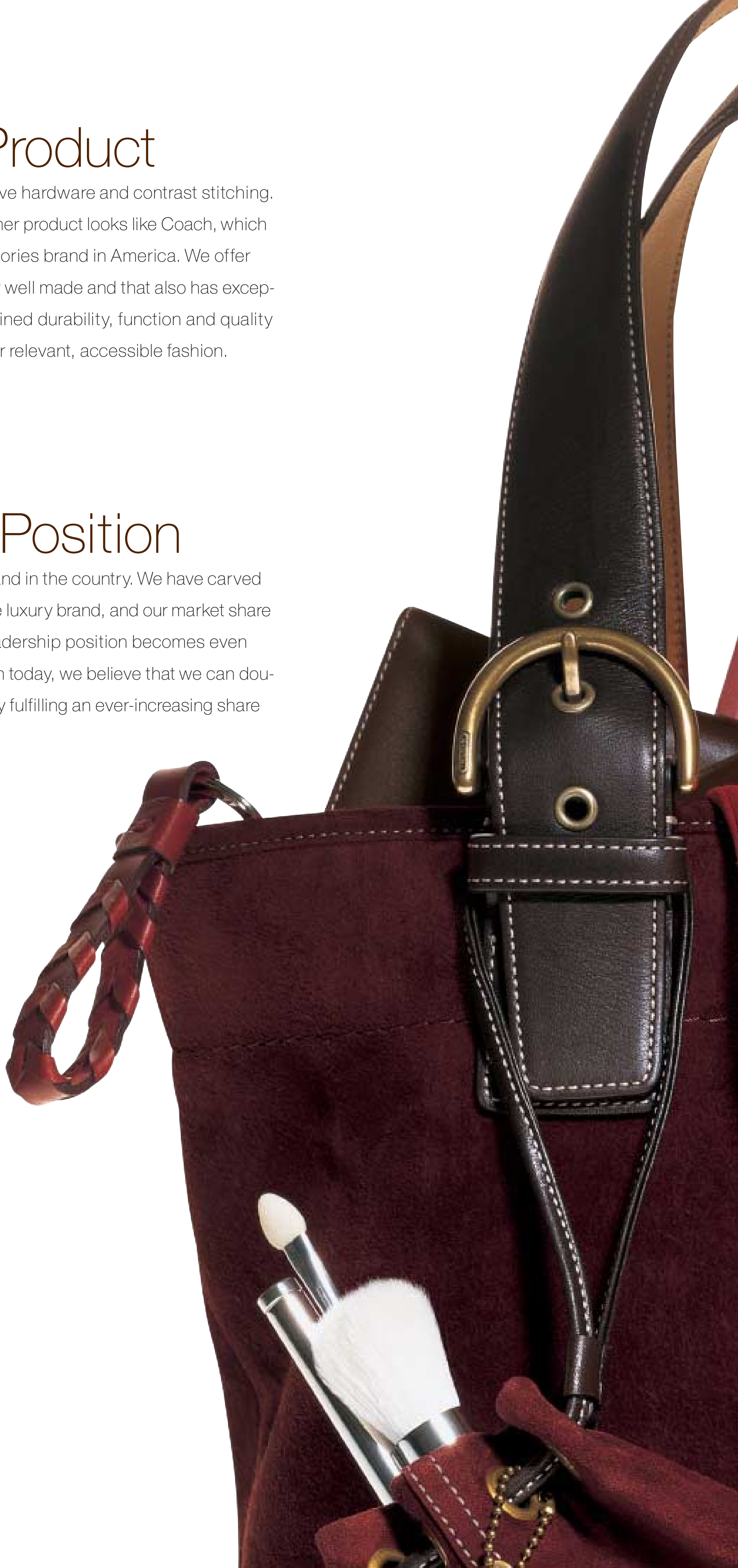
COMPETITIVE DIFFERENCE

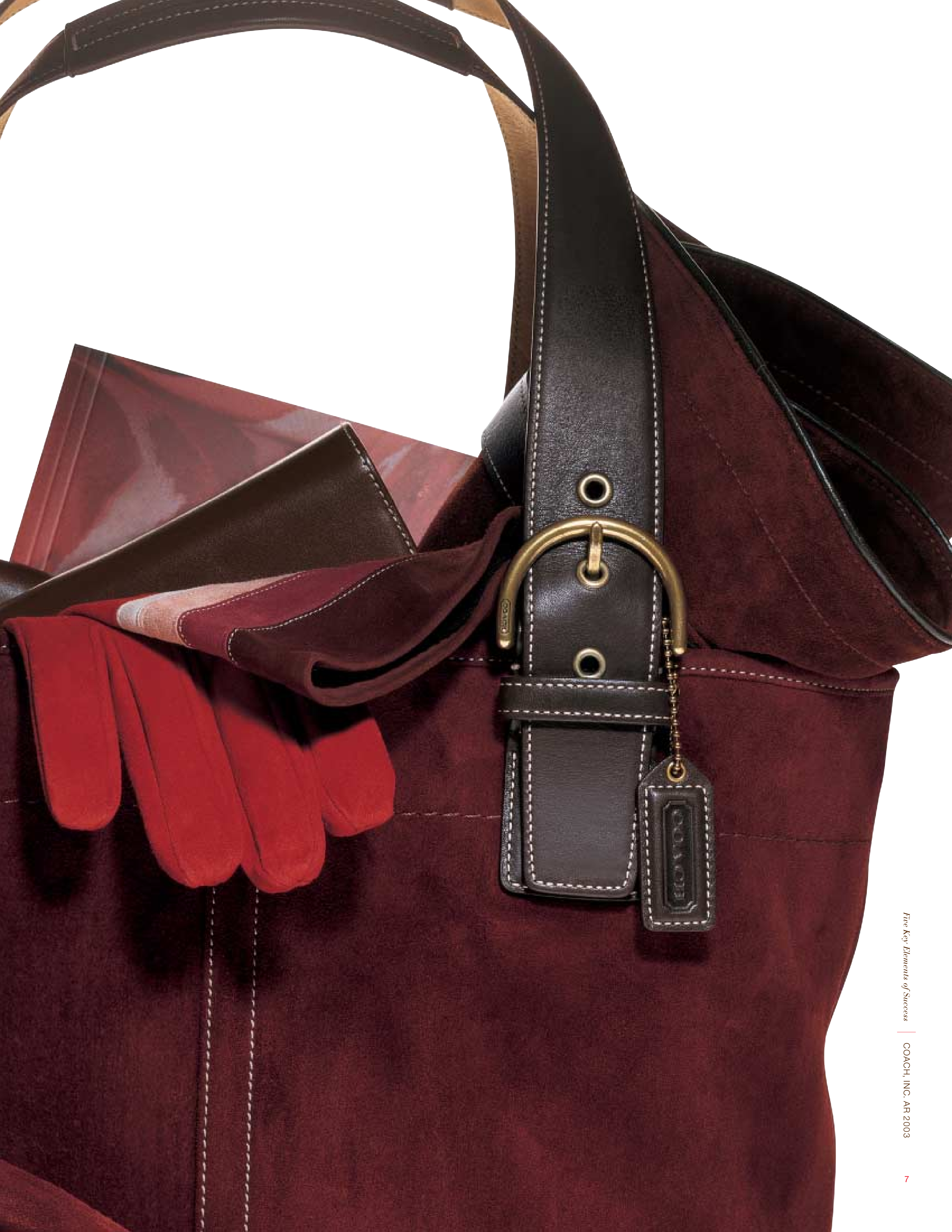
1 Distinctive Product

Classic American styling. Distinctive hardware and contrast stitching. The highest quality leathers. No other product looks like Coach, which is part of what makes Coach a leading accessories brand in America. We offer a unique, aspirational product that is extremely well made and that also has exceptional value. And while Coach has always defined durability, function and quality craftsmanship, today the brand also stands for relevant, accessible fashion.

2 Leadership Position

Coach is a leading accessories brand in the country. We have carved out a unique niche as an accessible luxury brand, and our market share continues to grow. As our share grows, our leadership position becomes even stronger. Although we hold a dominant position today, we believe that we can double our market share over the next few years by fulfilling an ever-increasing share of our consumers' accessory requirements.




COACH

3 Loyal Customer

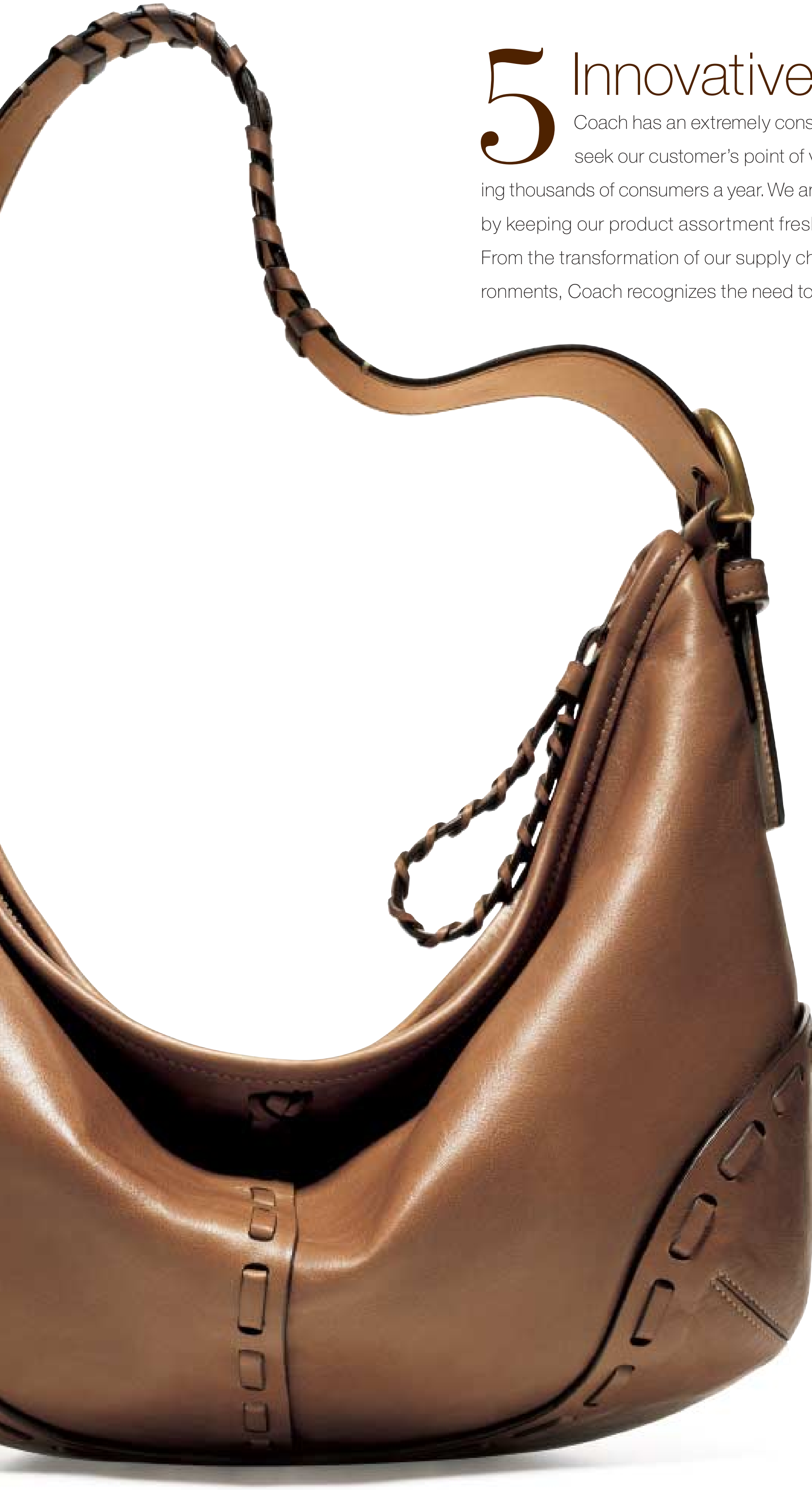
Perhaps the most important element of the Coach competitive proposition is our loyal and involved customer. Coach consumers have a specific emotional connection with the brand. Our database allows us to reach millions of active Coach users, and every day we work to reinforce this emotional connection through our internet, advertising and direct marketing communications. As a result of these ongoing efforts, approximately nine out of 10 Coach consumers express a positive intent to repurchase.

4 Critical Balance

Coach's strong, international multi-channel business enables us to maintain a healthy balance that does not depend upon the performance of a single channel. Approximately 60% of our revenues are derived from direct-to-consumer channels – Coach stores, catalogue and Internet businesses. The remaining 40% are derived from indirect channels – international, domestic department stores and business-to-business. We also have an extremely strong and profitable factory store business in the United States.

5 Innovative Nature

Coach has an extremely consumer-centric and innovative nature. We seek our customer's point of view through rigorous research, interviewing thousands of consumers a year. We anticipate the customer's changing needs by keeping our product assortment fresh and relevant. And we embrace change. From the transformation of our supply chain to the rejuvenation of our retail environments, Coach recognizes the need to evolve.



Reed Krakoff
President, Executive Creative Director

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Key Strategies for Growth

HOW WE ACCELERATE AND SUSTAIN GROWTH

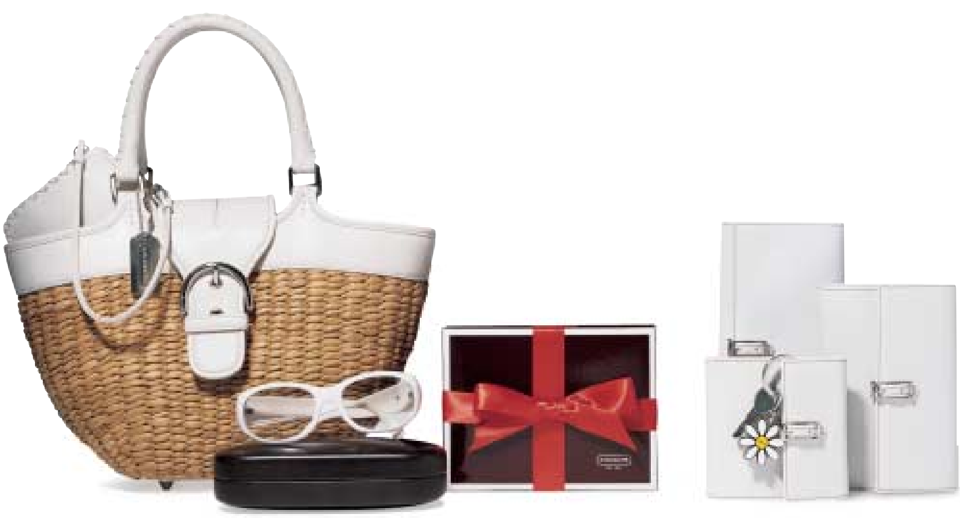
1 Greater Share

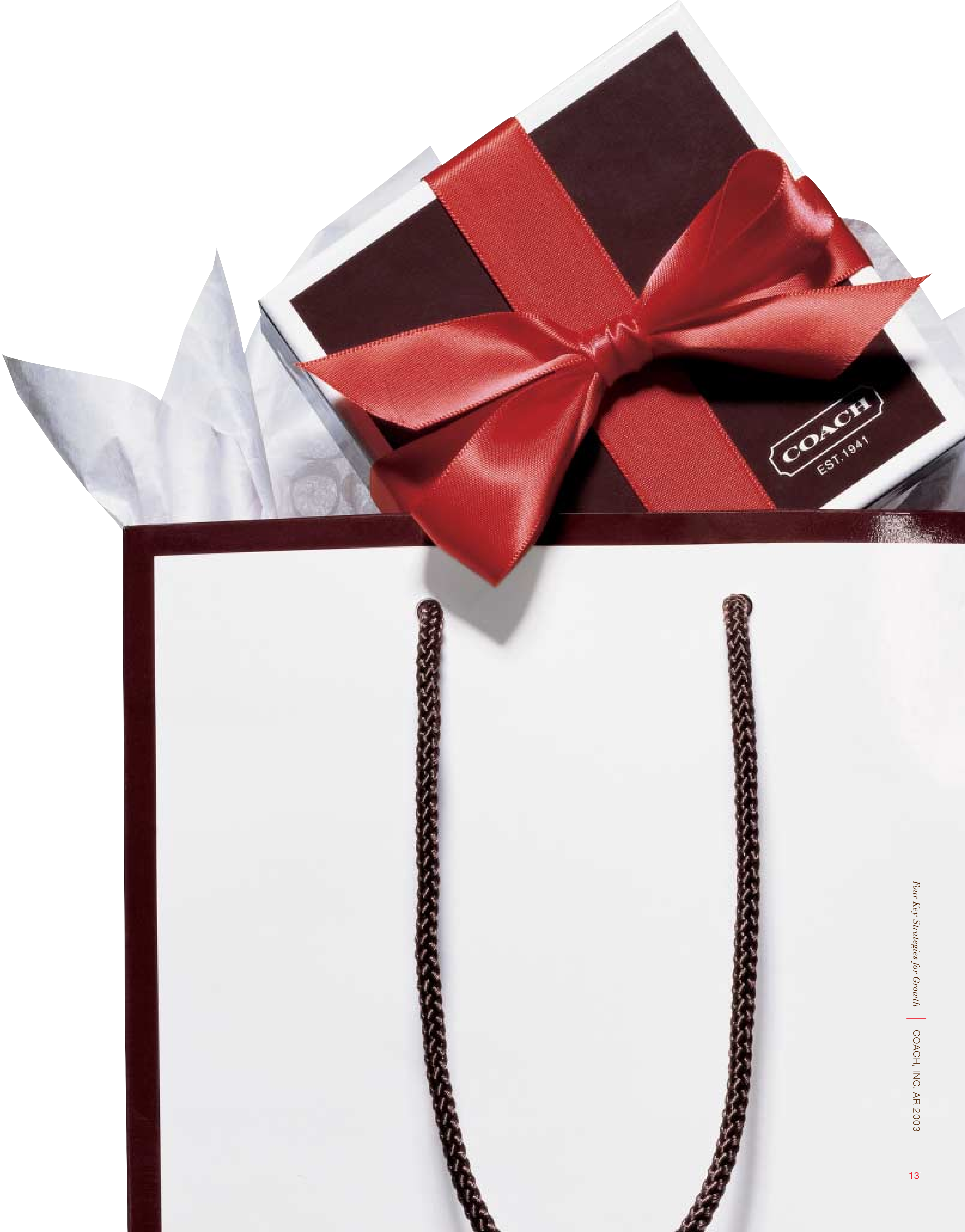
Coach continues to drive market share by leveraging our unique leadership position as an accessible luxury lifestyle brand. We are constantly building awareness of Coach as a 365-day-a-year resource for self-purchase and gifts. Part of our strategy is to emphasize new usage occasions, including weekends and evenings, while offering a broader range of items at a wide array of price points. As a result, we are capturing a greater share of our consumer's accessory wardrobe.

2 Higher Margins

Coach continues to enhance operating margins by expanding our gross margin and by leveraging our expenses. With our highest gross margin channels – U.S. retail and Coach Japan – also our fastest growing businesses, we anticipate that channel mix will be a primary contributor to future margin expansion. We're confident that our operating margin will continue to expand significantly in each of the next three years.

Keith Monda
President, Chief Operating Officer

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EST. 1941


COACH
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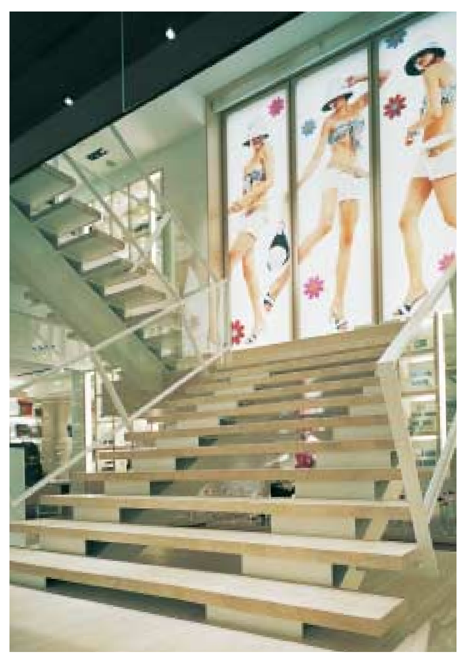
3 Bigger Presence

Coach has approximately 160 retail stores in the United States today. Our strategy is to drive momentum in our domestic stores through new openings while further improving our same store productivity. We plan to sustain growth by opening about 20 additional retail stores in each of the next several years, the majority of which will be located in existing Coach markets. Due to our strong market share gains, we believe that the Coach franchise can eventually support between 300 and 350 retail stores in the United States.

4 Broader Market

Coach is aggressively expanding market share in Japan. Our strategy is threefold. We will continue to open new Coach store locations, drive sales through improved store productivity and expand our most productive shop-in-shops at Japan's premier department stores. Coach now has two successful flagship stores in Tokyo. As a complement to our Ginza store, we recently opened another flagship in the Shibuya section of the city. We anticipate doubling our current Japanese market share over the next few years.



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Financial Data

Selected Financial Data (DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

The selected historical financial data presented below as of and for each of the fiscal years in the five-year period ended June 28, 2003 have been derived from Coach's audited Consolidated Financial Statements. The financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations," the Consolidated Financial Statements and Notes thereto and other financial data included elsewhere herein.

FISCAL YEAR ENDED	JUNE 28, 2003	JUNE 29, 2002	JUNE 30, 2001	JULY 1, 2000	JULY 3, 1999
CONSOLIDATED STATEMENTS OF INCOME:(1)					
Net sales	$ 953,226	$ 719,403	$ 600,491	$ 537,694	$ 500,944
Cost of sales	275,797	236,041	218,507	220,085	226,190
Gross profit	677,429	483,362	381,984	317,609	274,754
Selling, general and administrative expenses	433,667	346,354	275,727	261,592	248,171
Reorganization costs(2)	–	3,373	4,569	–	7,108
Operating income	243,762	133,635	101,688	56,017	19,475
Interest (income) expense, net	(1,059)	299	2,258	387	414
Income before provision for income taxes and minority interest	244,821	133,336	99,430	55,630	19,061
Provision for income taxes	90,585	47,325	35,400	17,027	2,346
Minority interest, net of tax	7,608	184	–	–	–
Net income	$ 146,628	$ 85,827	$ 64,030	$ 38,603	$ 16,715
Net income per share					
Basic	$ 1.63	$ 0.97	$ 0.78	$ 0.55	$ 0.24
Diluted	$ 1.58	$ 0.94	$ 0.76	$ 0.55	$ 0.24
Shares used in computing net income per share:					
Basic	89,779	88,048	81,860	70,052	70,052
Diluted	92,921	90,952	84,312	70,052	70,052
CONSOLIDATED PERCENTAGE OF NET SALES DATA:					
Gross margin	71.1%	67.2%	63.6%	59.1%	54.8%
Selling, general and administrative expenses	45.5%	48.1%	45.9%	48.7%	49.5%
Operating income	25.6%	18.6%	16.9%	10.4%	3.9%
Net income	15.4%	11.9%	10.7%	7.2%	3.3%
CONSOLIDATED BALANCE SHEET DATA:					
Working capital	$ 287,077	$ 128,160	$ 47,119	$ 54,089	$ 51,685
Total assets	617,652	440,571	258,711	296,653	282,088
Inventory	143,807	136,404	105,162	102,097	101,395
Receivable from Sara Lee	–	–	–	63,783	54,150
Revolving credit facility	26,471	34,169	7,700	–	–
Long-term debt	3,535	3,615	3,690	3,775	3,810
Stockholders' equity	$ 426,929	$ 260,356	$ 148,314	$ 212,808	$ 203,162

(1) Coach's fiscal year ends on the Saturday closest to June 30. Fiscal year 1999 was a 53-week year, while fiscal years 2000, 2001, 2002 and 2003 were 52-week years.

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

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

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

OVERVIEW

Coach was founded in 1941 and was acquired by Sara Lee Corporation in July 1985. In October 2000, Coach was listed on the New York Stock Exchange and sold 17.0 million shares of stock in an initial public offering. In April 2001, Sara Lee ended its ownership with a distribution of its remaining shares in Coach via an exchange offer.

Coach is a designer and marketer of high-quality, modern American classic accessories. Coach's primary product offerings include handbags, women's and men's accessories, business cases, weekend and travel accessories, personal planning products, leather outerwear, gloves and scarves.

Coach generates revenue by selling its products directly 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 156 Company-operated U.S. retail stores, 76 Company-operated U.S. factory stores, its direct mail catalogs and its e-commerce website. Indirect sales consist of sales of Coach products to approximately 1,400 department store and specialty retailer locations in the United States, 107 international department store, retail store, factory store and duty-free shop locations in 18 countries and 93 retail and department store locations managed by its joint venture Coach Japan, Inc. Coach generates additional wholesale sales through business-to-business programs, in which companies purchase Coach products to use as gifts or incentive rewards. Licensing revenues consist of royalties paid to Coach under licensing arrangements with select partners for the sale of Coach branded watches, footwear and furniture.

Coach's cost of sales consists of the costs associated with the sourcing of its products. Coach's gross profit is dependent upon a variety of factors and may fluctuate from quarter to quarter. These factors include changes in the mix of products it sells, fluctuations in cost of materials and changes in the relative sales mix among its distribution channels.

Selling, general and administrative expenses comprise four categories of expenses: selling; advertising, marketing and design; distribution and customer service; and administration and information services. Selling expenses comprise store employee compensation, store occupancy costs, store supply costs, wholesale account administration compensation and all Coach Japan operating expenses. Advertising, marketing and design expenses include employee compensation, media space and production, advertising agency fees, new product design costs as well as public relations, market research expenses and mail order costs. Distribution and customer services expenses comprise warehousing, order fulfillment, shipping and handling, customer service and bag repair costs. Administration and information services expenses comprise compensation costs for the information systems, executive, finance, human resources and legal departments as well as consulting and software expenses. Selling, general and administrative expenses are affected by the number of stores Coach operates in any fiscal period and the relative proportions of retail and wholesale sales. Selling, general and administrative expenses increase as Coach and Coach Japan operate more stores, although an increase in the number of stores generally enables them to spread the fixed portion of its selling, general and administrative expenses over a larger sales base.

As part of the transformation of Coach's business, Coach ceased 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 reduced costs by the resulting transfer of production to lower cost third-party manufacturers.

In April 2002, Coach ceased production at the Lares, Puerto Rico, manufacturing facility. This reorganization involved the termination of 394 manufacturing, warehousing and management employees at the Lares facility. These actions reduced costs by the resulting transfer of production to lower cost third-party manufacturers.

Coach's fiscal year ends on the Saturday closest to June 30.

RESULTS OF OPERATIONS

The following is a discussion of the results of operations for fiscal 2003 compared to fiscal 2002, and fiscal 2002 compared to fiscal 2001 along with a discussion of the changes in financial condition during fiscal 2003.

Net sales by business segment for fiscal 2003 compared to fiscal 2002 and fiscal 2001 are as follows:

	NET SALES			RATE OF INCREASE		PERCENTAGE OF TOTAL NET SALES		
FISCAL YEAR ENDED (DOLLARS IN MILLIONS)	JUNE 28, 2003	JUNE 29, 2002	JUNE 30, 2001	('03 V. '02)	('02 V. '01)	JUNE 28, 2003	JUNE 29, 2002	JUNE 30, 2001
Direct	$ 559.5	$ 447.1	$ 391.8	25.1%	14.1%	58.7%	62.1%	65.2%
Indirect	393.7	272.3	208.7	44.6	30.5	41.3	37.9	34.8
Total net sales	$ 953.2	$ 719.4	$ 600.5	32.5%	19.8%	100.0%	100.0%	100.0%

Consolidated statements of income for fiscal 2003 compared to fiscal 2002 and fiscal 2001 are as follows:

FISCAL YEAR ENDED	JUNE 28, 2003		JUNE 29, 2002		JUNE 30, 2001	
(DOLLARS AND SHARES IN MILLIONS, EXCEPT FOR EARNINGS PER SHARE)	$	% OF NET SALES	$	% OF NET SALES	$	% OF NET SALES
Net sales	$ 949.4	99.6%	$ 716.5	99.6%	$ 598.3	99.6%
Licensing revenue	3.8	0.4	2.9	0.4	2.2	0.4
Total net sales	953.2	100.0	719.4	100.0	600.5	100.0
Cost of sales	275.8	28.9	236.0	32.8	218.5	36.4
Gross profit	677.4	71.1	483.4	67.2	382.0	63.6
Selling, general and administrative expenses	433.7	45.5	346.4	48.1	275.7	45.9
Reorganization costs	–	0.0	3.4	0.5	4.6	0.8
Operating income	243.7	25.6	133.6	18.6	101.7	16.9
Interest (income) expense, net	(1.1)	(0.1)	0.3	0.1	2.3	0.4
Income before provision for income taxes and minority interest	244.8	25.7	133.3	18.5	99.4	16.5
Provision for income taxes	90.6	9.5	47.3	6.6	35.4	5.8
Minority interest, net of tax	7.5	0.8	0.2	0.0	–	0.0
Net income	$ 146.6	15.4%	$ 85.8	11.9%	$ 64.0	10.7%

FISCAL YEAR ENDED	JUNE 28, 2003	JUNE 29, 2002	JUNE 30, 2001
Earnings per share:			
Basic	$ 1.63	$ 0.97	$ 0.78
Diluted	$ 1.58	$ 0.94	$ 0.76
Weighted-average number of common shares:			
Basic	89.8	88.0	81.9
Diluted	92.9	91.0	84.3

FISCAL 2003 COMPARED TO FISCAL 2002

NET SALES

Net sales increased by 32.5% to $953.2 million in fiscal 2003, from $719.4 million in fiscal 2002. These results reflect increased volume in both the direct-to-consumer and the indirect segments.

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

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

GROSS PROFIT

Gross profit increased 40.1% to $677.4 million in fiscal 2003 from $483.4 million in fiscal 2002. Gross margin increased 388 basis points to 71.1% in fiscal 2003 from 67.2% in fiscal 2002. This improvement was primarily driven by a shift in product mix reflecting the continued diversification into new and successful fabric and leather collections, which contributed approximately 140 basis points. There were sourcing cost initiatives, which contributed approximately 120 basis points. In addition, there was a shift in channel mix, which contributed approximately 100 basis points. The remaining improvement was driven primarily by the consolidation of Coach Japan.

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

(UNAUDITED)	FIRST QUARTER	SECOND QUARTER	FIRST HALF	THIRD QUARTER	FOURTH QUARTER	SECOND HALF	TOTAL YEAR
Fiscal 2003	68.1%	70.3%	69.4%	72.5%	73.2%	72.9%	71.1%
Fiscal 2002	64.1%	68.6%	66.8%	68.8%	66.6%	67.6%	67.2%
Fiscal 2001	62.3%	64.9%	63.9%	64.0%	62.6%	63.3%	63.6%

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

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

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

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

Distribution and customer service expenses increased to $29.7 million in fiscal 2003 from $26.9 million in fiscal 2002. The dollar increase in these expenses was primarily due to higher sales volumes. However, efficiency gains at the distribution and customer service facility resulted in a decline in the ratio to net sales from 3.7% in fiscal 2002 to 3.1% in fiscal 2003.

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

REORGANIZATION COSTS

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

OPERATING INCOME

Operating income increased 82.4% to $243.7 million in fiscal 2003 from $133.6 million in fiscal 2002. This increase resulted from higher sales, improved gross margins and the nonrecurrence of reorganization costs, partially offset by an increase in selling, general and administrative expenses.

INTEREST INCOME, NET

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

INCOME TAXES

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

MINORITY INTEREST

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

NET INCOME

Net income increased 70.8% to $146.6 million in fiscal 2003 from $85.8 million in fiscal 2002. This increase was the result of increased operating income partially offset by a higher provision for income taxes and higher minority interest.

EARNINGS PER SHARE

Diluted net income per share was $1.58 in fiscal 2003 and $0.94 in fiscal 2002, which includes the effect of the two-for-one stock split in July 2002.

FISCAL 2002 COMPARED TO FISCAL 2001

NET SALES

Net sales increased by 19.8% to $719.4 million in fiscal 2002 from $600.5 million in fiscal 2001. These results reflect increased volume in both the direct-to-consumer and indirect channels.

DIRECT Net sales increased 14.1% to $447.1 million in fiscal 2002 from $391.8 million in fiscal 2001. The increase was primarily due to new store openings. Net sales from new retail and factory stores accounted for approximately 78% or $42.9 million of the increase in net sales. Since the end of fiscal 2001, Coach opened 20 retail stores and six factory stores. In addition, comparable store sales growth for retail stores and factory stores open for one full year was 4.3% and 3.4%, which primarily represented the balance of the increase in net sales, which was partially offset by the three retail stores that were closed during fiscal 2002.

INDIRECT Net sales increased 30.5% to $272.3 million in fiscal 2002 from $208.7 million in fiscal 2001. This increase was driven primarily by the consolidation of Coach Japan and comparable store sales growth in Japan. Coach Japan sales to consumers are recorded at retail, versus sales to the former distributors, which were recorded at wholesale value. The impact of Coach Japan accounted for approximately $55 million of the increase in net sales. This increase is a result of the shift to retail from wholesale pricing, which contributed approximately $37 million of the increase, with the balance of this increase resulting from increased sales volume. The international wholesale business was relatively consistent compared to the prior year. The U.S. wholesale category accounted for approximately $8 million of the increase in net sales offset by a decrease in net sales of approximately $4 million in the business-to-business category.

GROSS PROFIT

Gross profit increased 26.5% to $483.4 million in fiscal 2002 from $382.0 million in fiscal 2001. Gross margin increased approximately 360 basis points to 67.2% in fiscal 2002 from 63.6% in fiscal 2001. This improvement was driven by the consolidation of Coach Japan, which contributed approximately 230 basis points. There was a shift in product mix, reflecting the continued diversification into non-leather fabrications with new and successful mixed-material collections. This contributed approximately 100 basis points. In addition, gross margin benefited from the continuing impact of sourcing cost reductions, which contributed 30 basis points.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses increased 25.6% to $346.4 million in fiscal 2002 from $275.7 million in fiscal 2001. Selling, general and administrative expenses increased to 48.1% as a percentage of net sales versus 45.9% in fiscal 2001.

Selling expenses increased by 40.9% to $229.3 million, or 31.9% of net sales, in fiscal 2002 from $162.7 million, or 27.1% of net sales, in fiscal 2001. The dollar increase in these expenses was primarily due to the operating costs associated with Coach Japan, which were borne by former distributors in prior periods. Operating costs associated with Coach Japan totaled $46.6 million in fiscal 2002. Included in these costs was a $3.3 million fair value adjustment for open foreign currency forward contracts. Also contributing to the increase was $20.1 million in 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.

Advertising, marketing, and design expenses decreased by 0.8% to $51.7 million, or 7.2% of net sales, in fiscal 2002 from $52.2 million, or 8.7% of net sales, in fiscal 2001. The dollar decrease in these expenses was primarily due to the leveraging of costs through focused media placements, as well as greater usage of postcards and direct mail.

Distribution and customer service expenses increased to $26.9 million in fiscal 2002 from $25.8 million in fiscal 2001. The dollar increase in these expenses was primarily due to higher sales volumes, partially offset by efficiency gains at the distribution and customer service facility, which resulted in a decline in the ratio to net sales from 4.3% in fiscal 2001 to 3.7% in fiscal 2002.

Administrative expenses increased to $38.5 million, or 5.4% of net sales, in fiscal 2002 from $35.0 million, or 5.8% of net sales, in fiscal 2001. The absolute dollar increase in these expenses was primarily due to increased staffing costs and consulting services related to Coach becoming a stand-alone company, offset by a business interruption proceeds gain recorded for $1.4 million in fiscal 2002 relating to our World Trade Center location.

REORGANIZATION COSTS

In the third fiscal quarter of 2002, management of Coach committed to and announced a plan to cease production at the Lares, Puerto Rico, manufacturing facility in March 2002. This reorganization involved the termination of 394 manufacturing, warehousing and management employees at the Lares facility. These actions were intended to reduce costs by the resulting transfer of production to lower cost third-party manufacturers. Coach recorded a reorganization cost of $3.4 million. The reorganization cost included $2.2 million for worker separation costs, $0.7 million for lease termination costs and $0.5 million for the write-down of long-lived assets to net realizable value. By June 28, 2003, production ceased at the Lares facility and disposition of the fixed assets and the termination of all employees had been completed.

OPERATING INCOME

Operating income increased 31.4% to $133.6 million from $101.7 million in fiscal 2001. This increase resulted from higher sales and improved gross margins, partially offset by an increase in selling, general and administrative expenses. Excluding the impact of both fiscal 2002 and fiscal 2001 reorganization costs, operating income increased 28.9% to $137.0 million, or 19.0% of net sales, in fiscal 2002 from $106.3 million, or 17.7% of net sales, in fiscal 2001.

INTEREST EXPENSE, NET

Net interest expense decreased 86.8% to $0.3 million, or 0.04% of net sales, in fiscal 2002 from $2.3 million, or 0.4% of net sales, in fiscal 2001. The dollar decrease was due to reduced borrowings as a result of positive cash flow and cash on hand in fiscal 2002.

INCOME TAXES

The effective tax rate decreased to 35.5% in fiscal 2002 compared with the 35.6% recorded in fiscal 2001.

MINORITY INTEREST

Minority interest, net of tax was $0.2 million in fiscal 2002. There was no minority interest in fiscal 2001. Included in minority interest was the joint venture partner's portion of the net income generated from the operations of Coach Japan.

NET INCOME

Net income increased 34.0% to $85.8 million from $64.0 million in fiscal 2001. This increase was the result of increased operating income and decreased interest expense partially offset by a higher provision for income taxes and minority interest.

EARNINGS PER SHARE

Diluted net income per share was $0.94 in fiscal 2002 and $0.76 in fiscal 2001, which includes the effect of the two-for-one stock split in July 2002.

FINANCIAL CONDITION

LIQUIDITY AND CAPITAL RESOURCES

Net cash provided from operating and investing activities was $164.5 million in fiscal 2003. Net cash provided from operating and investing activities was $52.0 million in fiscal 2002. The year-to-year improvement was primarily the result of increased earnings of $60.8 million, and increases in the tax benefit from the exercise of stock options of $27.7 million. Prior year distributor acquisition costs of $14.8 million did not recur in the current year. The decrease in deferred taxes was $13.7 million more than the prior year and the increase in inventory was $9.2 million less than the prior year. This increase was partially offset by increased capital spending of $14.3 million over the prior year.

Capital expenditures amounted to $57.1 million in fiscal 2003, compared to $42.8 million in fiscal 2002, and in both periods related primarily to new and renovated retail stores. Coach's future capital expenditures will depend on the timing and rate of expansion of our businesses, new store openings, store renovations and international expansion opportunities.

Net cash used in financing activities was $29.3 million in fiscal 2003 as compared to cash provided of $38.3 million in fiscal 2002. The year-to-year decrease primarily resulted from an increase of $40.1 million in funds expended to repurchase common stock, while net borrowings decreased by $20.7 million, primarily under our Coach Japan revolving credit facility agreements. Proceeds received of $14.4 from the joint venture partner in the prior year did not recur in the current year. These amounts were partially offset by increased proceeds of $7.6 million from the exercise of stock options.

To provide funding for working capital for operations and general corporate purposes, on February 27, 2001, Coach, certain lenders and Fleet National Bank ("Fleet"), as primary lender and administrative agent, entered into a $100 million senior unsecured revolving credit facility (the "Fleet facility"). Indebtedness under this revolving credit facility bears interest calculated, at Coach's option, at either a rate of LIBOR plus a margin or the prime rate announced by Fleet. This facility expires on February 27, 2004. Management has begun discussions with Fleet and the other banks to renew the facility. We expect to enter into a new agreement prior to the expiration of the current facility.

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

The initial LIBOR margin under the facility was 125 basis points. For the year ended June 28, 2003, the LIBOR margin was 100 basis points, reflecting an improvement in our fixed-charge coverage ratio. Under this revolving credit facility, Coach pays a commitment fee of 20 to 35 basis points based on any unused amounts. The initial commitment fee was 30 basis points. For the year ended June 28, 2003, the commitment fee was 25 basis points.

During fiscal 2003 there were no borrowings under the Fleet facility. In fiscal 2002 peak borrowings under the Fleet facility were $46.9 million. As of June 28, 2003, there were no outstanding borrowings under the Fleet facility. The facility remains available for seasonal working capital requirements or general corporate purpose.

In order to provide funding for working capital and general corporate purposes, Coach Japan has entered into credit facilities with several Japanese financial institutions. These facilities allow a maximum borrowing of 7.1 billion yen or approximately $60 million at June 28, 2003. Interest is based on the Tokyo Interbank rate plus a margin of up to 50 basis points.

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

During fiscal 2003 the peak borrowings under the Japanese credit facilities were $43.4 million. In fiscal 2002 peak borrowings under the Japanese facilities were $35.4 million. As of June 28, 2003 and June 29, 2002, borrowings under the Japanese revolving credit facility agreements were $26.5 million and $34.2 million, respectively.

On September 17, 2001, the Coach Board of Directors authorized the establishment of a common stock repurchase program. Under this program, up to $80 million may be utilized to repurchase common stock through September 2004.

On January 30, 2003, the Coach Board of Directors approved an additional common stock repurchase program to acquire up to $100 million of Coach's outstanding common stock through January 2006. The duration of Coach's existing repurchase program was also extended through January 2006. Purchases of Coach stock may be made from time to time, subject to market conditions and at prevailing market prices, through open market purchases. Repurchased shares will be retired and may be reissued in the future for general corporate or other purposes. The Company may terminate or limit the stock repurchase program at any time.

During fiscal 2003, Coach repurchased 1.9 million shares of common stock at an average cost of $25.89 per share. In fiscal 2002, Coach repurchased 0.9 million shares of common stock at an average cost of $11.45 per share.

As of June 28, 2003, Coach had approximately $120 million remaining in the stock repurchase program.

In fiscal 2003 capital expenditures were $57.1 million. We opened 20 new U.S. retail stores in fiscal 2003. Capital expenditures for these new U.S. retail and factory stores were $19 million. Store expansions and renovations were $15 million. In Japan, we invested approximately $10 million for the opening of 14 new locations. In addition, spending on department store renovations and distributor locations was $6 million. The remaining $7 million was used for information systems and corporate facilities. We financed these investments from on hand cash, internally generated cash flows and funds from our revolving credit facilities.

Coach experiences significant seasonal variations in its working capital requirements. During the first fiscal quarter Coach builds inventory for the holiday selling season, opens new retail stores and generates higher levels of trade receivables. In the second fiscal quarter its working capital requirements are reduced substantially as Coach generates consumer sales and collects wholesale accounts receivable. In fiscal 2003, Coach purchased approximately $283 million of inventory, which was funded by on hand cash, operating cash flow and by borrowings under its revolving credit facility.

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

Currently, Sara Lee is a guarantor or a party to many of Coach's leases. Coach has agreed to make efforts to remove Sara Lee from all of its existing leases, and Sara Lee is not a guarantor or a party to any new or renewed leases. Coach has obtained a letter of credit for the benefit of Sara Lee in an amount approximately equal to the annual minimum rental payments under leases transferred to Coach by Sara Lee, but for which Sara Lee retains contingent liability. Coach is required to maintain this letter of credit until the annual minimum rental payments under the relevant leases are less than $2.0 million. The initial letter of credit had a face amount of $20.6 million, and we expect this amount to decrease annually as Coach's guaranteed obligations are reduced. As of June 28, 2003 the letter of credit was $19.8 million. We expect that we will be required to maintain the letter of credit for at least 10 years.

The following represents the scheduled maturities of Coach's long-term contractual obligations as of June 28, 2003.

	PAYMENTS DUE BY PERIOD				
(AMOUNTS IN MILLIONS)	LESS THAN 1 YEAR	1–3 YEARS	4–5 YEARS	AFTER 5 YEARS	TOTAL
Operating leases	$ 47.0	$ 90.5	$ 79.1	$ 163.0	$ 379.6
Revolving credit facility	26.5	–	–	–	26.5
Long-term debt including the current portion	0.1	0.3	0.4	2.9	3.6
Total	$ 73.6	$ 90.8	$ 79.5	$ 165.9	$ 409.7

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

LONG-TERM DEBT

Coach is party to an industrial revenue bond related to its Jacksonville facility. This loan has a remaining balance of $3.6 million and bears interest at 8.77%. Principal and interest payments are made semiannually, with the final payment due in 2014.

TAX RATE

Coach has completed the shutdown of its Lares, Puerto Rico, manufacturing facility. The shutdown eliminated the tax benefit Coach has received under Section 936 of the Internal Revenue Code. As a result, in fiscal year 2003 the effective tax rate increased to 37%.

SEASONALITY

Because its products are frequently given as gifts, Coach has historically realized, and expects to continue to realize, higher sales and operating income in the second quarter of its fiscal year, which includes the holiday months of November and December. We anticipate that our sales and operating profit will continue to be very seasonal.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. Predicting future events is inherently an imprecise activity and as such requires the use of judgment. Actual results may vary from estimates in amounts that may be material to the financial statements. The accounting policies discussed below are considered critical because changes to certain judgments and assumptions inherent in these policies could affect the financial statements.

In certain instances, accounting principles generally accepted in the United States of America allow for the selection of alternative accounting methods. The Company's significant policies that involve the selection of alternative methods are accounting for stock options and inventories.

STOCK-BASED COMPENSATION

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

INVENTORIES

U.S. inventories are valued at the lower of cost (determined by the first-in, first-out method) or market. Inventories in Japan are valued at the lower of cost (determined by the last-in, first-out method) or market. Inventory costs include material, conversion costs, freight and duties. Reserves for slow moving and aged merchandise are provided based on historical experience and current product demand. We evaluate the adequacy of reserves quarterly. A decrease in product demand due to changing customer tastes, buying patterns or increased competition could impact Coach's evaluation of its slow moving and aged merchandise.

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

VALUATION OF LONG-LIVED ASSETS

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which the Company adopted effective with the beginning of fiscal 2002, the Company assesses the carrying value of its long-lived assets for possible impairment based on a review of forecasted operating cash flows and the profitability of the related business. The Company did not record any impairment losses in fiscal 2003. See Note 6 of the Consolidated Financial Statements for long-lived asset write-downs recorded in connection with the Company's fiscal 2002 and fiscal 2001 reorganization plans.

REVENUE RECOGNITION

Sales are recognized at the point of sale, which occurs when merchandise is sold in an over-the-counter consumer transaction or, for the wholesale channels, upon shipment of merchandise, when title passes to the customer. Allowances for estimated uncollectible accounts, discounts, returns and allowances are provided when sales are recorded based upon historical experience and current trends. Royalty revenues are earned through license agreements with manufacturers of other consumer products that incorporate the Coach brand. Revenue earned under these contracts is recognized based upon reported sales from the licensee.

NEW ACCOUNTING STANDARDS

On December 31, 2002, the Financial Accounting Standards Board ("FASB") issued SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure," which amends SFAS No. 123, "Accounting for Stock-Based Compensation." SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. The Company does not expense stock options; therefore the adoption of this statement will not have any impact on Coach's consolidated financial position or results of operations. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require more prominent and more frequent disclosures in financial statements of the effects of stock-based compensation. See Note 1 of the Consolidated Financial Statements for these expanded disclosures.

In November 2002, the FASB issued FASB Interpretation ("FIN") No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN No. 45 elaborates on the existing disclosure requirements for most guarantees, including loan guarantees such as standby letters of credit and product warranties. It also clarifies that at the time a company issues a guarantee, the company must recognize an initial liability for the fair value, or market value, of the obligation it assumes under the guarantee and must disclose that information in its interim and annual financial statements. The provisions related to recognizing a liability at inception of the guarantee for the fair value of the guarantor's obligations do not apply to guarantees accounted for as derivatives. The initial recognition and measurements provisions were effective for interim or annual periods ending after December 31, 2002 (see Note 7 of the Consolidated Financial Statements). The adoption of this statement did not have a material impact on Coach's consolidated financial position or results of operations.

In January 2003, the FASB issued FIN No. 46, "Consolidations of Variable Interest Entities." This interpretation requires a company to consolidate variable interest entities ("VIE") if the enterprise is a primary beneficiary (holds a majority of the variable interest) of the VIE and the VIE possesses specific characteristics. It also requires additional disclosure for parties involved with VIEs. The provisions of FIN No. 46 are effective for fiscal 2003. Since the Company does not have any unconsolidated VIEs, the adoption of FIN No. 46 did not have an impact on its financial position or results of operations.

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

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

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of Coach, Inc. and subsidiaries (the "Company") as of June 28, 2003 and June 29, 2002 and the related consolidated statements of income, stockholders' equity, and cash flows for each of the two years in the period ended June 28, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the 2003 and 2002 financial statements based on our audits. The financial statements as of June 30, 2001 and for the year then ended, before the revisions discussed in Notes 1, 13 and 20 to the financial statements, were audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on those financial statements in their report dated July 26, 2001 (except with respect to the matter discussed in Note 16, as to which the date is July 31, 2001. Such information is included as a component of Note 11 for the year ended June 28, 2003).

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 2003 and 2002 consolidated financial statements present fairly, in all material respects, the financial position of the Company as of June 28, 2003 and June 29, 2002 and the results of their operations and their cash flows for each of the two years in the period ended June 28, 2003, in conformity with accounting principles generally accepted in the United States of America.

As discussed above, the financial statements of the Company as of June 30, 2001 and for the year then ended were audited by other auditors who have ceased operations. As described in Note 1, those financial statements have been revised to give retroactive effect to the change in the method of accounting for consideration provided to distributors or retailers to conform to Emerging Issues Task Force of the Financial Accounting Standards Board Issue 00-25, as codified by Issue 01-09 and the two-for-one split of the Company's common stock distributed on July 3, 2002. These financial statements have also been revised to provide the transitional disclosures required by Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, as described in Note 13 and the proforma disclosure of earnings per share on the 2001 consolidated statement of income related to the two-for-one split of the Company's common stock described in Note 20. We audited the reclassification described in Note 1, the disclosure in Note 13 and the proforma disclosure of earnings per share on the 2001 consolidated statement of income, that revised the 2001 financial statements. In our opinion, such revisions are appropriate and have been properly applied. However, we were not engaged to audit, review, or apply any procedures to the fiscal 2001 financial statements of the Company other than with respect to such revisions and, accordingly, we do not express an opinion or any other form of assurance on the fiscal 2001 financial statements taken as a whole.

Deloitte & Touche LLP

Deloitte & Touche LLP
New York, New York
July 28, 2003
(August 7, 2003 as to Note 20)

The following report is a copy of a previously issued Report of Independent Public Accountants. This report relates to prior year's financial statements. This report has not been reissued by Arthur Andersen LLP.

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

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

(AMOUNTS IN THOUSANDS EXCEPT SHARE DATA)	JUNE 28, 2003	JUNE 29, 2002
ASSETS		
Cash and cash equivalents	$ 229,176	$ 93,962
Trade accounts receivable, less allowances of $6,095 and $4,176, respectively	35,470	30,925
Inventories	143,807	136,404
Deferred income taxes	21,264	14,123
Prepaid expenses and other current assets	18,821	12,174
Total current assets	448,538	287,588
Property and equipment, net	118,547	90,589
Deferred income taxes	9,112	25,031
Goodwill	13,009	13,006
Indefinite life intangibles	9,389	9,389
Other noncurrent assets	19,057	14,968
Total assets	$ 617,652	$ 440,571
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	$ 26,637	$ 25,819
Accrued liabilities	108,273	99,365
Revolving credit facility	26,471	34,169
Current portion of long-term debt	80	75
Total current liabilities	161,461	159,428
Long-term debt	3,535	3,615
Other liabilities	3,572	2,625
Minority interest	22,155	14,547
Total liabilities	190,723	180,215
Commitments and contingencies (Note 7)		
Stockholders' equity		
Preferred stock: (authorized 25,000,000 shares; $0.01 par value) none issued	–	–
Common stock: (authorized 250,000,000 shares; $0.01 par value) issued and outstanding – 91,504,628 and 89,453,722 shares, respectively	915	895
Capital in excess of par value	215,399	155,403
Retained earnings	217,622	105,509
Accumulated other comprehensive income (loss)	(1,359)	215
Unearned compensation	(5,648)	(1,666)
Total stockholders' equity	426,929	260,356
Total liabilities and stockholders' equity	$ 617,652	$ 440,571

See accompanying Notes to the Consolidated Financial Statements.

Consolidated Statements of Income

FISCAL YEAR ENDED (AMOUNTS IN THOUSANDS EXCEPT PER SHARE DATA)	JUNE 28, 2003	JUNE 29, 2002	JUNE 30, 2001
Net sales	$ 953,226	$ 719,403	$ 600,491
Cost of sales	275,797	236,041	218,507
Gross profit	677,429	483,362	381,984
Selling, general and administrative expenses	433,667	346,354	275,727
Reorganization costs	–	3,373	4,569
Operating income	243,762	133,635	101,688
Interest income	(1,754)	(825)	(305)
Interest expense	695	1,124	2,563
Income before provision for income taxes and minority interest	244,821	133,336	99,430
Provision for income taxes	90,585	47,325	35,400
Minority interest, net of tax	7,608	184	–
Net income	$ 146,628	$ 85,827	$ 64,030
Net income per share			
Basic	$ 1.63	$ 0.97	$ 0.78
Diluted	$ 1.58	$ 0.94	$ 0.76
Shares used in computing net income per share			
Basic	89,779	88,048	81,860
Diluted	92,921	90,952	84,312

PRO FORMA DISCLOSURE FOR THE IMPACT OF THE TWO-FOR-ONE STOCK SPLIT (SEE SUBSEQUENT EVENT, NOTE 20)

Pro forma net income per share			
Basic	$ 0.82	$ 0.49	$ 0.39
Diluted	$ 0.79	$ 0.47	$ 0.38
Pro forma shares used in computing net income per share			
Basic	179,558	176,096	163,719
Diluted	185,842	181,904	168,624

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	ACCUMU-LATED OTHER COMPRE-HENSIVE INCOME (LOSS)	UNEARNED COMPEN-SATION	COMPRE-HENSIVE INCOME (LOSS)	SHARES OF COMMON STOCK
Balances at July 1, 2000	$ 212,808	$ –	$ 700	$ –	$ 212,403	$ (295)	$ –		70,052
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	–	170	121,830	–	–	–		16,974
Exercise of stock options	2,046	–	4	2,042	–	–	–		346
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	$ –	$ 874	$ 125,277	$ 22,650	$ (487)	$ –		87,372
Net income	85,827	–	–	–	85,827	–	–	$ 85,827	
Shares issued for stock options and employee benefit plans	20,802	–	29	20,773	–	–	–		2,942
Tax benefit from exercise of stock options	13,793	–	–	13,793	–	–	–		
Repurchase of common stock	(9,848)	–	(9)	(6,871)	(2,968)	–	–		(860)
Grant of restricted stock awards	–	–	1	2,431	–	–	(2,432)		
Amortization of restricted stock awards	766	–	–	–	–	–	766		
Translation adjustments	396	–	–	–	–	396	–	396	
Minimum pension liability	306	–	–	–	–	306	–	306	
Comprehensive income								$ 86,529	
Balances at June 29, 2002	$ 260,356	$ –	$ 895	$ 155,403	$ 105,509	$ 215	$ (1,666)		89,454
Net income	146,628	–	–	–	146,628	–	–	$ 146,628	
Shares issued for stock options and employee benefit plans	28,395	–	39	28,356	–	–	–		3,950
Tax benefit from exercise of stock options	41,503	–	–	41,503	–	–	–		
Repurchase of common stock	(49,947)	–	(19)	(15,413)	(34,515)	–	–		(1,929)
Grant of restricted stock awards	–	–	–	5,550	–	–	(5,500)		
Amortization of restricted stock awards	1,568	–	–	–	–	–	1,568		30
Unrealized gain on cash flow hedging derivatives, net	168	–	–	–	–	168	–	168	
Translation adjustments	(348)	–	–	–	–	(348)	–	(348)	
Minimum pension liability	(1,394)	–	–	–	–	(1,394)	–	(1,394)	
Comprehensive income								$ 145,054	
Balances at June 28, 2003	$ 426,929	$ –	$ 915	$ 215,399	$ 217,622	$ (1,359)	$ (5,648)		91,505

See accompanying Notes to the Consolidated Financial Statements.

Consolidated Statements of Cash Flows

FISCAL YEAR ENDED (AMOUNTS IN THOUSANDS)	JUNE 28, 2003	JUNE 29, 2002	JUNE 30, 2001
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 146,628	$ 85,827	$ 64,030
Adjustments for noncash charges included in net income:			
Depreciation and amortization	30,231	25,494	24,131
Reorganization costs	–	3,373	4,569
Tax benefit from exercise of stock options	41,503	13,793	1,405
Decrease (increase) in deferred taxes	8,778	(4,969)	(5,797)
Other noncash credits, net	6,639	1,666	(192)
Changes in current assets and liabilities:			
Increase in trade accounts receivable	(4,545)	(5,855)	(5,041)
Decrease in receivable from Sara Lee	–	–	31,437
Increase in inventories	(7,403)	(16,638)	(3,065)
Increase in other current assets and liabilities	(9,933)	(12,843)	(357)
Increase in accounts payable	818	8,671	6,447
Increase in accrued liabilities	8,908	9,418	6,762
Net cash from operating activities	221,624	107,937	124,329
CASH FLOWS USED IN INVESTMENT ACTIVITIES			
Purchases of property and equipment	(57,112)	(42,764)	(31,868)
Acquisitions of distributors, net of cash acquired	–	(14,805)	–
Proceeds from disposition of property and equipment	27	1,592	799
Net cash used in investment activities	(57,085)	(55,977)	(31,069)
CASH FLOWS FROM FINANCING ACTIVITIES			
Partner contribution to joint venture	–	14,363	–
Issuance of common stock, net	–	–	122,000
Repurchase of common stock	(49,947)	(9,848)	–
Repayment of long-term debt	(75)	(45)	(190,040)
Borrowings from Sara Lee	–	–	451,534
Repayments to Sara Lee	–	–	(482,971)
Borrowings on Revolving Credit Facility	63,164	200,006	68,300
Repayments of Revolving Credit Facility	(70,862)	(186,967)	(60,600)
Proceeds from exercise of stock options	28,395	20,802	2,046
Net cash (used in) from financing activities	(29,325)	38,311	(89,731)
Increase in cash and equivalents	135,214	90,271	3,529
Cash and equivalents at beginning of period	93,962	3,691	162
Cash and equivalents at end of period	$ 229,176	$ 93,962	$ 3,691
Cash paid for income taxes	$ 56,083	$ 33,263	$ 35,664
Cash paid for interest	$ 679	$ 786	$ 2,349

See accompanying Notes to the Consolidated Financial Statements.

1. PRESENTATION, ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION AND ORGANIZATION

Coach (the "Company") was formed in 1941 and was acquired by Sara Lee Corporation in July 1985. On June 1, 2000, Coach was incorporated under the laws of the state of Maryland. Pursuant to the Separation Agreements, Sara Lee transferred to Coach the assets and liabilities that related to the Coach business on October 2, 2000 (the "Separation Date").

In October 2000, Coach was listed on the New York Stock Exchange and sold 16,974 shares of its common stock, representing 19.5% of the outstanding shares in an initial public offering. In April 2001, Sara Lee completed a distribution of its ownership in Coach via an exchange offer.

Coach designs, produces and markets high-quality, modern American classic accessories. Coach products are manufactured primarily by third-party suppliers. Coach markets products via Company operated retail stores and factory stores, direct mail catalogs, an e-commerce website, 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 until the Separation Date. 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.

SIGNIFICANT ACCOUNTING POLICIES

FISCAL YEAR The Company's fiscal year ends on the Saturday closest to June 30. Unless otherwise stated, references to years in the financial statements relate to fiscal years. The fiscal years ended June 28, 2003 ("fiscal 2003"), June 29, 2002 ("fiscal 2002") and June 30, 2001 ("fiscal 2001") were 52-week periods.

USE OF ESTIMATES The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities; 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. The level of uncertainty in estimates and assumptions increases with the length of time the underlying transactions are completed. Actual results could differ from estimates in amounts that may be material to the financial statements.

PRINCIPLES OF CONSOLIDATION The consolidated financial statements include the accounts of the Company, all 100% owned subsidiaries and Coach Japan. All significant intercompany transactions and balances within the Company are eliminated in consolidation.

CASH AND CASH EQUIVALENTS Cash and cash equivalents consist of cash balances and highly liquid investments with a maturity of less than 90 days.

CONCENTRATION OF CREDIT RISK Financial instruments which potentially expose Coach to concentration of credit risk, consist primarily of cash investments and accounts receivable. The Company places its cash investments with high-credit quality financial institutions and currently invests primarily in bank money market funds placed with major banks and financial institutions. Accounts receivable is generally diversified due to the number of entities comprising Coach's customer base and their dispersion across many geographical regions. The Company's allowance for bad debts, returns and allowances was $6,095 at June 28, 2003 and

$4,176 at June 29, 2002. The Company believes no significant concentration of credit risk exists with respect to these cash investments and accounts receivable.

INVENTORIES Inventories consist primarily of finished goods. U.S. inventories are valued at the lower of cost (determined by the first-in, first-out method ("FIFO")) or market. Inventories in Japan are valued at the lower of cost (determined by the last-in, first-out method ("LIFO")) or market. At the end of fiscal 2003 inventories recorded at LIFO were $650 higher than if they were valued at FIFO. In fiscal 2002 inventories recorded at LIFO were $525 lower than if they were valued at FIFO. Inventories valued under LIFO amounted to $23,484 and $27,555 in fiscal 2003 and 2002, respectively. Inventory costs include material, conversion costs, freight and duties.

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

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

VALUATION OF LONG-LIVED ASSETS In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which the Company adopted effective with the beginning of fiscal 2002, the Company assesses the carrying value of its long-lived assets for possible impairment based on a review of forecasted operating cash flows and the profitability of the related business. The Company did not record any impairment losses in fiscal 2003. See Note 6 of the Consolidated Financial Statements for long-lived asset write-downs recorded in connection with the Company's fiscal 2002 and fiscal 2001 reorganization plans.

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

REVENUE RECOGNITION Sales are recognized at the point of sale, which occurs when merchandise is sold in an over-the-counter consumer transaction or, for the wholesale channels, upon shipment of merchandise, when title passes to the customer. Allowances for estimated uncollectible accounts, discounts, returns and allowances are provided when sales are recorded. Royalty revenues are earned through license agreements with manufacturers of other consumer products that incorporate the Coach brand. Revenue earned under these contracts is recognized based upon reported sales from the licensee.

ADVERTISING Advertising costs, which include media and production, totaled $19,885, $17,279, $16,445 for fiscal year 2003, 2002 and 2001, respectively, and are included in selling, general and administrative expenses. Advertising costs are expensed when the advertising first appears.

SHIPPING AND HANDLING Shipping and handling costs incurred were $11,290, $10,694, $10,087 for fiscal year 2003, 2002 and 2001, respectively and are included in selling, general and administrative expenses.

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

For the periods prior to April 5, 2001, where Sara Lee owned greater than 80% of the Company's outstanding capital stock, the Company's operating results were included in Sara Lee's consolidated U.S. and state income tax returns and in the tax returns of certain Sara Lee foreign operations. During these periods the provision for income taxes in the Company's financial statements was prepared as if the Company were a stand-alone entity and filed separate tax returns.

STOCK-BASED COMPENSATION The Company has adopted SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure," which amends SFAS No. 123, "Accounting for Stock-Based Compensation." SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation plans; however, it also allows an entity to continue to measure compensation expense for those plans using the intrinsic value based method of accounting prescribed by Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees." Under the fair value method, compensation cost is measured at the grant date based on the value of the award and is recognized over the service period, which is usually the vesting period. Under the intrinsic value based method, compensation expense is the excess, if any, of the quoted market price of the stock at the grant date or other measurement date over the amount an employee must pay to acquire the stock. The Company has elected to account for its stock-based employee compensation plans under APB Opinion No. 25 with pro forma disclosures of net earnings and earnings per share, as if the fair value based method of accounting defined in SFAS No. 123 had been applied.

The pro forma disclosure of net income and net income per share as if the fair value based method of accounting defined in the SFAS No. 123 had been applied is as follows:

FISCAL YEAR ENDED	JUNE 28, 2003	JUNE 29, 2002	JUNE 30, 2001
Net income, as reported	$ 146,628	$ 85,827	$ 64,030
Deduct:			
Total stock-based employee compensation expense determined under the fair value based method for all awards, net of related tax effects	(15,947)	(10,227)	(5,146)
Pro forma net income	$ 130,681	$ 75,600	$ 58,884
Earnings per share:			
Basic – as reported	$ 1.63	$ 0.97	$ 0.78
Basic – pro forma	$ 1.46	$ 0.86	$ 0.72
Diluted – as reported	$ 1.58	$ 0.94	$ 0.76
Diluted – pro forma	$ 1.41	$ 0.83	$ 0.70

FAIR VALUE OF FINANCIAL INSTRUMENTS The fair value of the revolving credit facility at June 28, 2003 and June 29, 2002 approximated its carrying value due to its floating interest rates. The Company has evaluated its industrial revenue bond and believes, based on the interest rate, related term and maturity, that the fair value of such instrument approximates its carrying amount. As of June 28, 2003 and June 29, 2002, the carrying values of cash and cash equivalents, trade accounts receivable, accounts payable, and accrued liabilities approximated their values due to the short-term maturities of these accounts.

Coach, through Coach Japan, enters into foreign currency forward contracts that hedge certain U.S. dollar denominated inventory risk, that have been designated for hedge accounting. The fair value of these contracts are recognized in other comprehensive income. The fair value of the foreign currency derivative is based on its market value as determined by an independent party. However, considerable judgment is required in developing estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that Coach could settle in a current market exchange. The use of different market assumptions or methodologies could affect the estimated fair value.

FOREIGN CURRENCY The functional currency of the Company's foreign operations is the applicable local currency. Assets and liabilities are translated into U.S. dollars using the current exchange rates in effect at the balance sheet date, while revenues and expenses are translated at the weighted-average exchange rates for the period. The resulting translation adjustments are recorded as a component of accumulated other comprehensive income (loss) within stockholders' equity. These gains and losses were not significant for fiscal 2003, 2002 and 2001.

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

STOCK SPLIT In May 2002, Coach's Board of Directors authorized a two-for-one split of the Company's common stock, to be effected in the form of a special dividend of one share of the Company's common stock for each share outstanding. The additional shares issued as a result of the stock split were distributed on July 3, 2002 to stockholders of record on June 19, 2002. The effect of the stock split on earnings per share was retroactively applied to all periods presented. See Note 20 for Subsequent Event.

RECENT ACCOUNTING PRONOUNCEMENTS 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." In November 2001, EITF 00-25 was codified in EITF 01-09. This issue addresses the recognition, measurement and income statement classification of consideration provided to distributors or retailers. Previously, the Company had recorded these activities within selling, general and administrative expenses. The Company adopted EITF 00-25 in the first quarter of fiscal 2002. In connection with this adoption, prior period amounts have been reclassified to conform with the current year's presentation. The effect of the adoption resulted in a reclassification from selling, general and administrative expense to a reduction in net sales of $15,588 for fiscal 2001.

On December 31, 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure," which amends SFAS No. 123, "Accounting for Stock-Based Compensation." SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. The Company does not intend to expense stock options; therefore the adoption of this statement will not have any impact on Coach's consolidated financial position or results of operations. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require more prominent and more frequent disclosures in financial statements of the effects of stock-based compensation. See above, "Stock-Based Compensation," for these expanded disclosures.

In November 2002, the FASB issued FASB Interpretation ("FIN") No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN No. 45 elaborates on the existing disclosures requirements for most guarantees, including loan guarantees such as standby letters of credit and product warranties. It also clarifies that at the time a company issues a guarantee, the company must recognize an initial liability for the fair value, or market value, of the obligation it assumes under the guarantee and must disclose that information in its interim and annual financial statements. The provisions related to recognizing a liability at inception of the guarantee for the fair value of the guarantor's obligations do not apply to guarantees accounted for as derivatives. The Company adopted this interpretation in second quarter of fiscal 2003. The adoption of this statement did not have a material impact on Coach's consolidated financial position or results of operations.

In January 2003, the FASB issued FIN No. 46 "Consolidations of Variable Interest Entities." This interpretation requires a company to consolidate variable interest entities ("VIE") if the enterprise is a primary beneficiary (holds a majority of the variable interest) of the VIE and the VIE possesses specific characteristics. It also requires additional disclosure for parties involved with VIEs. The provisions of FIN No. 46 are effective for fiscal 2003. Since the Company does not have any unconsolidated VIEs, the adoption of FIN No. 46 did not have an impact on its financial position or results of operations.

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

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

2. BALANCE SHEET COMPONENTS

The components of certain balance sheet accounts are as follows:

	JUNE 28, 2003	JUNE 29, 2002
PROPERTY AND EQUIPMENT		
Machinery and equipment	$ 10,789	$ 9,069
Furniture and fixtures	101,137	82,279
Leasehold improvements	153,442	123,279
Construction in progress	26,470	22,933
Less: accumulated depreciation	(173,291)	(146,971)
Total property and equipment, net	$ 118,547	$ 90,589
ACCRUED LIABILITIES		
Income and other taxes	$ 8,335	$ 13,016
Payroll and benefits	41,173	34,251
Rent, utilities, insurance, interest and administrative	18,458	15,238
Accrued operating expenses	40,307	36,860
Total accrued liabilities	$ 108,273	$ 99,365

3. INCOME TAXES

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

FISCAL YEAR ENDED	JUNE 28, 2003		JUNE 29, 2002		JUNE 30, 2001	
	AMOUNT	PERCENT	AMOUNT	PERCENT	AMOUNT	PERCENT
Income (loss) before provision for income taxes and minority interest:						
United States	$ 224,380	91.7%	$ 125,273	94.0%	$ 92,163	92.7%
Puerto Rico	–	–	7,831	5.9	7,847	7.9
Foreign	20,441	8.3	232	0.1	(580)	(0.6)
Total income before provision for income taxes and minority interest:	$ 244,821	100.0%	$ 133,336	100.0%	$ 99,430	100.0%
Tax expense at U.S. statutory rate:	$ 85,687	35.0%	$ 46,668	35.0%	$ 34,801	35.0%
State taxes, net of federal benefit	10,358	4.2	3,894	2.9	3,512	3.5
Difference between U.S. and Puerto Rico tax rates	–	0.0	(1,411)	(1.1)	(2,353)	(2.4)
Nontaxable foreign sourced income	(2,069)	(0.8)	(300)	(0.2)	(1,200)	(1.2)
Other, net	(3,391)	(1.3)	(1,526)	(1.0)	640	0.7
Taxes at effective worldwide rates	$ 90,585	37.0%	$ 47,325	35.5%	$ 35,400	35.6%

Current and deferred tax provisions (benefits) were:

FISCAL YEAR ENDED	JUNE 28, 2003		JUNE 29, 2002		JUNE 30, 2001	
	CURRENT	DEFERRED	CURRENT	DEFERRED	CURRENT	DEFERRED
Federal	$ 67,432	$ 1,728	$ 41,497	$ 245	$ 34,686	$ (4,821)
Puerto Rico	31	(1,182)	50	12	267	86
Foreign	402	6,239	5,089	(5,559)	–	(221)
State	13,942	1,993	5,658	333	6,244	(841)
Total current and deferred tax provisions (benefits)	$ 81,807	$ 8,778	$ 52,294	$ (4,969)	$ 41,197	$ (5,797)

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

FISCAL YEAR ENDED	JUNE 28, 2003	JUNE 29, 2002	JUNE 30, 2001
Deferred tax provisions (benefits):			
Depreciation	$ 2,269	$ (261)	$ (2,909)
Employee benefits	1,048	5,346	(314)
Advertising accruals	348	–	(240)
Nondeductible reserves	(2,025)	(65)	113
Other, net	7,138	(9,989)	(2,447)
Total deferred tax provisions (benefits)	$ 8,778	$ (4,969)	$ (5,797)

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

	JUNE 28, 2003	JUNE 29, 2002	JUNE 30, 2001
Deferred tax assets:			
Reserves not deductible until paid	$ 8,193	$ 3,351	$ 3,224
Pension and other employee benefits	2,269	4,165	9,510
Property, plant and equipment	11,906	10,549	10,288
Other	8,008	21,089	9,960
Total deferred tax assets	$ 30,376	$ 39,154	$ 32,982

At June 28, 2003, foreign gross tax loss carryforwards totaled approximately $3,400. These loss carryforwards have no expiration. Coach believes that it is more likely than not that the deferred tax asset associated with these losses will be realized.

4. DEBT

REVOLVING CREDIT FACILITIES Prior to 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, all of which were complied with. This facility was repaid and 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. In fiscal 2001, this loan was fully paid off by the Company from the net proceeds of the initial public offering, 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 ("Fleet"), as primary lender and administrative agent, entered into a $100,000 senior unsecured three-year revolving credit facility (the "Fleet facility"). This facility expires on February 27, 2004. Management has begun discussions with Fleet and the other banks to renew the facility. Coach expects to enter into a new agreement prior to the expiration of the current facility.

The initial LIBOR margin under the Fleet facility was 125 basis points. For the year ended June 28, 2003, the LIBOR margin was 100 basis points reflecting an improvement in our fixed-charge coverage ratio. Under this revolving credit facility, Coach pays a commitment fee of 20 to 35 basis points based on any unused amounts. The initial commitment fee was 30 basis points. For the year ended June 28, 2003, the commitment fee was 25 basis points. This credit facility may be prepaid without penalty or premium.

During fiscal 2003, there were no borrowings under the Fleet facility. During fiscal 2002, peak borrowings under the Fleet facility were $46,850, which was repaid from operating cash flow by June 29, 2002. As of June 28, 2003, there were no outstanding borrowings under the Fleet facility. This facility remains available for seasonal working capital requirements or general corporate purposes.

The Fleet facility prohibits Coach from paying dividends while the credit facility is in place, with certain exceptions. Any future determination to pay cash dividends will be at the discretion of Coach's Board of Directors and will be dependent upon Coach's financial condition, operating results, capital requirements and such other factors as the Board of Directors deems relevant.

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

In order to provide funding for working capital and general corporate purposes, Coach Japan has entered into credit facilities with several Japanese financial institutions. These facilities allow a maximum borrowing of 7.1 billion yen or approximately $60,000 at June 28, 2003. Interest is based on the Tokyo Interbank rate plus a margin of up to 50 basis points.

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

During fiscal 2003, the peak borrowings under the Japanese credit facilities were $43,443. During fiscal 2002, the peak borrowings under the Japanese credit facilities were $35,426. As of June 28, 2003, the outstanding borrowings under the Japanese facilities were $26,471.

LONG-TERM DEBT Coach is party to an Industrial Revenue Bond related to its Jacksonville facility. This loan has a remaining balance of $3,615 and bears interest at 8.77%. Principal and interest payments are made semiannually, with the final payment due in 2014.

Future principal payments under the Industrial Revenue Bond are as follows:

FISCAL YEAR	AMOUNT
2004	$ 80
2005	115
2006	150
2007	170
2008	235
Subsequent to 2008	2,865
Total	$ 3,615

5. LEASES

Coach leases certain office, distribution, retail and manufacturing facilities. The lease agreements, which expire at various dates through 2019, are subject, in some cases, to renewal options and provide for the payment of taxes, insurance and maintenance. Certain leases contain escalation clauses resulting from the pass-through of increases in operating costs, property taxes and the effect on costs from changes in consumer price indices. Certain rentals are also contingent upon factors such as sales. Rent-free periods and 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 (i.e. sales levels), which triggers the related payment, is considered probable. Rent expense for the Company's operating leases consisted of the following:

FISCAL YEAR ENDED	JUNE 28, 2003	JUNE 29, 2002	JUNE 30, 2001
Minimum rentals	$ 47,098	$ 36,965	$ 28,929
Contingent rentals	4,885	3,292	2,902
Total rent expense	$ 51,983	$ 40,257	$ 31,831

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

FISCAL YEAR	AMOUNT
2004	$ 46,996
2005	46,183
2006	44,395
2007	41,187
2008	37,841
Subsequent to 2008	163,036
Total minimum future rental payments	$ 379,638

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

6. REORGANIZATION COSTS

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

The composition of the reorganization reserve, included in accrued liabilities, is set forth in the following table.

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

In the first quarter of fiscal 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 that facility. These actions reduced costs by the resulting transfer of production to lower cost third-party manufacturers. Coach recorded a reorganization cost of $4,569 in fiscal 2001. The reorganization costs included $3,103 for worker separation costs, $832 for lease termination costs and $634 for the write-down of long-lived assets to net realizable value.

The composition of the reorganization reserve is set forth in the following table. By June 30, 2001, production ceased at the Medley facility and disposition of the fixed assets and the termination of the 362 employees had been completed.

	PROVISION RECORDED IN FISCAL 2001 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)	$ –

7. COMMITMENTS AND CONTINGENCIES

At June 28, 2003 and June 29, 2002, the Company had letters of credit outstanding totaling $48,336 and $40,116, respectively. Included in fiscal 2003 and fiscal 2002 balance is a letter of credit totaling $19,820, which relates to leases transferred to the Company by Sara Lee, for which Sara Lee retains contingent liability. Coach expects that it will be required to maintain the letter of credit for at least 10 years. The remaining letters of credit have terms ranging from one to three months and primarily collateralize the Company's obligation to third parties for the purchase of inventory.

The adoption of FIN No. 45 did not require additional disclosures and did not impact the Company's consolidated financial statements, as the Company does not issue guarantees related to third-party indebtedness or performance.

Coach is a party to employment agreements with certain executives, which provide for compensation and other benefits. The agreements also provide for severance payments under certain circumstances.

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

The Company is not party to any off-balance-sheet transactions or unconsolidated special purpose entities for any of the periods presented herein.

8. STOCK-BASED COMPENSATION

COACH STOCK-BASED PLANS At the time of the initial public offering, 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 its Board of Directors. These plans were approved by Coach's stockholders during fiscal 2002. The exercise price of each stock option equals 100% of the market price of Coach's stock on the date of grant and generally has a maximum term of 10 years. Options generally vest ratably over three years.

Concurrent with the initial public offering in October 2000, Coach granted 6,382 options to essentially all full-time employees and 30 options to outside members of the Board of Directors at the initial public offering price of $8.

Coach employees, at the initial public offering date, converted 2,408 Sara Lee options into the same number of Coach options while maintaining the same exercise price.

Under Coach's stock option plans, an active employee can receive a replacement stock option equal to the number of shares surrendered upon a stock-for-stock exercise. The exercise price of the replacement option was 100% of the market value at the date of exercise of the original option and will remain exercisable for the remaining term of the original option. Replacement stock options generally vest six months from the grant date. Replacement stock options of 1,840, 1,084 and 191 were granted in fiscal 2003, 2002 and 2001, respectively.

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

	NUMBER OF COACH OUTSTANDING OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE	EXERCISABLE SHARES	WEIGHTED-AVERAGE EXERCISE PRICE
Outstanding at July 1, 2000	–	$ –	–	$ –
Granted at the initial public offering	6,412	8.00		
Sara Lee options converted	2,408	12.06		
Granted	1,344	14.17		
Exercised	(482)	9.06		
Canceled/expired	(238)	8.83		
Outstanding at June 30, 2001	9,444	$ 9.91	1,751	$ 12.06
Granted	4,452	19.26		
Exercised	(3,558)	10.17		
Canceled/expired	(328)	10.07		
Outstanding at June 29, 2002	10,010	$ 13.97	1,592	$ 13.63
Granted	4,760	30.66		
Exercised	(5,088)	15.02		
Canceled/expired	(917)	15.81		
Outstanding at June 28, 2003	8,765	$ 22.23	1,437	$ 21.73

The following table summarizes information about stock options under the Coach option plans at June 28, 2003.

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING AT JUNE 28, 2003	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE (YEARS)	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE AT JUNE 28, 2003	WEIGHTED-AVERAGE EXERCISE PRICE
$ 8.00–20.00	4,389	7.14	$ 13.53	750	$ 12.55
$20.01–30.00	2,381	8.96	23.43	46	26.22
$30.01–40.00	1,065	7.16	32.80	641	32.17
$40.01–51.38	930	5.65	48.34	–	–
	8,765	7.48	$ 22.23	1,437	$ 21.73

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

FISCAL YEAR ENDED	JUNE 28, 2003	JUNE 29, 2002	JUNE 30, 2001
Expected lives (years)	1.5	1.6	3.0
Risk-free interest rate	1.7%	3.3%	6.0%
Expected volatility	35.2%	48.3%	49.0%
Dividend yield	–%	–%	–%

The weighted-average fair values of individual options granted were $4.89 during fiscal 2003, $4.81 during fiscal 2000 and $3.34 during fiscal 2001.

EMPLOYEE STOCK PURCHASE PLAN During fiscal 2002, Coach established the employee stock purchase plan and received stockholder approval of this program. Under this plan, full-time Coach employees are permitted to purchase a limited number of Coach common shares at 85% of market value. Under this plan, Coach sold 67 shares to employees in fiscal 2003 and 26 shares to employees in fiscal year 2002. Pro forma compensation expense is calculated for the fair value of employees purchase rights using the Black-Scholes model. Underlying assumptions are an expected life of .5 years, risk free interest of 1.2%, expected volatility of 38.3% and dividend yield of 0%. The weighted-average fair value of the purchase rights granted during fiscal 2003 was $10.37 and $5.88 in fiscal 2002.

STOCK UNIT AWARDS Restricted stock unit awards of Coach common stock have been granted to employees as retention awards. The value of retention awards is determined based upon the fair value of Coach stock at the grant date.

Stock awards are generally restricted and subject to forfeiture until the retention period is completed. The retention period is generally three years. As of June 28, 2003, retention awards of 257 shares are outstanding. This value is initially recorded as unearned compensation and is charged to earnings over the retention period. The amortization expense related to these awards was $1,568 for fiscal 2003 and $766 for fiscal 2002.

DEFERRED COMPENSATION Under the Coach, Inc. Executive Deferred Compensation Plan, executive officers and employees at or above the director level may elect to defer all or a portion of their annual bonus or annual base salary into the plan. Under the Coach, Inc. Deferred Compensation Plan for Non-Employee Directors, Coach's outside directors may similarly defer their director's fees. Amounts deferred under these plans may, at the participants' election, be either represented by deferred stock units, which represent the right to receive shares of Coach common stock on the distribution date elected by the participant, or placed in an interest-bearing account to be paid on such distribution date. The amounts accrued under these plans were $2,915 at June 28, 2003 and $2,051 at June 29, 2002. These amounts are reflected in other noncurrent liabilities in the consolidated balance sheets.

The following table summarizes share and exercise price information about Coach's equity compensation plans as of June 28, 2003.

PLAN CATEGORY	NUMBER OF SECURITIES TO BE ISSUED UPON EXERCISE OF OUTSTANDING OPTIONS, WARRANTS OR RIGHTS	WEIGHTED-AVERAGE EXERCISE PRICE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS	NUMBER OF SECURITIES REMAINING AVAILABLE FOR FUTURE ISSUANCE UNDER EQUITY COMPENSATION PLANS
Equity compensation plans approved by securities holders	9,022	$ 21.60	5,672
Equity compensation plans not approved by security holders	233	$ 10.84	777

9. RETIREMENT PLANS

Coach has established the Coach, Inc. Savings and Profit Sharing Plan, which is a noncontributory defined contribution plan. Employees who meet certain eligibility requirements and are not part of a collective bargaining agreement participate in this program.

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 met certain eligibility requirements and were not part of a collective bargaining arrangement participate in defined benefit pension plans sponsored by Sara Lee through June 30, 2001. 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.

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

FISCAL YEAR ENDED	JUNE 28, 2003	JUNE 29, 2002	JUNE 30, 2001
Coach, Inc. Savings and Profit Sharing Plan	$ 5,308	$ 3,926	$ –
Coach Leatherware Company, Inc. Supplemental Pension Plan	51	71	110
Participation in Sara Lee sponsored defined benefit plans	–	–	3,542
Total expense	$ 5,359	$ 3,997	$ 3,652

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

FISCAL YEAR ENDED	JUNE 28, 2003	JUNE 29, 2002	JUNE 30, 2001
Components of defined benefit net periodic pension costs (benefit):			
Service cost	$ 15	$ 15	$ 183
Interest cost	370	350	337
Expected return on assets	(381)	(381)	(415)
Amortization of:			
Net initial asset	–	–	(48)
Prior service cost	1	1	29
Net actuarial loss	46	86	24
Net periodic pension cost	$ 51	$ 71	$ 110

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

FISCAL YEAR ENDED	JUNE 28, 2003	JUNE 29, 2002	JUNE 30, 2001
Projected benefit obligation:			
Beginning of year	$ 5,414	$ 5,515	$ 5,289
Service cost	15	15	183
Interest cost	370	350	337
Benefits paid	(218)	(187)	(177)
Actuarial loss (gain)	402	(279)	(117)
Benefit obligation at end of year	$ 5,983	$ 5,414	$ 5,515

FISCAL YEAR ENDED	JUNE 28, 2003	JUNE 29, 2002	JUNE 30, 2001
Fair value of plan assets:			
Beginning of year	$ 4,740	$ 4,605	$ 4,990
Actual return (loss) on plan assets	(659)	322	(208)
Employer contributions	–	–	–
Benefits paid	(218)	(187)	(177)
Fair value of plan assets at end of year	$ 3,863	$ 4,740	$ 4,605

FISCAL YEAR ENDED	JUNE 28, 2003	JUNE 29, 2002	JUNE 30, 2001
Funded status	$ (2,120)	$ (675)	$ (909)
Unrecognized:			
Prior service cost	1	1	1
Net actuarial loss	2,244	850	1,156
Net initial asset	–	–	–
Prepaid benefit cost recognized	$ 125	$ 176	$ 248
Amounts recognized on the consolidated balance sheets:			
Other noncurrent assets	$ 1	$ 1	$ 1
Noncurrent benefit liability	(2,120)	(675)	(909)
Accumulated other comprehensive income	2,244	850	1,156
Prepaid benefit cost recognized	$ 125	$ 176	$ 248

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 28, 2003	JUNE 29, 2002	JUNE 30, 2001
Discount rate	6.50%	7.00%	6.50%
Long-term rate of return on plan assets	7.50%	8.25%	8.50%
Rate of compensation increase	5.50%	5.50%	5.50%

10. SEGMENT INFORMATION

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

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

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

FISCAL 2001	DIRECT-TO-CONSUMER	INDIRECT	CORPORATE UNALLOCATED	TOTAL
Net sales	$ 391,776	$ 208,715	$ –	$ 600,491
Operating income (loss)	120,330	89,516	(108,158)	101,688
Interest income	–	–	305	305
Interest expense	–	–	2,563	2,563
Income (loss) before provision for income taxes and minority interest	120,330	89,516	(110,416)	99,430
Provision for income taxes	–	–	35,400	35,400
Minority interest, net of tax	–	–	–	–
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

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

FISCAL YEAR ENDED	JUNE 28, 2003	JUNE 29, 2002	JUNE 30, 2001
Manufacturing variances	$ 6,755	$ 2,180	$ (170)
Advertising, marketing and design	(48,491)	(44,526)	(44,837)
Administration and information systems	(51,843)	(38,512)	(35,011)
Distribution and customer service	(27,510)	(24,685)	(23,571)
Reorganization costs	–	(3,373)	(4,569)
Total corporate unallocated	$ (121,089)	$ (108,916)	$ (108,158)

GEOGRAPHIC AREA INFORMATION As of June 28, 2003, Coach operated 156 retail stores and 76 factory stores in North America and operated four distribution, product development and quality control locations in the United States, 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. Indirectly, through Coach Japan, Coach operates 93 retail and department store locations in Japan.

FISCAL 2003	UNITED STATES	JAPAN	OTHER INTERNATIONAL(1)	TOTAL
Net sales	$ 735,890	$ 177,821	$ 39,515	$ 953,226
Long-lived assets	127,251	31,966	785	160,002

FISCAL 2002	UNITED STATES	JAPAN	OTHER INTERNATIONAL(1)	TOTAL
Net sales	$ 590,237	$ 95,702	$ 33,464	$ 719,403
Long-lived assets	106,600	20,647	705	127,952

FISCAL 2001	UNITED STATES	JAPAN	OTHER INTERNATIONAL(1)	TOTAL
Net sales	$ 528,585	$ 40,861	$ 31,045	$ 600,491
Long-lived assets	87,217	489	377	88,083

(1) Other International sales reflect shipments to third-party distributors primarily in East Asia and, in fiscal 2002 and fiscal 2001, sales from Coach-operated retail stores in the United Kingdom.

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

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

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

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

As of June 28, 2003 there were 95 Coach locations in Japan, including 75 department stores and 18 retail stores managed by Coach Japan and two airport locations operated by a distributor.

12. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Effective July 2, 2000, the Company adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133, as amended and interpreted, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. All derivatives, whether designated in hedging relationships or not, are required to be recorded on the balance sheet at fair value. If the derivative is designated as a fair value hedge, the changes in fair value of the hedged item are recorded in the statements of operations in the period incurred. If the derivative is designated as a cash flow hedge, effective changes in the fair value of the derivative are recorded in other comprehensive income and are recognized in the statement of operations when the hedged items affect earnings. Ineffective portions of changes in the fair value of cash flow hedges are recognized in earnings immediately. It is the Company's policy not to enter into derivative instruments for trading or speculative purposes.

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

In assessing the fair value of these contracts, the Company has utilized independent valuations. However, some judgment is required in developing estimates of fair values. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the Company could settle in a current market exchange. The use of different market assumptions or methodologies could affect the estimated fair value.

The foreign currency contracts entered into by the Company have durations no greater than 12 months. The fair values of open foreign currency derivatives included in accrued liabilities at June 28, 2003 and June 29, 2002 were $0 and $3,308, respectively. The fair value of open foreign currency derivatives included in current assets was $405 and $0 at June 28, 2003 and June 29, 2002, respectively. For fiscal 2003, open foreign currency forward contracts not designated as hedges with a notional amount of $33,150 were fair valued and resulted in a pretax noncash benefit to earnings of $3,357. At June 29, 2002, open foreign currency forward contracts not designated as hedges with a notional amount of $33,150 were fair valued and resulted in a pretax noncash charge to earnings of $3,252. The fair value adjustment is included as a component of selling, general and administrative expenses. Also, as of June 28, 2003, open foreign currency forward contracts designated as hedges with a notional amount of $39,300 were fair valued resulting in an increase to equity as a benefit to other comprehensive income of $168, net of taxes. There were no foreign currency forward contracts entered into by the Company as of June 30, 2001.

13. GOODWILL AND INTANGIBLE ASSETS

The Company adopted SFAS No. 142 in the first quarter of fiscal 2002, resulting in no goodwill or trademark amortization expense in fiscal 2002 and fiscal 2003. Under this standard, goodwill and indefinite life intangible assets, such as the Company's trademarks, are no longer amortized but are subject to annual impairment tests. In accordance with SFAS No. 142, prior period amounts were not restated. Coach recorded goodwill and trademark amortization expense of $900 in fiscal 2001. If the guidance of the statement had been applied retroactively, prior year results would have been different than previously reported. A reconciliation of net income as reported to adjusted net income for the exclusion of goodwill and trademark amortization, net of tax, for fiscal 2001 is as follows:

FISCAL YEAR ENDED	JUNE 30, 2001
Net income as reported	$ 64,030
Add back: amortization expense, net of tax	664
Pro forma net income	$ 64,694
Earnings per share as reported:	
Basic	$ 0.78
Diluted	$ 0.76
Pro forma earnings per share:	
Basic	$ 0.79
Diluted	$ 0.77
Shares used in computing earnings per share:	
Basic	81,860
Diluted	84,312

Changes in the carrying amounts of net goodwill for the year ended June 28, 2003 and June 29, 2002 are as follows:

	DIRECT-TO-CONSUMER	INDIRECT	TOTAL
Balance at June 30, 2001	$ 3,408	$ 1,516	$ 4,924
PDC acquisition	–	7,399	7,399
Osawa acquisition	–	421	421
Foreign exchange impact	–	262	262
Balance at June 29, 2002	$ 3,408	$ 9,598	$ 13,006
Foreign exchange impact	–	3	3
Balance at June 28, 2003	$ 3,408	$ 9,601	$ 13,009

14. 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 two shares. On October 2, 2000, a stock dividend was declared resulting in 70,052 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 prior to October 2, 2000. During October 2000, the initial public offering of the Company's common stock was accomplished resulting in the issuance of an additional 16,974 shares. Following the offering, 87,026 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 and calculation of basic and diluted earnings per share:

FISCAL YEAR ENDED	JUNE 28, 2003	JUNE 29, 2002	JUNE 30, 2001
Net earnings	$ 146,628	$ 85,827	$ 64,030
Total basic shares	89,779	88,048	81,860
Dilutive securities			
Employee benefit and stock award plans	460	342	244
Stock option programs	2,682	2,562	2,208
Total diluted shares	92,921	90,952	84,312
Earnings per share			
Basic	$ 1.63	$ 0.97	$ 0.78
Diluted	$ 1.58	$ 0.94	$ 0.76

15. RELATIONSHIP WITH SARA LEE

Prior to the Separation Date Coach operated as a division of Sara Lee. As a division 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 that 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.

The Company was charged with allocations of corporate expenses in the amounts of $31,437 for fiscal 2001, which was included as a component of selling, general and administrative expenses. These 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. As of the Separation Date there are no further transactions of this nature.

16. SHAREHOLDER RIGHTS PLAN

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

Subject to limited exceptions, these rights may be exercised if a person or group intentionally acquires 10% or more of the Company's common stock or announces a tender offer for 10% or more of the common stock on terms not approved by the Coach Board of

Directors. In this event, each right would entitle the holder of each share of Coach's common stock to buy one additional common share of the Company at an exercise price far below the then-current market price. Subject to certain exceptions, Coach's Board of Directors will be entitled to redeem the rights at $0.001 per right at any time before the close of business on the tenth day following either the public announcement that, or the date on which a majority of Coach's Board of Directors becomes aware that, a person has acquired 10% or more of the outstanding common stock. The Company is currently aware of one institutional shareholder whose common stock holdings exceed the 10% threshold established by the rights plan. This holder 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.

17. BUSINESS INTERRUPTION INSURANCE

Coach operated a retail store in the World Trade Center since 1995. During fiscal 2001, the store generated sales of $4,382. As a result of the September 11, 2001 attack, the store was destroyed. Inventory of $180 and fixed assets of $353 were removed from the accounts, and Coach has received payments under its property insurance coverage.

Losses relating to the Company's business interruption coverage have been filed with the insurers. Coach has held discussions with its insurance carriers and expects to fully recover these losses. In fiscal 2003 Coach received payments of $1,484 under its business interruption coverage. In fiscal 2002 Coach received payments of $1,413 under its business interruption coverage. These amounts have been included as a reduction of selling, general and administrative expenses.

18. STOCK REPURCHASE PROGRAM

On September 17, 2001, the Coach Board of Directors authorized the establishment of a common stock repurchase program. Under this program, up to $80,000 may be utilized to repurchase common stock through September 2004. Purchases of Coach stock may be made from time to time, subject to market conditions and at prevailing market prices, through open market purchases. Repurchased shares will become authorized but unissued shares and may be issued in the future for general corporate and other uses. The Company may terminate or limit the stock repurchase program at any time.

On January 30, 2003, the Coach Board of Directors approved an additional common stock repurchase program to acquire up to $100,000 of Coach's outstanding common stock through January 2006. The duration of Coach's existing repurchase program was also extended through January 2006. Purchases of Coach stock may be made from time to time, subject to market conditions and at prevailing market prices, through open market purchases. Repurchased shares will be retired and may be reissued in the future for general corporate or other purposes. The Company may terminate or limit the stock repurchase program at any time.

During the fiscal 2003, the Company repurchased 1,929 shares of common stock at an average cost of $25.89 per share. During fiscal 2002, the Company repurchased 860 shares of common stock at an average cost of $11.45 per share.

As of June 28, 2003, Coach had approximately $120,000 remaining in the stock repurchase program.

19. RELATED-PARTY TRANSACTION

On July 26, 2001, Coach made a loan to Reed Krakoff, its President, Executive Creative Director, in the principal amount of $2,000. The loan bears interest at a rate of 5.12% per annum, compounded annually. This loan amount and the applicable accrued interest, less payments received, is recorded as a component of other noncurrent assets in the accompanying balance sheet as of June 28, 2003.

Repayments of $400 principal must be made on or before each of July 26, 2003, 2004, 2005; the remaining $800 of principal, together with all accrued interest under the loan, must be paid on or before July 26, 2006. Mr. Krakoff may repay these amounts at any time. As collateral for the loan, Mr. Krakoff pledged to Coach his options to purchase 300 shares of Coach common stock at a price of $8.00 per share, including the shares of stock and any cash or other property he receives upon exercise of or in exchange for those options. Mr. Krakoff would be obligated to repay the loan in full immediately following certain events of default, including his failure to make payments under the loan as scheduled, his bankruptcy or the termination of his employment with Coach for any reason.

On November 7, 2002, Mr. Krakoff paid Coach the first principal payment of $400 under the loan agreement. Upon receipt of this payment, the collateral options were reduced proportionately under the terms of the agreement.

20. SUBSEQUENT EVENT

On August 7, 2003, Coach's Board of Directors authorized a two-for-one split of the Company's common stock, to be effected in the form of a special dividend of one share of the Company's common stock for each share outstanding. The additional shares issued as a result of the stock split will be distributed on October 1, 2003 to stockholders of record on September 17, 2003. The presented financial statements do not reflect the impact of the stock split, other than the proforma disclosures presented on the consolidated statements of income, as the distribution of the additional shares has not occurred.

21. QUARTERLY FINANCIAL DATA (UNAUDITED)

	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
FISCAL 2003				
Net sales	$ 192,791	$ 308,523	$ 220,396	$ 231,516
Gross profit	131,224	216,842	159,807	169,556
Net income	22,480	62,431	31,853	29,864
Earnings per common share:				
Basic	$ 0.25	$ 0.70	$ 0.35	$ 0.33
Diluted	$ 0.24	$ 0.68	$ 0.34	$ 0.32
FISCAL 2002				
Net sales	$ 150,702	$ 235,750	$ 161,571	$ 171,380
Gross profit	96,571	161,618	111,106	114,067
Net income	12,538	44,166	11,817	17,306
Earnings per common share:				
Basic	$ 0.14	$ 0.51	$ 0.13	$ 0.19
Diluted	$ 0.14	$ 0.49	$ 0.13	$ 0.19
FISCAL 2001				
Net sales	$ 131,495	$ 211,028	$ 125,714	$ 132,254
Gross profit	81,931	136,882	80,442	82,729
Net income	7,591	39,204	7,993	9,242
Earnings per common share:				
Basic	$ 0.11	$ 0.45	$ 0.09	$ 0.11
Diluted	$ 0.11	$ 0.44	$ 0.09	$ 0.10

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

Corporate Information

BOARD OF DIRECTORS

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

JOSEPH ELLIS
Limited Partner,
Goldman, Sachs & Co.

SALLY KASAKS
Marketing and Retail Consultant,
ISTA Incorporated

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

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

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

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

EXECUTIVE OFFICERS OF THE COMPANY

LEW FRANKFORT
Chairman and
Chief Executive Officer

KEITH MONDA
President,
Chief Operating Officer

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

REED KRAKOFF
President,
Executive Creative Director

CAROLE SADLER
Senior Vice President,
General Counsel and Secretary

FELICE SCHULANER
Senior Vice President,
Human Resources

MICHAEL TUCCI
President,
North American Retail Division

SENIOR MANAGEMENT OF COACH, INC.

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

KATHERINE NEDOROSTEK
President,
U.S. Wholesale

IAN BICKLEY
President,
Japan

THOMAS BRITT
Senior Vice President,
Chief Information Officer

GEORGE NUNNO
Senior Vice President,
Design

GABRIEL SACA
Senior Vice President,
Global Sourcing

DAVID DUPLANTIS
Vice President,
Merchandise Planning

MICHAEL FISHER
Vice President,
Visual Merchandising
and Store Design

FRED FRIESENHAHN
Vice President,
Leather Management

RANDEE JACKSON
Vice President,
Retail Stores

MICHAEL KINGSTON
Vice President,
Corporate Systems

ANDREA LALIBERTE
Vice President,
Distribution and
Customer Service

WALKER MACWILLIAM
Vice President,
Men's Design

RICHARD MYERS
Vice President,
Logistics and Planning

JAMES OFFUTT
Vice President,
Factory Stores

ANDREA SHAW RESNICK
Vice President,
Investor Relations

JANET SANDIFER
Vice President,
International Wholesale

PAUL SPITZBERG
Vice President,
Special Markets

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 5, 2003, 9:00 a.m. Eastern Time
Coach, Inc.
516 West 34th Street, 4th Floor
New York, New York 10001

TRANSFER AGENT AND REGISTRAR

Please direct communications regarding
individual stock records and address changes to:
Mellon Investor Services
Overpeck Centre
85 Challenger Road
Ridgefield Park, New Jersey 07660
or call 1-800-851-9677
www.melloninvestor.com

INVESTOR/FINANCIAL MEDIA CONTACT

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

INFORMATION UPDATES

Coach's quarterly financial results and other important information are available by calling the Investor Relations Department 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 2003 Annual Report and Form 10-K as filed with the Securities and Exchange Commission by writing to Daniel Ross, Associate Counsel, at the Company's headquarters.

INDEPENDENT PUBLIC ACCOUNTANTS

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

CATALOGS

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

MARKET AND DIVIDEND INFORMATION

Coach's common stock is listed on the New York Stock Exchange and is traded under the symbol "COH." The following table sets forth, for the fiscal year 2003, 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 28, 2002	$ 29.36	$ 18.13
December 28, 2002	34.47	23.59
March 29, 2003	39.93	29.17
June 28, 2003	52.88	37.08
Closing price at June 27, 2003	$ 49.94	

Coach has never declared or paid any cash dividends on its common stock. Coach currently intends to retain future earnings, if any, for use in its business and is presently not planning to pay regular cash dividends in its common stock. 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.

COACH

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