

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended July 2, 2005

or

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

Commission file number: 1-16153

Coach, Inc.

(Exact name of registrant as specified in its charter)

Maryland

(State or other jurisdiction of
incorporation or organization)

52-2242751

(I.R.S. Employer
Identification No.)

516 West 34th Street, New York, NY
(Address of principal executive offices)

10001
(Zip Code)

(212) 594-1850

(Registrant's telephone number, including area code)

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

<u>Title of Each Class:</u>	<u>Name of Each Exchange on which Registered</u>
Common Stock, par value \$.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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

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

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

The approximate aggregate market value of the voting and non-voting stock held by non-affiliates of the registrant was approximately \$11,881,719,882 as of September 2, 2005. For purposes of determining this amount only, the registrant has excluded shares of common stock held by directors and officers. Exclusion of shares held by any person should not be construed to indicate that such person possesses the power, direct or indirect, to direct or cause the direction of the management or policies of the registrant, or that such person is controlled by or under common control with the registrant.

On September 2, 2005, the Registrant had 380,115,103 outstanding shares of common stock, which is the Registrant's only class of capital stock.

COACH, INC.

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Founded in 1941, Coach has grown from a family-run workshop in a Manhattan loft to a leading American designer and marketer of high-quality, modern American classic accessories. Coach developed its initial expertise in the small-scale production of classic, high-quality leather goods constructed from “glove-tanned” leather with close attention to detail. Coach sells its products worldwide through its own retail stores, select department stores, its online store and its catalogs. Coach has built upon its brand awareness in the United States by expanding into international markets, particularly in Japan and East Asia, diversifying its product offerings beyond leather handbags, further developing its multi-channel distribution strategy and licensing products with the Coach brand name.

SPECIAL NOTE ON FORWARD-LOOKING INFORMATION

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

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

PART I

Item 1. *Business of Coach, Inc.*

OVERVIEW

Coach is a designer and marketer of high-quality, modern American classic accessories. Coach believes that it is one of the most recognized fine accessories brands in the U.S. and in targeted international markets. Coach's primary product offerings include handbags, accessories, business cases, outerwear and related accessories and weekend and travel accessories. Together with its licensing partners, Coach also offers watches, footwear, eyewear and office furniture with the Coach brand name. Net sales were \$1,710.4 million in the year ended July 2, 2005 ("fiscal 2005"), \$1,321.1 million in the year ended July 3, 2004 ("fiscal 2004") and \$953.2 million in the year ended June 28, 2003 ("fiscal 2003"). Operating income was \$621.8 million in fiscal 2005, \$444.5 million in fiscal 2004 and \$243.8 million in fiscal 2003.

Coach's products are sold through a number of direct-to-consumer channels, which at the end of fiscal 2005 included:

- 193 North American retail stores;
- 82 North American factory stores;
- the Internet; and
- the Coach catalog.

Coach's direct-to-consumer business represented approximately 55% of its total sales in fiscal 2005.

Coach's remaining sales were generated from products sold through a number of indirect channels, which at the end of fiscal 2005 included:

- approximately 1,000 department store locations in the U.S.;
- 94 international department store, retail store and travel shopping locations in 19 countries;
- 103 department store shop-in-shops, and retail and factory store locations operated by Coach Japan, Inc.; and
- Business to business.

Over the last several years, Coach has successfully transformed itself from a manufacturer of traditionally styled classic leather products to a marketer of modern, fashionable handbags and accessories using a broader range of fabrics and materials. Today, Coach's updated styles and multiple product categories address an increasing portion of its consumer's accessory wardrobe by responding to its customer's demands for both fashion and function. Along with the rejuvenation of the product line, Coach has created a similarly modern environment to showcase its product assortment and reinforce a consistent brand position. Finally, Coach has established a flexible, cost-effective sourcing model in which independent manufacturers supply virtually all of its products, allowing Coach to bring its broader range of products to market more rapidly and efficiently.

Coach has developed a number of key differentiating elements that set it apart from the competitive landscape including:

A Distinctive Brand — Coach is one of America's leading accessible luxury accessories brands, offering an aspirational product that is relevant, extremely well-made and provides exceptional value.

A Market Leadership Position with Growing Share — Coach is one of America's leading accessories brand and each year, as its market share increases, our leadership position strengthens.

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

Multi-Channel International Distribution — This allows Coach to maintain a critical balance as results do not depend solely on the performance of a single channel or geographic area.

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

Coach believes that these differentiating elements have enabled the Company to offer a unique proposition in the market place. In fiscal 2005, net sales increased 29.5%, operating income increased 39.9% and net income increased 48.5% compared to fiscal 2004. In fiscal 2004, net sales increased 38.6%, operating income increased 82.3% and net income increased 78.5% compared to fiscal 2003. Fiscal 2005 was a 52-week year, while fiscal 2004 was 53 weeks.

Growth Strategies

Based on its established strengths, Coach is pursuing the following strategies for future growth:

Expand Market Share. Coach is driving market share by leveraging its leadership position as an accessible luxury lifestyle brand and gaining a greater share of its consumer's accessories wardrobe. Coach is intensifying awareness as an everyday accessory resource by offering aspirational, stylish, well-made product. As part of this strategy, Coach is emphasizing new usage occasions, such as weekend and evening, and offering items at a broader range of prices.

Grow North American Retail Store Base. Coach believes that it has a successful retail store format that reinforces its brand image, generates strong sales per square foot and can be readily adapted to different location requirements. The modernized store environment has an open, loft-like feeling, with crisp white brick walls and a timeless, uncluttered look. Over the next four to five years, Coach plans to open approximately 20 to 25 retail stores per year in North America. In both fiscal 2005 and fiscal 2004, Coach opened 19 new retail stores. It generally takes 60-90 days from the time Coach takes possession of a store to open it. In addition, Coach is also expanding select highly productive locations. In fiscal 2005, seven stores were expanded. We expect to expand approximately seven stores in the fiscal year ending July 1, 2006 ("fiscal 2006"). We also expect to drive comparable store sales gains through improved conversion, as a result of Coach service initiatives and continued introduction of relevant new product offerings, generating higher average tickets and increasing units per transaction. In addition, we have evolved our in-store marketing programs to create a more satisfying, service-oriented shopping experience.

Expand Business with the Japanese Consumer Worldwide. Coach is aggressively raising brand awareness with the Japanese consumer. Japanese women spend four times more per capita globally on luxury accessories than her American counterpart, with approximately half of her worldwide spending on these items occurring outside of Japan.

In June 2001, we established Coach Japan, Inc., a joint venture with Sumitomo Corporation. We then acquired the existing distributors and expanded the number of locations and retail square footage. We have continued to grow market share and now hold the number two position within the imported luxury accessories market. On July 1, 2005, we completed the purchase of Sumitomo's 50% interest in Coach Japan, Inc.

Japanese consumers also seek to purchase luxury accessories when traveling internationally. In order to capitalize on this opportunity, we will continue to open image-enhancing locations wherever the Japanese consumer chooses to shop. Important U.S. travel destinations include Hawaii, California, New York and Florida. In these key locations, we strive to provide the Japanese consumer with a superior level of customer service tailored specifically to her needs, such as bilingual staff. In addition, a significant number of the International stores, which are operated by our distributors, are located in key Japanese travel destinations such as South Korea and Hong Kong.

Improve Operational Efficiencies. Coach has upgraded and reorganized its manufacturing, distribution and information systems over the past several years to allow it to bring new and existing products to market more efficiently. While enhancing its quality control standards, Coach has shifted its manufacturing processes

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from proprietary domestic factories to independent manufacturers in lower cost markets. As a result, Coach has increased its flexibility, improved its quality and lowered its costs. In fiscal 2005, Coach's gross margin increased to 76.6% from 74.9% in fiscal 2004. This improvement was driven by a shift in channel mix, as our highest gross margin channels grew faster than the business as a whole; a shift in product mix, reflecting increased penetration of higher margin mixed material product and accessories; and sourcing cost initiatives. Coach expects these factors to continue to drive gross margin rate improvement.

Coach's Products

Handbags. Coach's original business, the design, manufacture and distribution of fine handbags, accounted for approximately 64% of net sales in fiscal 2005. Coach makes monthly offerings of its handbag collections, featuring classically inspired designs as well as fashion trend designs. Typically, there are three to four collections per quarter and four to seven styles per collection, depending on the concept and opportunity.

Accessories. Women's accessories, consisting of wallets, wristlets, cosmetic cases, key fobs and belts, represented approximately 20% of Coach's net sales in fiscal 2005. Coach's small leather goods collections are coordinated with our handbags. Men's accessories, consisting of belts, wallets and other small leather goods, represented approximately 3% of Coach's net sales in fiscal 2005.

Business Cases. Business cases represented approximately 4% of Coach's net sales in fiscal 2005. This category includes computer bags and messenger-style bags, as well as men's and women's totes.

Outerwear, Gloves, Hats and Scarves. This category represented approximately 3% of Coach's net sales in fiscal 2005. The assortment is approximately 88% women's and contains a fashion assortment in all four components of this category.

Weekend and Travel Accessories. The Coach weekend and travel collections are comprised of cabin bags, duffels, suitcases, garment bags and a comprehensive collection of travel accessories. Weekend and travel accessories represented approximately 1% of Coach's net sales in fiscal 2005.

Watches. Movado Group, Inc. ("Movado") has been Coach's watch licensee since 1998 and has developed a distinctive collection of watches inspired by both the women's and men's collections. These watches are primarily manufactured in Switzerland and are branded with the Coach name and logo.

Footwear. Jimlar Corporation ("Jimlar") has been Coach's footwear licensee since 1999. The footwear is developed and manufactured primarily in Italy and is distributed through more than 450 locations in the U.S., including leading Coach retail stores and U.S. department stores. Approximately 98% of this business is in women's footwear, which coordinates with Coach handbags and employs fine materials, including calf and suede.

Eyewear. In the fall of 2003, Coach eyewear was launched with Marchon Eyewear ("Marchon") as the licensee. The eyewear collection is a collaborative effort from Marchon and Coach that combines the Coach aesthetic for fashion accessories with the latest fashion directions in eyewear and sunglasses. Coach sunglasses are sold in Coach retail stores, department stores, select sunglass retailers and optical retailers in major markets. The ophthalmic collection is available through Marchon's extensive network of optical retailers.

Office/ Home Office. Coach office furniture launched in the Fall of 2001 with Steelcase Inc. ("Steelcase") as the licensee. Steelcase and Coach offer consumers high-end furniture products to outfit the home office and executive workplace.

Design and Merchandising

Coach's New York-based design team, led by its Executive Creative Director, is responsible for conceptualizing and directing the design of all Coach products. Designers have access to Coach's extensive archives of product designs created over the past 60 years, which are a valuable resource for new product concepts. Coach designers are also supported by a strong merchandising team that analyzes sales, market trends and consumer preferences to identify business opportunities that help guide each season's design process. Merchandisers also analyze products to edit, add and delete styles to achieve profitable sales across all

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channels. Three product category teams, each comprised of design, merchandising/product development and sourcing specialists, help Coach execute design concepts that are consistent with the brand's strategic direction.

Coach's merchandising team works in close collaboration with our licensing partners to ensure that the licensed products, watches, footwear, eyewear and office furniture, are conceptualized and designed to address the intended market opportunity and convey the distinctive perspective and lifestyle associated with the Coach brand. While Coach's licensing partners may employ their own designers, Coach oversees the development of their collection concepts and the design of licensed products. Licensed products are also subject to Coach's quality control standards and the Company exercises final approval for all new products prior to their sale.

Marketing

Coach's marketing strategy is to deliver a consistent message every time the consumer comes in contact with the Coach brand, through all of its communications and visual merchandising. The Coach image is created internally and executed by the creative marketing, visual merchandising and public relations teams.

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

Coach engages in a wide range of direct marketing activities, including catalogs, brochures and email contacts, targeted to promote sales to consumers in their preferred shopping venue. As part of Coach's direct marketing strategy, it uses its database consisting of approximately 8.2 million active U.S. households. Catalogs and email contacts are Coach's principal means of communication and are sent to selected households to stimulate consumer purchases and build brand awareness. The growing number of visitors to the www.coach.com online store provides an opportunity to increase the size of this database. Coach's online store, like its catalogs and brochures, provides a showcase environment where consumers can browse through a strategic offering of the latest styles and colors in order to increase both online and store sales as well as build brand awareness.

In the U.S. and Japan, Coach spent \$28.1 million, or 2% of net sales in fiscal 2005, for national, regional and local advertising, primarily print and outdoor advertising, in support of its major selling seasons. Coach catalogs and www.coach.com also serve as effective brand communications vehicles, driving store traffic as well as direct-to-consumer sales.

Coach also has a sophisticated consumer and market research capability, which helps us assess consumer attitudes and trends and gauge the likelihood of a product's success in the marketplace prior to its introduction.

Channels of Distribution

Direct Channels

Coach has four different direct channels that provide it with immediate, controlled access to consumers: retail stores, factory stores, the Internet and catalogs. The direct-to-consumer channels represented approximately 55% of Coach's total net sales in fiscal year 2005.

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North American Retail Stores. Coach's retail stores establish, reinforce and capitalize on the image of the Coach brand. Coach operates 193 retail stores in North America that are located in upscale regional shopping centers and metropolitan areas. It operates flagship stores, which offer the broadest assortment of Coach products, in high-visibility locations such as New York, Chicago and San Francisco. The following table shows the number of Coach retail stores and their total and average square footage:

	Fiscal Year Ended		
	July 2, 2005	July 3, 2004	June 28, 2003
Retail stores	193	174	156
Net increase vs. prior year	19	18	18
Percentage increase vs. prior year	10.9%	11.5%	13.0%
Retail square footage	490,925	431,617	363,310
Net increase vs. prior year	59,308	68,307	61,809
Percentage increase vs. prior year	13.7%	18.8%	20.5%
Average square footage	2,544	2,481	2,329

Depending on their size and location, the retail stores present product lines that include handbags, business cases, wallets, footwear, watches, weekend and travel related accessories. The modern store design creates a distinctive environment that showcases these various products. Store associates are trained to maintain high standards of visual presentation, merchandising and customer service. The result is a complete statement of the Coach modern American style at the retail level.

North American Factory Stores. Coach's 82 factory stores serve as an efficient means to sell manufactured-for-factory-store product, as well as discontinued and irregular inventory, outside the retail channel. These stores operate under the Coach Factory name and are geographically positioned primarily in established centers that are usually between 50 to 100 miles from major markets. The following table shows the number of Coach factory stores and their total and average square footage:

	Fiscal Year Ended		
	July 2, 2005	July 3, 2004	June 28, 2003
Factory stores	82	76	76
Net increase vs. prior year	6	0	2
Percentage increase vs. prior year	7.9%	0%	2.7%
Factory square footage	252,279	231,355	232,898
Net increase vs. prior year	20,924	(1,543)	13,391
Percentage increase vs. prior year	9.0%	(0.7)%	6.1%
Average square footage	3,077	3,044	3,064

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

Internet. Coach views its website as a key communications vehicle for the brand to promote traffic in Coach retail stores and department store locations and build brand awareness. However, our internet business has grown to be significant, generating net sales of \$41.7 million in fiscal 2005. Like Coach catalogs and brochures, the online store provides a showcase environment where consumers can browse through a selected offering of the latest styles and colors. Revenue from internet sales is recognized upon shipment of the product.

Catalog. In fiscal 2005, the Company distributed approximately 5.5 million catalogs in Coach stores and mailed Coach catalogs to about 2.4 million strategically selected U.S. households from its database of customers. While direct mail sales comprise a small portion of Coach's net sales, Coach views its catalog as a

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key communications vehicle for the brand because it promotes store traffic and facilitates the shopping experience in Coach retail stores and builds brand awareness. As an integral component of our communications strategy, the graphics, models and photography are upscale and modern and present the product in an environment consistent with the Coach brand position. The catalogs highlight selected products and serve as a reference for customers, whether ordering through the catalog, making in-store purchases or purchasing over the Internet.

Indirect Channels

Coach began as a wholesaler to department stores and this channel remains very important to its overall consumer reach. Coach has grown its indirect business by the formation of Coach Japan and working closely with its partners, both domestic and international, to ensure a clear and consistent product presentation. The indirect channel represented approximately 45% of total net sales in fiscal 2005.

Coach Japan, Inc. Coach is aggressively expanding market share and raising brand awareness with the Japanese consumer, primarily by opening flagship and freestanding stores. As of July 2, 2005, there were 103 Coach-operated locations in Japan, including 76 department store shop-in-shops, seven flagship locations, and nine retail and 11 factory stores. The seven flagship stores, which offer the broadest assortment of Coach products, are located in select shopping districts of Japan. Coach Japan plans to open at least one additional flagship location and more than ten other locations in fiscal 2006. In addition, to strengthen Coach's presence in premier department stores, Coach Japan is expanding select highly productive shop-in-shops in these department stores. Coach Japan expanded 14 locations during fiscal 2005 and plans to expand an additional eight locations during fiscal 2006. Lastly, Coach Japan is driving sales through improved store productivity by providing distinctive newness to the Japanese marketplace, where innovation is key. This channel represented approximately 22% of total net sales in fiscal 2005. The following table shows the number of Coach Japan locations and their total and average square footage:

	Fiscal Year Ended		
	July 2, 2005	July 3, 2004	June 28, 2003
Total locations	103	100	93
Net increase vs. prior year	3	7	10
Percentage increase vs. prior year	3.0%	7.5%	12.0%
Total square footage	161,632	119,291	102,242
Net increase vs. prior year	42,341	17,049	25,267
Percentage increase vs. prior year	35.5%	16.7%	32.8%
Average square footage	1,569	1,193	1,099

In June 2001, Coach and Sumitomo Corporation ("Sumitomo") commenced a joint venture to form Coach Japan, Inc., in order to operate the Coach business in Japan. During fiscal 2002, Coach Japan acquired the prior distributors of Coach products in Japan in order to expand its presence in the Japanese market and to exercise greater control over its brand in that country. On July 1, 2005, Coach completed the purchase of Sumitomo's 50% interest in Coach Japan, Inc.

U.S. Wholesale. Coach's products are sold to approximately 1,000 U.S. wholesale locations. This channel represented approximately 11% of total net sales in fiscal 2005. Coach's net sales to U.S. wholesale customers grew 33.1% in fiscal 2005 from fiscal 2004. This channel offers access to Coach products to consumers who prefer shopping at department stores or who live in geographic areas that are not large enough to support a Coach retail store. Recognizing the continued importance of U.S. department stores as a distribution channel for premier accessories, Coach continues to fine-tune its strategy to increase productivity and drive volume by enhancing presentation, primarily through the creation of more shop-in-shops and the introduction of caseliner enhancements with proprietary Coach fixtures. Coach has also improved the wholesale product planning and allocation processes and custom tailors assortments to better match the attributes of our department store consumers in each local market. Coach's most significant U.S. wholesale

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customers are Federated Department Stores (including Macy's and Bloomingdale's), May Co. (including Lord and Taylor, Marshall Fields and Filene's), Dillard's, Nordstrom and Saks, Inc. (including Saks Fifth Avenue and Parisian). Store closures resulting from the Federated Department Stores and May Co. merger are not expected to have a significant impact on Coach's U.S. wholesale business.

International Wholesale. Coach's international business, which represents approximately 6% of total net sales in fiscal 2005, is generated through sales to wholesale distributors and authorized retailers. Coach has developed relationships with a select group of distributors who market Coach products through department stores, freestanding retail locations and specialty retailers in 19 countries. Coach's current network of international distributors serves markets such as the U.S., South Korea, Hong Kong, Guam, Taiwan, Singapore, Australia, Japan, Mexico, Saudi Arabia, China, the Caribbean, Thailand, New Zealand and Malaysia. For locations not in freestanding stores, Coach has created shop-in-shops and other image-enhancing environments to increase brand appeal and stimulate growth. Within the international arena, the primary focus is the traveling Japanese consumer and the local market domestic consumer. Coach targets the Japanese consumer in areas with significant levels of Japanese tourism as per capita spending on luxury accessories by Japanese consumers is substantially greater than that in the U.S. Coach continues to improve productivity in this channel by opening larger image-enhancing locations, expanding existing stores and closing smaller, less productive stores. Coach's most significant international wholesale customers are the DFS Group, the Shilla Group, Lotte Group and Tasa Meng Corp.

The following table shows the number of international retail stores, international department store locations and other international locations at which Coach products are sold:

	Fiscal Year Ended		
	July 2, 2005	July 3, 2004	June 28, 2003
International freestanding stores	14	18	18
International department store locations	58	70	49
Other international locations	22	27	40
Total international wholesale locations	94	115	107

Business to Business. As part of the indirect channel of distribution, Coach sells products to corporations and distributors for incentive and gift-giving programs.

Licensing. In our licensing relationships, Coach takes an active role in the design process and controls the marketing and distribution of products under the Coach brand. The current licensing relationships as of July 2, 2005 are as follows:

Category	Licensing Partner	Introduction Date	Territory	License Expiration Date
Watches	Movado	Spring '98	U.S. and Japan	2008
Footwear	Jimlar	Spring '99	U.S.	2008
Eyewear	Marchon	Fall '03	Worldwide	2011
Office furniture	Steelcase	Fall '01	U.S.	2006

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

Manufacturing

During the past several years, in coordination with the repositioning of its brand, Coach has refined its production capabilities by shifting its production from owned domestic facilities to independent manufacturers in lower cost markets. These independent manufacturers can support a broader mix of product types, materials and a seasonal influx of new, more fashion oriented styles. During fiscal year 2005, approximately 65% of Coach's total net sales were generated from products introduced within the fiscal year. At the same time, by designating a significant number of the new styles as "limited editions" that are planned to be offered for a brief time and then replaced with fresh new products, we help manage total inventory and limit our exposure to excess and obsolete inventory.

Coach developed a flexible manufacturing model that meets shifts in marketplace demand and changes in consumer preferences. It uses two main sources to make Coach products: outsourcing with skilled partners and production by its licensing partners. All product sources must achieve and maintain Coach's high quality standards, which are an integral part of the Coach identity. One of Coach's keys to success lies in the rigorous selection of raw materials. Coach has longstanding relationships with purveyors of fine leathers and hardware. As Coach moved its production to external sources, it has maintained control of the raw materials that are used in all of its products, wherever they are made. Compliance is monitored with the quality control standards through on-site quality inspections at all independent manufacturing facilities.

All of Coach's fiscal year 2005 product requirements were supplied by independent manufacturers. Coach buys independently manufactured products from many countries, including China, Hong Kong, Italy, India, Singapore, South Korea, Spain, Turkey, Costa Rica, Hungary, Indonesia, Thailand, Taiwan and Philippines. Coach operates sourcing offices in Hong Kong, China and South Korea that work closely with our sourced vendors. Coach also operates a European sourcing and product development organization based in Florence, Italy that works closely with the New York design team. This broad-based, multi-country manufacturing strategy is designed to optimize the mix of cost, lead times and construction capabilities. Coach carefully balances its commitments to a limited number of "better brand" partners with demonstrated integrity, quality and reliable delivery. No one vendor provides more than 16% of Coach's total units. Before partnering with a vendor, Coach evaluates each facility by conducting a quality and business practice standards audit. Periodic evaluations of existing, previously approved facilities are conducted on a random basis. We believe that all of our manufacturing partners are in compliance with Coach's integrity standards.

Distribution

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

Management Information Systems

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

Complementing its Enterprise Resource Planning system are several other system solutions, each of which Coach believes is well suited for its needs. The data warehouse system summarizes the transaction information and provides a single platform for all management reporting. The supply chain management system supports corporate sales and inventory functions, creating a monthly demand plan and reconciling production/procurement with financial plans. Product fulfillment is facilitated by Coach's highly automated warehouse management system and electronic data interchange system, while the unique requirements of

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Coach's Internet and catalog businesses are supported by Coach's order management system. Finally, the point-of-sale system supports all in-store transactions, distributes management reporting to each store, and collects sales and payroll information on a daily basis. This daily collection of store sales and inventory information results in early identification of business trends and provides a detailed baseline for store inventory replenishment. Updates and upgrades of these systems are made on a periodic basis in order to ensure that we constantly improve our functionality. All complementary systems are integrated with the central Enterprise Resource Planning system.

Trademarks and Patents

Coach owns all of the material trademark rights used in connection with the production, marketing and distribution of all of its products, both in the U.S. and in other countries in which the products are principally sold. Coach also owns and maintains worldwide registrations for trademarks in all relevant classes of products in each of the countries in which Coach products are sold. Major trademarks include *Coach*, *Coach and lozenge design* and *Coach and tag design* and it has applications pending for a proprietary "*C*" signature fabric design. Coach is not dependent on any one particular trademark or design patent although Coach believes that the Coach name is important for its business. In addition, several of Coach's products are covered by design patents or patent applications. Coach aggressively polices its trademarks and trade dress, and pursues infringers both domestically and internationally. It also pursues counterfeiters domestically and internationally through leads generated internally, as well as through its network of investigators, the Coach hotline and business partners around the world.

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

Employees

As of July 2, 2005, Coach employed approximately 5,700 people, about 50 of which were covered by collective bargaining agreements. Of the total, 3,600 are engaged in retail selling and administration positions, 400 are engaged in sourcing or distribution functions and 1,000 are employed through Coach Japan. The remaining employees are engaged in other aspects of the Coach business. Coach believes that its relations with its employees are good, and it has never encountered a strike or significant work stoppage.

Government Regulation

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

Available Information

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

RISK FACTORS

You should consider carefully all of the information set forth or incorporated by reference in this document and, in particular, the following risk factors associated with the Business of Coach and forward-looking information in this document. Please also see "Special Note on Forward-Looking Information" on page 2.

If Coach is unable to successfully implement its growth strategies or manage its growing business, its future operating results could suffer.

Successful implementation of Coach's strategies and initiatives will require it to manage its growth. To manage growth effectively, Coach will need to continue to increase its outsourced manufacturing while maintaining strict quality control. Coach will also need to continue to improve its operating systems to respond to any increased demand. It could suffer a loss of consumer goodwill and a decline in sales if its products do not continue to meet its quality control standards or if it is unable to adequately respond to increases in consumer demand for its products.

Coach's inability to respond to changes in consumer demands and fashion trends in a timely manner could adversely affect its sales.

Coach's success depends on its ability to identify, originate and define product and fashion trends as well as to anticipate, gauge and react to changing consumer demands in a timely manner. Its products must appeal to a broad range of consumers whose preferences cannot be predicted with certainty and are subject to rapid change. Coach cannot assure that it will be able to continue to develop appealing styles or meet changing consumer demands in the future.

If Coach misjudges the demand for its products it may incur increased costs due to excess inventories.

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

Competition in the markets in which Coach operates is intense, and our competitors may develop products that are more popular with consumers.

Coach faces intense competition in the product lines and markets in which it operates. Coach's products compete with other brands of products within their product category and with private label products sold by retailers, including some of Coach's wholesale customers. In its wholesale business, Coach competes with numerous manufacturers, importers and distributors of handbags, accessories and other products for the limited space available for the display of these products to the consumer. Moreover, the general availability of contract manufacturing allows new entrants easy access to the markets in which Coach operates, which may increase the number of competitors and adversely affect its competitive position and business. Finally, some of Coach's competitors have achieved significant recognition for their brand names.

A downturn in the economy may affect consumer purchases of discretionary luxury items, which could adversely affect Coach's sales.

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

Coach's gross profit may decrease if it becomes unable to obtain its products from, or sell its products in, other countries due to adverse international events that are beyond its control.

In order to lower its sourcing costs and increase its gross profit, Coach has shifted its production to independent non-U.S. manufacturers in lower-cost markets. Coach's international manufacturers are subject to many risks, including foreign governmental regulations, political unrest, disruptions or delays in shipments, limits on production capacity, changes in local economic conditions and trade issues. These factors, among others, could influence the ability of these independent manufacturers to make or export Coach products cost-effectively or at all or to procure some of the materials used in these products. The violation of labor or other laws by any of Coach's independent manufacturers, or the divergence of an independent manufacturer's labor practices from those generally accepted as ethical by Coach or others in the U.S., could damage Coach's reputation and force it to locate alternative manufacturing sources. Currency exchange rate fluctuations could increase the cost of raw materials or labor for these independent manufacturers, which they could pass along to Coach, resulting in higher costs and decreased margins for its products. If any of these factors were to render a particular country undesirable or impractical as a source of supply, there could be an adverse effect on Coach's business, including its gross profit.

Coach's failure to continue to increase sales of its products in international markets could adversely affect its gross profit. International sales are subject to many risks, including foreign governmental regulations, foreign consumer preferences, political unrest, disruptions or delays in shipments to other nations, tourism and changes in local economic conditions. These factors, among others, could influence Coach's ability to sell products successfully in international markets. Coach generally purchases products from international manufacturers in U.S. dollars and sells these products in the U.S. and to its international wholesale customers in U.S. dollars. However, Coach's international wholesale customers sell Coach products in the relevant local currencies, and currency exchange rate fluctuations could adversely affect the retail prices of the products and result in decreased international consumer demand.

Coach's business is subject to foreign exchange risk.

Coach sells products to its international wholesale customers in U.S. dollars. However, those distributors sell Coach product in the relevant local currency. Currency exchange rate fluctuations could adversely affect the retail prices of the products and result in decreased international demand.

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. In order to manage this risk, Coach Japan enters into forward exchange contracts that allow them to obtain dollars at a rate that is set concurrent with the requisition of inventory. These contracts meet the definition of a derivative under Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities." As these contracts are entered into before the receipt of inventory, the contract rate may be higher or lower than market rates when the goods are received and the payment is completed. All contracts are fair valued at the end of each reporting period. If the derivative is designated as a cash flow hedge, effective subsequent 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. This non-cash charge or credit can result in fluctuations in the reported financial results.

Coach consolidates the financial results of Coach Japan into its financial statements. The functional currency of Coach Japan is the Japanese yen. Operating results are converted to U.S. dollars based on the average exchange rate during the period and the balance sheet is converted to U.S. dollars based on the exchange rate at the end of the reporting period.

If Coach loses key management or design personnel or is unable to attract and retain the talent required for its business, its operating results could suffer.

Coach's performance depends largely on the efforts and abilities of its senior management and design teams. These executives and employees have substantial experience and expertise in Coach's business and

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have made significant contributions to its growth and success. 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. The unexpected loss of services of one or more of these individuals could have an adverse effect on Coach's business. As the business grows, Coach will need to attract and retain additional qualified personnel and develop, train and manage an increasing number of management level, sales and other employees. Coach cannot guarantee that it will be able to attract and retain personnel as needed in the future.

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

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

Coach's trademark and other proprietary rights could potentially conflict with the rights of others and it may be inhibited from selling some of its products. If Coach is unable to protect its trademarks and other proprietary rights, others may sell imitation brand products.

Coach believes that its registered and common law trademarks and design patents are important to its ability to create and sustain demand for Coach products. Coach cannot assure that it will not encounter trademark, patent or trade dress disputes in the future as it expands its product line and the geographic scope of its marketing. Coach also cannot assure that the actions taken by it to establish and protect its trademarks and other proprietary rights will be adequate to prevent imitation of its products or infringement of its trademarks and proprietary rights by others. The laws of some foreign countries may not protect proprietary rights to the same extent as do the laws of the U.S. and it may be more difficult for Coach to successfully challenge the use of its proprietary rights by other parties in these countries.

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

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

On May 3, 2001 Coach declared a "poison pill" dividend distribution of rights to buy additional common stock to the holder of each outstanding share of Coach's common stock. Subject to limited exceptions, these rights may be exercised if a person or group intentionally acquires 10% or more of Coach's common stock or announces a tender offer for 10% or more of the common stock on terms not approved by the Coach Board of Directors. In this event, each right would entitle the holder of each share of Coach's common stock to buy one additional common share of Coach stock at an exercise price far below the then-current market price. Subject to certain exceptions, Coach's Board of Directors will be entitled to redeem the rights at \$0.001 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

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more of the outstanding common stock. As of the end of fiscal 2005, there were no shareholders whose common stock holdings exceeded the 10% threshold established by the rights plan.

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

These and other provisions of Maryland law or Coach's charter and bylaws could have the effect of delaying, deferring or preventing a transaction or a change in control that might involve a premium price for Coach's common stock or otherwise be in the best interest of Coach's stockholders.

Item 2. Properties

The following table sets forth the location, use and size of Coach's distribution, corporate and product development facilities as of July 2, 2005, all of which are leased. The leases expire at various times through 2016, subject to renewal options.

<u>Location</u>	<u>Use</u>	<u>Approximate Square Footage</u>
Jacksonville, Florida	Distribution and customer service	560,000
New York, New York	Corporate and product development	225,000
Carlstadt, New Jersey	Corporate and product development	55,000
Tokyo, Japan	Coach Japan, corporate	20,000
Shenzhen, People's Republic of China	Quality control	18,000
Florence, Italy	Sourcing and product development	16,000
Kowloon, Hong Kong	Sourcing and quality control	5,000
Seoul, South Korea	Sourcing	3,000

As of July 2, 2005, Coach also occupies 193 retail and 82 factory leased stores located in North America. Indirectly, through Coach Japan, Coach operates 103 department store shop-in-shops, and retail and factory store locations in Japan. Coach considers these properties to be in generally good condition and believes that its facilities are adequate for its operations and provide sufficient capacity to meet its anticipated requirements.

Item 3. Legal Proceedings

Coach is involved in various routine legal proceedings as both plaintiff and defendant incident to the ordinary course of its business, including proceedings to protect Coach's intellectual property rights, litigation instituted by persons alleged to have been injured upon premises within Coach's control and litigation with present or former employees. Although Coach's litigation with present or former employees is routine and incidental to the conduct of Coach's business, as well as for any business employing significant numbers of U.S.-based employees, such litigation can result in large monetary awards when a civil jury is allowed to determine compensatory and/or punitive damages for actions claiming discrimination on the basis of age, gender, race, religion, disability or other legally protected characteristic or for termination of employment that is wrongful or in violation of implied contracts. As part of its policing program for its intellectual property rights, from time to time, Coach files lawsuits in the U.S. and abroad alleging acts of trademark counterfeiting, trademark infringement, patent infringement, trade dress infringement, trademark dilution and/or state or foreign law claims. At any given point in time, Coach may have one or more of such actions

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pending. These actions often result in seizure of counterfeit merchandise and/or out of court settlements with defendants. From time to time, defendants will raise as affirmative defenses or as counterclaims the invalidity or unenforceability of certain of Coach's intellectual properties. Coach believes that the outcome of all pending legal proceedings in the aggregate will not have a material adverse effect on Coach's business or consolidated financial statements.

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

None

Executive Officers and Directors

The following table sets forth information regarding each of Coach's executive officers and directors serving as of July 2, 2005:

<u>Name</u>	<u>Age</u>	<u>Position(s)(1)</u>
Lew Frankfort	59	Chairman, Chief Executive Officer and Director
Keith Monda	59	President, Chief Operating Officer and Director
Reed Krakoff	41	President, Executive Creative Director
Michael Tucci	44	President, North American Retail Division
Mike Devine	46	Senior Vice President, Chief Financial Officer and Chief Accounting Officer
Carole Sadler	46	Senior Vice President, General Counsel and Secretary
Felice Schulaner	45	Senior Vice President, Human Resources
Joseph Ellis(3)	63	Director
Sally Frame Kasaks(2)(3)	61	Director
Gary Loveman(2)(3)	45	Director
Ivan Menezes(2)(3)	46	Director
Irene Miller(2)(3)	53	Director
Michael Murphy(2)(3)	68	Director

- (1) Coach's executive officers serve indefinite terms and may be appointed and removed by Coach's board of directors at any time. Coach's directors are elected at the annual stockholders meeting and serve terms of one year.
- (2) Member of the audit committee.
- (3) Member of the human resources and governance committee.

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

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

Reed Krakoff was appointed President, Executive Creative Director in September 1999 after joining Coach as Senior Vice President and Executive Creative Director in December 1996. Prior to joining Coach, Mr. Krakoff served as Senior Vice President, Marketing, Design & Communications from January 1993 until December 1996, and as Head Designer, Sportswear from April 1992 until January 1993 at Tommy Hilfiger USA, Inc. From July 1988 through April 1992, Mr. Krakoff served as a Senior Designer in Design and Merchandising for Polo/ Ralph Lauren. Mr. Krakoff holds an A.A.S. degree in Fashion Design from Parsons School of Design and a Bachelor of Arts degree in Economics and Art History from Tufts University.

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

Mike Devine has served as Senior Vice President and Chief Financial Officer and Chief Accounting Officer of Coach since December 2001. Prior to joining Coach, Mr. Devine served as Chief Financial Officer and Vice President-Finance of Mothers Work, Inc. from February 2000 until November 2001. From 1997 to 2000, Mr. Devine was Chief Financial Officer of Strategic Distribution, Inc., a Nasdaq-listed industrial store operator. Previously, Mr. Devine was Chief Financial Officer at Industrial System Associates, Inc. from 1995 to 1997, and for the prior six years he was the Director of Finance and Distribution for McMaster-Carr Supply Co. Mr. Devine holds a Bachelor of Science degree in Finance and Marketing from Boston College and an MBA degree in Finance from the Wharton School of the University of Pennsylvania.

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

Felice Schulaner joined Coach as Senior Vice President, Human Resources in January 2000. Prior to joining Coach, Ms. Schulaner served as Senior Vice President, Human Resources of Optimark Technologies from February 1999 through December 1999 and as Senior Vice President, Human Resources of Salant Corporation from July 1997 through February 1999. Ms. Schulaner was Vice President, Worldwide Recruitment & Selection at American Express from July 1996 until June 1997. From 1990 through 1996, she served in various other human resources positions at American Express, including Vice President, Human Resources Reengineering, and, from 1986 until 1990, Ms. Schulaner held human resources positions at Macy's Northeast in New York City. Ms. Schulaner holds a Bachelor of Arts degree from New College of the University of South Florida. In December 1998, Salant Corporation commenced bankruptcy proceedings, which concluded in April 1999.

Joseph Ellis was elected to Coach's Board of Directors in September 2000. Mr. Ellis has served as an Advisory Director of Goldman, Sachs & Co. since May 1999, and served as a Limited Partner of Goldman, Sachs from 1994 to May 1999 and a General Partner from 1986 to 1994. Mr. Ellis is also a founder, and has served as Chairman since December 2001, of Blue Tulip LLC, a specialty store offering cards, paper products, invitations and gifts. Mr. Ellis served as senior retail-industry analyst from 1970 through 1994. Before joining Goldman, Sachs in 1970, Mr. Ellis was Vice President and Investment Analyst with The Bank of New York. Mr. Ellis also serves as a Director of Waterworks, Inc. and as a trustee of the RARE Center for Tropical Conservation. Mr. Ellis holds a Bachelor of Arts degree from Columbia University.

Sally Frame Kasaks was elected to Coach's Board of Directors in November 2001. Ms. Kasaks has served as a marketing and retail consultant for ISTA Incorporated since January 1997. Prior to this, she served as Chairman and Chief Executive Officer of Ann Taylor Stores, Inc. from February 1992 until August 1996. Ms. Kasaks was the President and Chief Executive Officer of Abercrombie & Fitch, a division of The Limited, Inc., from February 1989 through February 1992 and the Chairman and Chief Executive Officer of The Talbots, Inc., which was a specialty apparel retailing division of General Mills Co., from November 1985 through September 1988. Ms. Kasaks also serves as a Director of Pacific Sunwear of California, Inc., Cortefiel, S.A., The Children's Place, Inc. and Crane & Co. She holds a Bachelor of Arts degree from American University.

Gary Loveman was elected to Coach's Board of Directors in January 2002. Mr. Loveman has served as Chairman of Harrah's Entertainment, Inc. since January 2005 and as its Chief Executive Officer and President since January 2003; he had served as President of Harrah's since April 2001 and as Chief Operating Officer of Harrah's since May 1998. He was a member of the three-executive Office of the President of Harrah's from May 1999 to April 2001 and was Executive Vice President from May 1998 to May 1999. From 1989 to 1998, Mr. Loveman was Associate Professor of Business Administration, Harvard University Graduate School of Business Administration, where his responsibilities included teaching MBA and executive education students, research and publishing in the field of service management, and consulting and advising large service companies. Mr. Loveman also serves as a Director of Harrah's. He holds a Bachelor of Arts degree in Economics from Wesleyan University and a Ph.D. in Economics from the Massachusetts Institute of Technology.

Ivan Menezes was elected to Coach's Board of Directors in February 2005. Mr. Menezes has served as President and Chief Executive Officer of Diageo North America, the world's leading premium drinks company, since January 2004, after having served as its President and Chief Operation Officer from July 2002, and as President of Diageo, Venture Markets since July 2000. Since joining Diageo in 1997 he has held various progressively senior management positions, including the position of President and Chief Operating Officer. Before joining Diageo, he held senior marketing positions with Whirlpool Europe in Milan and was a principal with Booz Allen Hamilton, Inc., both in Chicago and in London. Mr. Menezes holds an MBA from Northwestern University's Kellogg School of Management.

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

Michael Murphy was elected to Coach's Board of Directors in September 2000. From 1994 to 1997, Mr. Murphy served as Vice Chairman and Chief Administrative Officer of Sara Lee Corporation. Mr. Murphy also served as a Director of Sara Lee from 1979 through October 1997. Mr. Murphy joined Sara Lee in 1979 as Executive Vice President and Chief Financial and Administrative Officer and, from 1993 until 1994, also served as Vice Chairman. Mr. Murphy is also a Director of Civic Federation, Big Shoulders Fund, Metropolitan Pier and Exposition Authority, Chicago Cultural Center Foundation, GATX Corporation,

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Payless ShoeSource, Inc. and CNH Global N.V. He is also a member of the Board of Trustees of Northern Funds (a family of mutual funds). Mr. Murphy holds a Bachelor of Science degree in Business Administration from Boston College and an MBA degree in finance from the Harvard Business School.

PART II

Item 5. *Market for Registrant's Common Equity and Related Stockholder Matters*

Refer to the information regarding the market for Coach's Common Stock and the quarterly market price information appearing under the caption "Market and Dividend Information" included herein.

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

The selected historical financial data presented below as of and for each of the fiscal years in the five-year period ended July 2, 2005 have been derived from Coach's audited Consolidated Financial Statements. The financial data should be read in conjunction with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," the Consolidated Financial Statements and Notes thereto and other financial data included elsewhere herein.

	Fiscal Year Ended(1)				
	July 2, 2005	July 3, 2004	June 28, 2003	June 29, 2002	June 30, 2001
Consolidated Statements of Income:					
Net sales	\$ 1,710,423	\$ 1,321,106	\$ 953,226	\$ 719,403	\$ 600,491
Cost of sales	399,652	331,024	275,797	236,041	218,507
Gross profit	1,310,771	990,082	677,429	483,362	381,984
Selling, general and administrative expenses	688,961	545,617	433,667	346,354	275,727
Reorganization costs(2)	—	—	—	3,373	4,569
Operating income	621,810	444,465	243,762	133,635	101,688
Interest income (expense), net	15,760	3,192	1,059	(299)	(2,258)
Income before provision for income taxes and minority interest	637,570	447,657	244,821	133,336	99,430
Provision for income taxes	235,277	167,866	90,585	47,325	35,400
Minority interest, net of tax	13,641	18,043	7,608	184	—
Net income	<u>\$ 388,652</u>	<u>\$ 261,748</u>	<u>\$ 146,628</u>	<u>\$ 85,827</u>	<u>\$ 64,030</u>
Net income per share					
Basic	<u>\$ 1.03</u>	<u>\$ 0.70</u>	<u>\$ 0.41</u>	<u>\$ 0.24</u>	<u>\$ 0.20</u>
Diluted	<u>\$ 1.00</u>	<u>\$ 0.68</u>	<u>\$ 0.39</u>	<u>\$ 0.24</u>	<u>\$ 0.19</u>
Shares used in computing net income per share:(3)					
Basic	<u>378,670</u>	<u>372,120</u>	<u>359,116</u>	<u>352,192</u>	<u>327,440</u>
Diluted	<u>390,191</u>	<u>385,558</u>	<u>371,684</u>	<u>363,808</u>	<u>337,248</u>
Consolidated Percentage of Net Sales Data:					
Gross margin	76.6%	74.9%	71.1%	67.2%	63.6%
Selling, general and administrative expenses	40.3%	41.3%	45.5%	48.1%	45.9%
Operating income	36.3%	33.6%	25.6%	18.6%	16.9%
Net income	22.7%	19.8%	15.4%	11.9%	10.7%
Consolidated Balance Sheet Data:					
Working capital	\$ 443,580	\$ 535,384	\$ 297,488	\$ 136,902	\$ 53,991
Total assets	1,347,132	1,044,425	629,109	448,402	262,506
Inventory	184,419	161,913	143,807	136,404	105,162
Revolving credit facility	12,292	1,699	26,471	34,169	7,700
Long-term debt	3,270	3,420	3,535	3,615	3,690
Stockholders' equity	\$ 1,032,776	\$ 782,286	\$ 426,929	\$ 260,356	\$ 148,314

(1) Coach's fiscal year ends on the Saturday closest to June 30. Fiscal years 2005, 2003, 2002 and 2001 were 52-week years, while fiscal year 2004 was a 53-week year.

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

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

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

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

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

Executive Overview

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

Coach generates revenue by selling its products directly to consumers, indirectly through wholesale customers and Coach Japan, and by licensing its brand name to select manufacturers. Direct-to-consumer sales consist of sales of Coach products through its 193 Company-operated North American retail stores, its 82 Company-operated North American factory stores, its online store and its catalogs. Indirect sales consist of sales of Coach products to approximately 1,000 department store locations in the United States, through 94 international department stores, freestanding retail locations and specialty retailers in 19 countries and through 103 department store shop-in-shops, and retail and factory store locations operated by Coach Japan, Inc. Coach generates additional wholesale sales through business-to-business programs, in which companies purchase Coach products to use as gifts or incentive rewards. Licensing revenues consist of royalties paid to Coach under licensing arrangements with select partners for the sale of Coach branded watches, footwear, eyewear and office furniture. Net sales were \$1,710.4 million, \$1,321.1 million and \$953.2 million in fiscal 2005, 2004 and 2003, respectively, representing a 29.5% increase in fiscal 2005 as compared to fiscal 2004 and a 38.6% increase in fiscal 2004 as compared to fiscal 2003. These net sales increases were driven by growth across all distribution channels.

Coach's cost of sales consists of the costs associated with the sourcing of its products. Coach's gross profit is dependent upon a variety of factors, including changes in the relative sales mix among distribution channels, changes in the mix of products sold, foreign currency exchange rates, and fluctuations in material costs. These factors, among others, may cause gross profit to fluctuate from quarter to quarter. Gross profit increased to \$1,310.8 million in fiscal 2005 from \$990.1 million in fiscal 2004 and \$677.4 million in fiscal 2003. Gross margin increased to 76.6% in fiscal 2005 as compared to 74.9% in fiscal 2004 and 71.1% in fiscal 2003, representing an increase of 170 basis points in fiscal 2005 as compared to fiscal 2004 and 380 basis points in fiscal 2004 as compared to fiscal 2003. These increases were primarily driven by the factors discussed above.

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

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Operating income was \$621.8 million, \$444.5 million and \$243.8 million in fiscal 2005, 2004 and 2003, respectively. The 39.9% increase in fiscal 2005 from fiscal 2004 and 82.3% increase in fiscal 2004 from fiscal 2003 were both driven by the increases in net sales and gross profit discussed previously, partially offset by increases in selling, general and administrative expenses.

Net income was \$388.7 million, \$261.7 million and \$146.6 million in fiscal 2005, 2004 and 2003, respectively. In all fiscal years, the increases in net income were primarily attributable to the increases in operating income, discussed above.

Coach's fiscal year ends on the Saturday closest to June 30. Fiscal 2005 and fiscal 2003 were each 52-week periods, whereas fiscal 2004 was a 53-week period. The fifty-third week in fiscal 2004 contributed approximately \$19.5 million of additional net sales.

Acquisition of Coach Japan, Inc.

On July 1, 2005, Coach completed the purchase of Sumitomo's 50% interest in Coach Japan, Inc. for \$228.4 million, including transaction costs, plus undistributed profits and paid-in capital of \$72.9 million. Coach Japan was a joint venture established between Coach and Sumitomo Corporation, to operate and expand the Coach business in Japan. Coach Japan is accounted for as a consolidated subsidiary. Coach recorded the 50% interest in the assets and liabilities of Coach Japan acquired through this acquisition, at their fair values as follows: trade accounts receivable of \$15.4 million, inventory of \$43.1 million, property and equipment of \$21.8 million, customer list of \$0.3 million, goodwill of \$225.3 million, other assets of \$25.0 million, and liabilities of \$30.7 million. The results of operations for Coach Japan, Inc. from July 1, 2005 are included in our consolidated results of operations for the fiscal year ended July 2, 2005.

The following unaudited pro forma information assumes the Coach Japan, Inc. acquisition had occurred on July 4, 2004. The pro forma information, as presented below, is not indicative of the results that would have been obtained had the transaction occurred July 4, 2004, nor is it indicative of our future results. The final purchase price allocation and the resulting effect on net income may differ significantly from the unaudited pro forma amounts included herein.

	Fiscal Year Ended	
	July 2, 2005	July 3, 2004
	(Unaudited)	(Unaudited)
Net revenue	\$ 1,710.4	\$ 1,321.1
Net income	402.3	279.8
Net income per share — Basic	1.06	0.75
Net income per share — Diluted	1.03	0.73

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The following is a discussion of the results of operations for fiscal 2005 compared to fiscal 2004 and fiscal 2004 compared to fiscal 2003 as well as a discussion of the changes in financial condition during fiscal 2005.

Results Of Operations

Consolidated statements of income for fiscal 2005, 2004 and 2003 are as follows:

	Fiscal Year Ended					
	July 2, 2005		July 3, 2004(1)		June 28, 2003	
	\$	% of net sales	\$	% of net sales	\$	% of net sales
	(dollars and shares in millions, except per share data)					
Net sales	\$ 1,704.1	99.6%	\$ 1,316.3	99.6%	\$ 949.4	99.6%
Licensing revenue	6.3	0.4	4.8	0.4	3.8	0.4
Total net sales	1,710.4	100.0	1,321.1	100.0	953.2	100.0
Cost of sales	399.6	23.4	331.0	25.1	275.8	28.9
Gross profit	1,310.8	76.6	990.1	74.9	677.4	71.1
Selling, general and administrative expenses	689.0	40.3	545.6	41.3	433.7	45.5
Operating income	621.8	36.3	444.5	33.6	243.7	25.6
Interest income, net	15.8	0.9	3.2	0.2	1.1	0.1
Income before provision for income taxes and minority interest	637.6	37.3	447.7	33.9	244.8	25.7
Provision for income taxes	235.3	13.8	168.0	12.7	90.6	9.5
Minority interest, net of tax	13.6	0.8	18.0	1.4	7.6	0.8
Net income	\$ 388.7	22.7%	\$ 261.7	19.8%	\$ 146.6	15.4%
Net income per share:						
Basic	\$ 1.03		\$ 0.70		\$ 0.41	
Diluted	\$ 1.00		\$ 0.68		\$ 0.39	
Weighted-average number of common shares:						
Basic	378.7		372.1		359.1	
Diluted	390.2		385.6		371.7	

(1) 53-week fiscal year

Net sales by business segment for fiscal 2005 compared to fiscal 2004 and fiscal 2003 are as follows:

	Fiscal Year Ended						Percentage of Total Net Sales		
	July 2, 2005	July 3, 2004(1)	June 28, 2003	Rate of Increase		July 2, 2005	July 3, 2004	June 28, 2003	
	(dollars in millions)			('05 v. '04)	('04 v. '03)				
Direct	\$ 935.5	\$ 726.5	\$ 559.5	28.8%	29.8%	54.7%	55.0%	58.7%	
Indirect	774.9	594.6	393.7	30.3	51.0	45.3	45.0	41.3	
Total net sales	\$ 1,710.4	\$ 1,321.1	\$ 953.2	29.5%	38.6%	100.0%	100.0%	100.0%	

(1) 53-week fiscal year

Fiscal 2005 Compared to Fiscal 2004

Net Sales

Coach excludes new locations from the comparable store base for the first year of operation. Similarly, stores that are expanded by more than 15% are also excluded from the comparable store base until the first anniversary of their reopening. Stores that are closed for renovations are removed from the comparable store

base. In fiscal 2005, 52 weeks of sales were reported and compared to the equivalent 52-week period during fiscal 2004.

Direct. Net sales increased 28.8% to \$935.5 million during fiscal 2005 from \$726.5 million during fiscal 2004, driven by increased comparable store sales, new store sales and expanded store sales in our North American retail and factory stores divisions. Sales growth in comparable stores was 14.1% for retail stores and 23.9% for factory stores. Comparable store sales growth for the entire North American store chain was 18.2%, which accounted for \$112.0 million of the net sales increase. Since the end of fiscal 2004, Coach has opened 19 retail stores and seven factory stores. Sales from these new stores, as well as the noncomparable portion of sales from stores opened during fiscal 2004, accounted for \$84.8 million of the net sales increase. Since the end of fiscal 2004, Coach also expanded seven retail stores and two factory stores. Sales from these expanded stores, as well as the noncomparable portion of sales from stores expanded during fiscal 2004, accounted for \$11.0 million of the net sales increase. Sales growth in the Internet business accounted for the remaining sales increase. The net sales increase was offset by an additional week of sales during fiscal 2004, which represented approximately \$11.6 million. Also, these increases were slightly offset by a decline in the direct marketing channel and store closures. Since the end of fiscal 2004, Coach has closed one factory store.

Indirect. Net sales increased 30.3% to \$774.9 million in fiscal 2005 from \$594.6 million during fiscal 2004. The increase was primarily driven by growth at Coach Japan, Inc. in which net sales increased \$95.7 million over the comparable period of the prior year. Since the end of fiscal 2004, we have opened 12 locations in Japan. Sales from these new stores, as well as the noncomparable portion of sales from other new stores, accounted for \$40.3 million of the net sales increase. In addition, comparable store net sales gains accounted for an increase of \$30.3 million over the prior year. Since the end of fiscal 2004, we have also expanded 14 locations in Japan. Sales from these expanded stores, as well as the non-comparable portion of sales from other expanded stores, accounted for \$20.2 million of the net sales increase. Finally, the impact of foreign currency exchange rates resulted in an increase in reported net sales of \$12.9 million. The net sales increase was slightly offset by \$4.1 million of sales from Coach Japan during the additional week of fiscal 2004. The net sales increase was further offset by Coach Japan store closures. Since the end of fiscal 2004, Coach Japan has closed eight locations.

The increase in indirect net sales was also driven by growth in the U.S. wholesale, international wholesale and business-to-business divisions, which contributed increased sales of \$47.8 million, \$19.0 million and \$9.9 million, respectively, as compared to the prior year. The remaining net sales increase is attributable to increases in other indirect channels. The net sales increase was slightly offset by \$3.8 million of sales from other indirect channels during the additional week of fiscal 2004.

Gross Profit

Gross profit increased 32.4% to \$1,310.8 million in fiscal 2005 from \$990.1 million in fiscal 2004. Gross margin increased 170 basis points to 76.6% in fiscal 2005 from 74.9% in fiscal 2004. This improvement was driven by: a shift in channel mix, as our higher gross margin channels grew faster than the business as a whole, which contributed approximately 80 additional basis points; a shift in product mix, reflecting increased penetration of higher margin mixed material product and accessories, which contributed approximately 60 additional basis points; and the continuing impact of sourcing cost initiatives, which contributed approximately 30 additional basis points.

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

	<u>First Quarter</u>	<u>Second Quarter</u>	<u>First Half</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>	<u>Second Half</u>	<u>Total Year</u>
Fiscal 2005	75.0%	75.8%	75.5%	78.1%	77.6%	77.8%	76.6%
Fiscal 2004	72.7%	74.2%	73.6%	75.9%	76.7%	76.3%	74.9%
Fiscal 2003	68.1%	70.3%	69.4%	72.5%	73.2%	72.9%	71.1%

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Selling, General and Administrative Expenses

Selling, general and administrative expenses increased 26.3% to \$689.0 million in fiscal 2005 from \$545.6 million in fiscal 2004. The dollar increase was caused primarily by increased store operating expenses attributable to new stores opened both domestically and in Japan and increased variable expenses to support increased net sales. As a percentage of net sales, selling, general and administrative expenses during fiscal 2005 were 40.3% compared to 41.3% during fiscal 2004. This improvement was due to leveraging our expense base on higher sales.

Selling expenses increased 28.8% to \$497.3 million, or 29.1% of net sales, in fiscal 2005 from \$386.2 million, or 29.2% of net sales, in fiscal 2004. The dollar increase in these expenses was primarily due to an increase in operating expenses associated with Coach Japan and operating expenses associated with North American stores that were opened during and after the end of fiscal 2004. The increase in Coach Japan expenses was \$51.4 million, driven by new store operating expenses, investment in corporate infrastructure, increased variable expenses related to higher sales and increased advertising expense to support the brand in Japan. In addition, the impact of foreign currency exchange rates increased reported expenses by \$5.8 million. Domestically, Coach has opened 19 new retail stores and seven new factory stores since the end of fiscal 2004. Expenses from these new stores, as well as the noncomparable portion of expenses from stores opened in fiscal 2004, increased total expenses by \$23.1 million. The remaining increase in selling expenses was due to increased variable expenses to support sales growth.

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

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

Administrative expenses increased 19.7% to \$76.0 million, or 4.4% of net sales, in fiscal 2005 from \$63.5 million, or 4.8% of net sales, in fiscal 2004. The dollar increase in these expenses was primarily due to increased compensation costs as well as increased professional and consulting fees. Included in administrative expenses are business interruption proceeds of \$2.6 million, related to our World Trade Center location.

Interest Income, Net

Net interest income was \$15.8 million in fiscal 2005, as compared to \$3.2 million in fiscal 2004. This dollar change was due to increased positive cash balances during fiscal 2005 as well as higher returns on investments. During fiscal 2004, Coach began investing in marketable securities with maturities greater than 90 days, which yielded greater rates of return.

Provision for Income Taxes

The effective tax rate decreased to 36.9% in fiscal 2005 compared with the 37.5% recorded in fiscal 2004. As a result of the buyout of our joint venture partner in Coach Japan and a continued need to grow the Coach Japan business, we have determined that the earnings of Coach Japan will be permanently reinvested and the tax provision previously recorded relating to the expatriation of those earnings was reversed. The reversal was recorded in the fourth quarter and brought the full year to the lower effective appropriate annual rate.

Minority Interest

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

Fiscal 2004 Compared to Fiscal 2003

Net Sales

Coach excludes new locations from the comparable store base for the first year of operation. Similarly, stores that are expanded by more than 15% are also excluded from the comparable store base until the first anniversary of their reopening. Stores that are closed for renovations are removed from the comparable store base. In fiscal 2004, 53 weeks of sales were reported and compared to the equivalent 53-week period.

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

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

Gross Profit

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

Selling, General and Administrative Expenses

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

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

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

Distribution and customer service expenses increased to \$32.4 million in fiscal 2004 from \$29.7 million in fiscal 2003. The dollar increase in these expenses was primarily due to higher sales volumes. However, efficiency gains at the distribution and customer service facility resulted in an improvement in the ratio of these expenses to net sales from 3.1% in fiscal 2003 to 2.5% in fiscal 2004.

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

Interest Income, Net

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

Provision for Income Taxes

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

Minority Interest

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

FINANCIAL CONDITION

Liquidity and Capital Resources

Net cash provided from operating activities was \$544.3 million in fiscal 2005 compared to \$454.5 million in fiscal 2004. The \$89.8 million increase was due primarily to increased earnings of \$126.9 million as well as an increase in accrued liabilities of \$36.1 million, primarily attributable to a higher provision for income taxes. There was a decrease in the change in accounts receivable of \$10.6 million due to improved collection rates. The increase was offset by increased deferred taxes of \$67.9 million. Finally, there was a decrease in the tax benefit from the exercise of stock options of \$28.0 million.

Net cash used in investment activities was \$371.8 million in fiscal 2005 compared to \$375.3 million in fiscal 2004. The decrease in net cash used in investment activities is attributable to investment maturities during the year of \$330.7 million. This decrease was partially offset by the buyout of our joint venture partner's

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interest in Coach Japan of \$228.4 million, increased investment purchases of \$77.8 million and increased capital expenditures of \$20.9 million, which related primarily to new and renovated retail stores in the United States and Japan, as well as technology enhancements.

Net cash used in financing activities was \$280.6 million in fiscal 2005 compared to \$45.7 million in fiscal 2004. The \$234.9 million increase in cash used resulted from an additional \$210.0 million of funds expended to repurchase common stock. In connection with the buyout of Coach Japan, we distributed accumulated earnings of \$57.4 million and repaid our initial investment of \$15.5 million to our joint venture partner. The increase in cash used was offset by additional net borrowings on the revolving credit facility of \$35.4 million and increased proceeds of \$12.7 million received from the exercise of stock options.

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

During fiscal 2005 and fiscal 2004 there were no borrowings under the Bank of America facility. As of July 2, 2005, there were no outstanding borrowings under the Bank of America facility.

Under this revolving credit facility, Coach pays a commitment fee of 10 to 25 basis points, based on the Company's fixed charge coverage ratio, on any unused amounts of the revolving credit facility. The initial commitment fee was 15 basis points. At July 2, 2005, the commitment fee was 12.5 basis points. The initial LIBOR margin under the facility was 62.5 basis points. At July 2, 2005, the LIBOR margin was 55 basis points, reflecting an improvement in our fixed-charge coverage ratio.

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

To provide funding for working capital and general corporate purposes, Coach Japan entered into credit facilities with several Japanese financial institutions. These facilities allow a maximum borrowing of 8.6 billion yen, or approximately \$77 million, at July 2, 2005. Interest is based on the Tokyo Interbank rate plus a margin of up to 50 basis points.

During fiscal 2005 and fiscal 2004, the peak borrowings under the Japanese credit facilities were \$50.5 million and \$36.1 million, respectively. At July 2, 2005 and July 3, 2004, outstanding borrowings under the Japanese facilities were \$12.3 million and \$1.7 million, respectively.

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

On August 12, 2004, the Coach Board of Directors approved a \$200 million increase to the Company's existing common stock repurchase program and extended the duration of this program through August 2006. As of April 2, 2005, Coach had completed this authorization of the stock repurchase program.

On May 11, 2005, the Coach Board of Directors approved a common stock repurchase program to acquire up to \$250 million of Coach's outstanding common stock. Purchases of Coach stock may be made from time to time, subject to market conditions and at prevailing market prices, through open market purchases. Repurchased shares of common stock will become authorized but unissued shares and may be issued in the future for general corporate and other purposes. The Company may terminate or limit the stock repurchase program at any time.

During fiscal 2005 and fiscal 2004, Coach repurchased 11.0 million and 3.0 million shares, respectively, of common stock, at an average cost of \$24.09 and \$18.18 per share, respectively.

In fiscal 2005, total capital expenditures were \$94.6 million. Coach opened 19 new retail and seven new factory stores in North America, which represented \$20.0 million of capital expenditures. We also expanded

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seven retail stores and two factory stores, which represented \$19.9 million of capital expenditures. Spending on department store renovations and distributor locations was \$4.7 million. In addition, \$14.0 million was used for information systems and corporate facilities. These investments were financed from internally generated cash flows and on hand cash. In Japan, we invested \$22.9 million, primarily for the opening of 12 new locations, store expansions and information systems. These investments were financed by using funds from our Japanese revolving credit facilities and operating cash flow.

Coach experiences significant seasonal variations in its working capital requirements. During the first fiscal quarter Coach builds inventory for the holiday selling season, opens new retail stores and generates higher levels of trade receivables. In the second fiscal quarter its working capital requirements are reduced substantially as Coach generates consumer sales and collects wholesale accounts receivable. In fiscal 2005, Coach purchased approximately \$377 million of inventory, which was funded by on hand cash, operating cash flow and by borrowings under the Japanese revolving credit facilities.

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

Currently, Sara Lee is a guarantor or a party to many of Coach's leases. Coach has agreed to make efforts to remove Sara Lee from all of its existing leases, and Sara Lee is not a guarantor or a party to any new or renewed leases. Coach has obtained a letter of credit for the benefit of Sara Lee in an amount approximately equal to the annual minimum rental payments under leases transferred to Coach by Sara Lee, but for which Sara Lee retains contingent liability. Coach is required to maintain this letter of credit until the annual minimum rental payments under the relevant leases are less than \$2.0 million. The initial letter of credit had a face amount of \$20.6 million, and we expect this amount to decrease annually as Coach's guaranteed obligations are reduced. As of July 2, 2005, the letter of credit was \$15.4 million. We expect that we will be required to maintain the letter of credit for at least 10 years.

As of July 2, 2005, the scheduled maturities of Coach's long-term contractual obligations are as follows:

	Payments Due by Period				Total
	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years	
	(amounts in millions)				
Operating leases	\$ 62.6	\$ 115.1	\$ 102.4	\$ 175.0	\$ 455.1
Revolving credit facility	12.3	—	—	—	12.3
Long-term debt, including the current portion	0.2	0.4	0.6	2.2	3.4
Total	<u>\$ 75.1</u>	<u>\$ 115.5</u>	<u>\$ 103.0</u>	<u>\$ 177.2</u>	<u>\$ 470.8</u>

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

Long-Term Debt

Coach is party to an Industrial Revenue Bond related to its Jacksonville, Florida, facility. This loan has a remaining balance of \$3.4 million and bears interest at 8.77%. Principal and interest payments are made semiannually, with the final payment due in 2014.

Seasonality

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

Operating Leases

The Company leases retail stores and office space under operating leases. The majority of the Company's lease agreements provide for tenant improvement allowances, rent escalation clauses and/or contingent rent provisions. In fiscal 2005, the Company conformed its accounting for operating leases and leasehold improvements to Statement of Financial Accounting Standards ("SFAS") No. 13 and its related interpretations as clarified by the Office of the Chief Accountant of the Securities and Exchange Commission to the American Institute of Certified Public Accountants on February 7, 2005.

Tenant improvement allowances are recorded as a deferred lease credit on the balance sheet and amortized over the lease term, which is consistent with the amortization period for the constructed assets. Historically, the consolidated balance sheets reflected these allowances as a reduction of capital expenditures and the carrying value of fixed assets and the consolidated statements of cash flows reflected tenant improvement allowances as a reduction of capital expenditures within investing activities. Since the impact of this change in accounting was not material to any previously reported fiscal year, the cumulative effect was recorded in the third quarter of fiscal 2005.

In addition to the above, the Company recorded a cumulative, noncash charge in the third quarter of fiscal 2005 to reflect the impact of recording rent expense prior to the store opening (during the construction buildout period). Previously, the Company recognized the straight-line rent expense for leases beginning on the earlier of the store opening date or lease commencement date, which generally had the effect of excluding the buildout period of its stores from the calculation of the period over which it expensed rent. The Company now records rent expense when it takes possession of a store to begin its buildout, which generally occurs before the stated commencement of the lease term and is approximately 60 to 90 days prior to the opening of the store. The adjustment resulted in a cumulative, noncash charge to rent expense of approximately \$4.8 million during fiscal 2005, of which approximately \$4.3 million related to prior periods.

Stock-Based Compensation

Two alternative methods for accounting for stock options are available: the intrinsic value method and the fair value method. The Company uses the intrinsic value method of accounting for stock options and, accordingly, no compensation expense has been recognized. Under either method, the determination of the

pro forma amounts involves several assumptions including option life and future volatility. See Note 1 and Note 8 to 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 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 2005, fiscal 2004 or fiscal 2003.

Revenue Recognition

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

New Accounting Standards

In October 2004, the Emerging Issues Task Force ("EITF") issued its abstract No. 04-1 "Accounting for Pre-existing Relationships between the Parties to a Business Combination." EITF 04-1 addresses the appropriate accounting treatment for portions of the acquisition costs of an entity that may be deemed to apply to elements of a pre-existing business relationship between the acquiring company and the target company. EITF 04-1 is effective for combinations consummated after October 2004. The adoption of EITF 04-1 had no effect on historical financial statements.

In November 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 151, "Inventory Costs — an amendment of ARB. No. 43, Chapter 4." SFAS 151 is an amendment of Accounting Research Board Opinion No. 43 and sets standards for the treatment of abnormal amounts of idle facility expense, freight, handling costs and spoilage. SFAS 151 is effective for fiscal years beginning after June 15, 2005. We are currently evaluating the impact of SFAS 151 on our financial statements.

In December 2004, the FASB issued Staff Position No. 109-2, "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004" ("FSP No. 109-2"). FSP No. 109-2 provides guidance under SFAS No. 109, "Accounting for Income Taxes," with respect to recording the potential impact of the repatriation provisions of the American Jobs Creation Act of 2004 (the "Jobs Act") on enterprises' income tax expense and deferred tax liability. FSP 109-2 states that an enterprise is allowed time beyond the financial reporting period of enactment to evaluate the effect of the Jobs Act on its plan for reinvestment or repatriation of foreign earnings for purposes of

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applying SFAS 109. We do not plan to make any dividends under this provision but we are still evaluating the impact of FSP 109-2 on our consolidated financial statements.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets — an amendment of APB Opinion No. 29," which eliminates certain narrow differences between Accounting Principles Board ("APB") 29 and international accounting standards. SFAS 153 is effective for fiscal periods beginning on or after June 15, 2005. The adoption of SFAS 153 is not expected to have a material impact on our financial statements.

On December 16, 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment," which is a revision of SFAS 123, "Accounting for Stock-Based Compensation." SFAS 123R supersedes Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." The pronouncement requires an entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost will be recognized over the period during which an employee is required to provide service in exchange for the award — the requisite service period (typically the vesting period). SFAS 123R is effective as of the beginning of the first interim or annual reporting period that begins after June 15, 2005. We are currently evaluating the effect of SFAS 123R on our financial statements with the intent of implementing this standard in fiscal 2006.

In March 2005, the SEC issued Staff Accounting Bulletin ("SAB") No. 107, "Share-Based Payment." SAB 107 expresses views of the SEC staff regarding the interaction between SFAS 123R and certain SEC rules and regulations and provides the staff's views regarding the valuation of share-based payments arrangements. Subsequently, the SEC decided to delay the required implementation of SFAS 123R to fiscal years beginning after June 15, 2005. We are currently evaluating the effect of SFAS 123R and SAB 107 on our financial statements with the intent of implementing this standard in fiscal 2006.

In March 2005, the FASB issued Statement of Financial Accounting Standards Interpretation No. 47 ("FIN 47"), "Accounting for Conditional Asset Retirement Obligations." FIN 47 provides clarification regarding the meaning of the term "conditional asset retirement obligation" as used in FASB 143, "Accounting for Asset Retirement Obligations." We are currently evaluating the impact of FIN 47 on our financial statements.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections — a replacement of APB Opinion No. 20 and FASB Statement No. 3." SFAS 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. This statement is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. Early adoption is permitted. The Company will adopt SFAS 154 in the required period.

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

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

The market risk inherent in our financial instruments represents the potential loss in fair value, earnings or cash flows arising from adverse changes in interest rates or foreign currency exchange rates. Coach manages these exposures through operating and financing activities and, when appropriate, through the use of derivative financial instruments with respect to Coach Japan. The following quantitative disclosures are based on quoted market prices obtained through independent pricing sources for the same or similar types of financial instruments, taking into consideration the underlying terms and maturities and theoretical pricing models. These quantitative disclosures do not represent the maximum possible loss or any expected loss that may occur, since actual results may differ from those estimates.

Foreign Exchange

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

Approximately 98% of Coach's fiscal 2005 non-licensed product needs were purchased from independent manufacturers in countries other than the United States. These countries include China, Hong Kong, Italy, India, Singapore, South Korea, Spain, Turkey, Costa Rica, Hungary, Indonesia, Thailand, Taiwan and Philippines. Additionally, sales are made through international channels to third party distributors. Substantially all purchases and sales involving international parties, excluding Coach Japan, are denominated in U.S. dollars and, therefore, are not hedged by Coach using any derivative instruments.

Coach 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. These transactions are in accordance with Coach's risk management policies. Coach does not enter into derivative transactions for speculative or trading purposes. The Company is also exposed to foreign currency exchange rate fluctuations related to the euro-denominated expenses of its Italian sourcing office. During fiscal 2003, Coach began a program to enter into certain foreign currency derivative contracts, primarily foreign exchange forward contracts, in order to manage these fluctuations. However, during fiscal 2004, we reassessed this program and determined, based on current business conditions that we would discontinue hedging against the euro.

The foreign currency contracts entered into by the Company have durations no greater than 12 months. The fair values of open foreign currency derivatives included in accrued liabilities at July 2, 2005 and July 3, 2004 were \$0 and \$0.5 million, respectively. The fair value of open foreign currency derivatives included in current assets at July 2, 2005 and July 3, 2004 was \$1.5 million and \$0, respectively. As of July 2, 2005, open foreign currency forward contracts designated as hedges, with a notional amount of \$46.9 million were fair valued resulting in an increase to equity as a benefit to other comprehensive income of \$1.2 million, net of taxes. As of July 3, 2004, open foreign currency forward contracts designated as hedges, with a notional amount of \$63.6 million were fair valued resulting in a reduction to equity as a charge to other comprehensive income of \$0.5 million, net of taxes.

Interest Rate

Coach faces minimal interest rate risk exposure in relation to its outstanding debt of \$15.7 million at July 2, 2005. Of this amount, \$12.3 million, under revolving credit facilities, is subject to interest rate fluctuations. A hypothetical 1% change in the interest rate applied to the fair value of debt would not have a material impact on earnings or cash flows of Coach.

Item 8. Financial Statement and Supplementary Data

See the "Index to Financial Statements", which is located on page 36 of this report.

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

None

Item 9A. Controls and Procedures

The Company's management is responsible for establishing and maintaining adequate internal controls over financial reporting. The Company's internal control system was designed to provide reasonable assurance to the Company's management and board of directors regarding the preparation and fair presentation of published financial statements. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

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The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of July 2, 2005. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based upon our assessment, we believe that, as of July 2, 2005, the Company's internal control over financial reporting is effective based on those criteria.

The Company's independent auditors have issued an audit report of the Company's internal control over financial reporting. This report appears on page 38.

PART III

Item 10. *Directors and Executive Officers of the Registrant*

The information set forth in the Proxy Statement for the 2005 annual meeting of stockholders is incorporated herein by reference. The Proxy Statement will be filed with the Commission within 120 days after the end of the fiscal year covered by this Form 10-K pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended.

Item 11. *Executive Compensation*

The information set forth in the Proxy Statement for the 2005 annual meeting of stockholders is incorporated herein by reference. The Proxy Statement will be filed with the Commission within 120 days after the end of the fiscal year covered by the Form 10-K pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended.

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

(a) Security ownership of management set forth in the Proxy Statement for the 2005 annual meeting of stockholders is incorporated herein by reference.

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

Item 13. *Certain Relationships and Related Transactions*

The information set forth in the Proxy Statement for the 2005 annual meeting of stockholders is incorporated herein by reference. The Proxy Statement will be filed with the Commission within 120 days after the end of the fiscal year covered by this Form 10-K pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended.

Item 14. *Principal Accountant Fees and Services*

The information required by this item is incorporated herein by reference to the section entitled "Matters Relating to Coach's Independent Auditors" in the Proxy Statement for the 2005 annual meeting of stockholders.

PART IV

Item 15. *Exhibits, Financial Statement Schedules and Reports on Form 8-K*

(a) Financial Statements and Financial Statement Schedule See the "Index to Financial Statements" which is located on page 36 of this report.

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

(c) Reports on Form 8-K. See the exhibit index which is included herein.

SIGNATURES

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

Coach, Inc.

By: /s/ Lew Frankfort

Name: Lew Frankfort

Title: Chairman and Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated below on September 9, 2005.

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

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

FINANCIAL STATEMENTS
For the Fiscal Year Ended July 2, 2005

COACH, INC.

New York, New York 10001

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All other schedules are omitted because they are not applicable or the required information is shown in the consolidated financial statements or notes thereto.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Coach, Inc. and subsidiaries (the "Company") as of July 2, 2005 and July 3, 2004, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended July 2, 2005. Our audits also included the consolidated financial statement schedule listed at Item 15. These consolidated financial statements and the consolidated financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and the consolidated financial statement schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company at July 2, 2005 and July 3, 2004, and the consolidated results of their operations and their cash flows for each of the three years in the period ended July 2, 2005 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of July 2, 2005, based on the criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated September 9, 2005 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP

New York, New York
September 9, 2005

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that Coach, Inc. and subsidiaries (the "Company") maintained effective internal control over financial reporting as of July 2, 2005, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of July 2, 2005, is fairly stated, in all material respects, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of July 2, 2005, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and consolidated financial statement schedule as of and for the year ended July 2, 2005 of the Company and our report dated September 9, 2005 expressed an unqualified opinion on those consolidated financial statements and consolidated financial statement schedule.

/s/ Deloitte & Touche LLP

New York, New York
September 9, 2005

COACH, INC.
CONSOLIDATED BALANCE SHEETS

	July 2, 2005	July 3, 2004
	(amounts in thousands, except share data)	
ASSETS		
Cash and cash equivalents	\$ 154,566	\$ 262,720
Short-term investments	228,485	171,723
Trade accounts receivable, less allowances of \$4,124 and \$5,456, respectively	65,399	55,724
Inventories	184,419	161,913
Deferred income taxes	50,820	34,521
Prepaid expenses and other current assets	25,671	19,015
Total current assets	709,360	705,616
Property and equipment, net	203,862	164,291
Long-term investments	122,065	130,000
Deferred income taxes	31,520	—
Goodwill	238,711	13,605
Indefinite life intangibles	9,788	9,788
Other noncurrent assets	31,826	21,125
Total assets	<u>\$ 1,347,132</u>	<u>\$ 1,044,425</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	\$ 64,985	\$ 44,771
Accrued liabilities	185,502	123,647
Deferred income taxes	2,851	—
Revolving credit facility	12,292	1,699
Current portion of long-term debt	150	115
Total current liabilities	265,780	170,232
Deferred income taxes	4,512	15,791
Long-term debt	3,270	3,420
Other liabilities	40,794	32,498
Minority interest, net of tax	—	40,198
Total liabilities	314,356	262,139
Commitments and contingencies (Note 6)		
Stockholders' equity		
Preferred stock: (authorized 25,000,000 shares; \$0.01 par value) none issued	—	—
Common stock: (authorized 500,000,000 shares; \$0.01 par value) issued and outstanding — 378,429,710 and 379,236,402 shares, respectively	3,784	3,792
Capital in excess of par value	465,015	355,130
Retained earnings	576,141	430,461
Accumulated other comprehensive income	903	2,195
Unearned compensation	(13,067)	(9,292)
Total stockholders' equity	1,032,776	782,286
Total liabilities and stockholders' equity	<u>\$ 1,347,132</u>	<u>\$ 1,044,425</u>

See accompanying Notes to Consolidated Financial Statements.

COACH, INC.
CONSOLIDATED STATEMENTS OF INCOME

	Fiscal Year Ended		
	July 2, 2005	July 3, 2004(1)	June 28, 2003
	(amounts in thousands, except per share data)		
Net sales	\$ 1,710,423	\$ 1,321,106	\$ 953,226
Cost of sales	399,652	331,024	275,797
Gross profit	1,310,771	990,082	677,429
Selling, general and administrative expenses	688,961	545,617	433,667
Operating income	621,810	444,465	243,762
Interest income, net	15,760	3,192	1,059
Income before provision for income taxes and minority interest	637,570	447,657	244,821
Provision for income taxes	235,277	167,866	90,585
Minority interest, net of tax	13,641	18,043	7,608
Net income	<u>\$ 388,652</u>	<u>\$ 261,748</u>	<u>\$ 146,628</u>
Net income per share			
Basic	<u>\$ 1.03</u>	<u>\$ 0.70</u>	<u>\$ 0.41</u>
Diluted	<u>\$ 1.00</u>	<u>\$ 0.68</u>	<u>\$ 0.39</u>
Shares used in computing net income per share			
Basic	<u>378,670</u>	<u>372,120</u>	<u>359,116</u>
Diluted	<u>390,191</u>	<u>385,558</u>	<u>371,684</u>

(1) 53-week fiscal year

See accompanying Notes to Consolidated Financial Statements.

COACH, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Total Stockholders' Equity	Preferred Stockholders' Equity	Common Stockholders' Equity	Capital in Excess of Par	Retained Earnings	Accumulated Other Comprehensive Income (loss)	Unearned Compensation	Comprehensive Income (loss)	Shares of Common Stock
	(amounts in thousands)								
Balances at June 29, 2002	\$ 260,356	\$ —	\$ 3,580	\$ 152,718	\$ 105,509	\$ 215	\$ (1,666)		357,816
Net income	146,628	—	—	—	146,628	—	—	\$ 146,628	
Shares issued for stock options and employee benefit plans	28,395	—	156	28,239	—	—	—		15,800
Tax benefit from exercise of stock options	41,503	—	—	41,503	—	—	—		
Repurchase of common stock	(49,947)	—	(76)	(15,356)	(34,515)	—	—		(7,716)
Grant of restricted stock awards	—	—	—	5,550	—	—	(5,550)		—
Amortization of restricted stock awards	1,568	—	—	—	—	—	1,568		118
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	—	3,660	212,654	217,622	(1,359)	(5,648)		366,018
Net income	261,748	—	—	—	261,748	—	—	\$ 261,748	
Shares issued for stock options and employee benefit plans	34,141	—	162	33,979	—	—	—		16,240
Tax benefit from exercise of stock options	106,458	—	—	106,458	—	—	—		
Repurchase of common stock	(54,954)	—	(30)	(6,015)	(48,909)	—	—		(3,022)
Grant of restricted stock awards	—	—	—	8,054	—	—	(8,054)		—
Amortization of restricted stock awards	4,410	—	—	—	—	—	4,410		—
Unrealized loss on cash flow hedging derivatives, net	(460)	—	—	—	—	(460)	—	(460)	
Translation adjustments	2,892	—	—	—	—	2,892	—	2,892	
Minimum pension liability	1,122	—	—	—	—	1,122	—	1,122	
Comprehensive income								\$ 265,302	
Balances at July 3, 2004	782,286	—	3,792	355,130	430,461	2,195	(9,292)		379,236
Net income	388,652	—	—	—	388,652	—	—	\$ 388,652	
Shares issued for stock options and employee benefit plans	42,988	—	102	42,886	—	—	—		10,194
Tax benefit from exercise of stock options	78,480	—	—	78,480	—	—	—		
Repurchase of common stock	(264,971)	—	(110)	(21,889)	(242,972)	—	—		(11,000)
Grant of restricted stock awards	—	—	—	10,408	—	—	(10,408)		—
Amortization of restricted stock awards	6,633	—	—	—	—	—	6,633		—

Unrealized gain on cash flow hedging derivatives, net	1,229	—	—	—	—	1,229	—	1,229
Translation adjustments	(2,331)	—	—	—	—	(2,331)	—	(2,331)
Minimum pension liability	(190)	—	—	—	—	(190)	—	(190)
Comprehensive income								<u>\$ 387,360</u>
Balances at July 2, 2005	<u>\$ 1,032,776</u>	<u>\$ —</u>	<u>\$ 3,784</u>	<u>\$ 465,015</u>	<u>\$ 576,141</u>	<u>\$ 903</u>	<u>\$ (13,067)</u>	<u>378,430</u>

See accompanying Notes to Consolidated Financial Statements.

COACH, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Fiscal Year Ended		
	July 2, 2005	July 3, 2004(1)	June 28, 2003
	(amounts in thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 388,652	\$ 261,748	\$ 146,628
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation and amortization	57,033	44,510	31,350
Minority interest	13,641	18,043	7,608
Tax benefit from exercise of stock options	78,480	106,458	41,503
(Increase) decrease in deferred taxes	(56,247)	11,646	8,778
Other non cash credits, net	3,881	3,372	(969)
Changes in assets and liabilities:			
Increase in trade accounts receivable	(9,675)	(20,254)	(4,545)
Increase in inventories	(22,506)	(18,106)	(7,403)
Increase in other assets	(14,885)	(3,861)	(10,880)
Increase in other liabilities	23,820	7,058	6,242
Increase in accounts payable	20,214	18,134	818
Increase in accrued liabilities	61,855	25,785	7,239
Net cash provided by operating activities	<u>544,263</u>	<u>454,533</u>	<u>226,369</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment	(94,592)	(73,659)	(61,857)
Acquisition of joint venture	(228,431)	—	—
Proceeds from dispositions of property and equipment	18	58	27
Purchases of investments	(379,530)	(301,723)	—
Maturities of investments	330,703	—	—
Net cash used in investing activities	<u>(371,832)</u>	<u>(375,324)</u>	<u>(61,830)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Repurchase of common stock	(264,971)	(54,954)	(49,947)
Distribution of earnings to joint venture shareholders	(57,403)	—	—
Repayment of joint venture partner contribution	(15,524)	—	—
Repayment of long-term debt	(115)	(80)	(75)
Borrowings on revolving credit facility	359,503	168,865	63,164
Repayments of revolving credit facility	(348,910)	(193,637)	(70,862)
Proceeds from exercise of stock options	46,835	34,141	28,395
Net cash used in financing activities	<u>(280,585)</u>	<u>(45,665)</u>	<u>(29,325)</u>
(Decrease) increase in cash and cash equivalents	(108,154)	33,544	135,214
Cash and cash equivalents at beginning of period	262,720	229,176	93,962
Cash and cash equivalents at end of period	<u>\$ 154,566</u>	<u>\$ 262,720</u>	<u>\$ 229,176</u>
Cash paid for income taxes	<u>\$ 162,702</u>	<u>\$ 33,136</u>	<u>\$ 56,083</u>
Cash paid for interest	<u>\$ 238</u>	<u>\$ 330</u>	<u>\$ 679</u>

(1) 53-week fiscal year

See accompanying Notes to Consolidated Financial Statements.

COACH, INC.

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

1. Nature of Operations and Significant Accounting Policies

Nature of Operations

Coach, Inc. (the "Company") designs, produces and markets high-quality, modern American classic accessories. The Company's primary product offerings, manufactured by third-party suppliers, include handbags, accessories, business cases, outerwear and related accessories and weekend and travel accessories. Coach's products are sold through direct-to-consumer channels, including Company-operated retail and factory stores, its online store and its catalogs, as well as through indirect channels, including department store locations in the United States, international department stores, freestanding retail locations and specialty retailers and retail and factory store locations operated by Coach Japan, Inc.

Significant Accounting Policies

Fiscal year

The Company's fiscal year ends on the Saturday closest to June 30. Unless otherwise stated, references to years in the financial statements relate to fiscal years. The fiscal years ended July 2, 2005 ("fiscal 2005") and June 28, 2003 ("fiscal 2003") were each 52-week periods, whereas the fiscal year ended July 3, 2004 ("fiscal 2004") was a 53-week period.

Use of Estimates

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

Principles of Consolidation

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

Cash and Cash Equivalents

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

Investments

Investments consist of U.S. government and agency debt securities as well as municipal government and corporate debt securities. These securities are classified as held to maturity, as the Company has both the ability and the intent to hold these securities until maturity. Investments are recorded at amortized cost. Premiums are amortized and discounts are accreted over the lives of the related securities as adjustments to interest income, using the effective interest method. Dividend and interest income are recognized when earned.

COACH, INC.

Notes to Consolidated Financial Statements — (Continued)
(dollars and shares in thousands, except per share data)

Concentration of Credit Risk

Financial instruments that potentially expose Coach to concentration of credit risk consist primarily of cash investments and accounts receivable. The Company places its cash investments with high-credit quality financial institutions and currently invests primarily in U.S. government and agency debt securities, municipal government and corporate debt securities, and bank money market funds placed with major banks and financial institutions. Accounts receivable is generally diversified due to the number of entities comprising Coach's customer base and their dispersion across many geographical regions. The Company's allowance for bad debts, returns and allowances was \$4,124 at July 2, 2005 and \$5,456 at July 3, 2004. 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 2005 and fiscal 2004, inventories recorded at LIFO were \$17 lower and \$2,409 higher, respectively, than if they were valued at FIFO. Inventories valued under LIFO amounted to \$40,861 and \$34,508 in fiscal 2005 and 2004, respectively. Inventory costs include material, conversion costs, freight and duties.

Property and Equipment

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

Operating Leases

The Company leases retail stores and office space under operating leases. The majority of the Company's lease agreements provide for tenant improvement allowances, rent escalation clauses and/or contingent rent provisions. In fiscal 2005, the Company conformed its accounting for operating leases and leasehold improvements to Statement of Financial Accounting Standards ("SFAS") No. 13 and its related interpretations as clarified by the Office of the Chief Accountant of the Securities and Exchange Commission to the American Institute of Certified Public Accountants on February 7, 2005.

Tenant improvement allowances are recorded as a deferred lease credit on the balance sheet and amortized over the lease term, which is consistent with the amortization period for the constructed assets. Historically, the consolidated balance sheets reflected these allowances as a reduction of capital expenditures and the carrying value of fixed assets and the consolidated statements of cash flows reflected tenant improvement allowances as a reduction of capital expenditures within investing activities. Since the impact of this change in accounting was not material to any previously reported fiscal year, the cumulative effect was recorded in the third quarter of fiscal 2005.

In addition to the above, the Company recorded a cumulative, noncash charge in the third quarter of fiscal 2005 to reflect the impact of recording rent expense prior to the store opening (during the construction buildout period). Previously, the Company recognized the straight-line rent expense for leases beginning on

COACH, INC.

Notes to Consolidated Financial Statements — (Continued)
(dollars and shares in thousands, except per share data)

the earlier of the store opening date or lease commencement date, which generally had the effect of excluding the buildout period of its stores from the calculation of the period over which it expensed rent. The Company now records rent expense when it takes possession of a store to begin its buildout, which generally occurs before the stated commencement of the lease term and is approximately 60 to 90 days prior to the opening of the store. The adjustment resulted in a cumulative, noncash charge to rent expense of approximately \$4,800 during fiscal 2005, of which approximately \$4,300 related to prior periods.

Goodwill and Other Intangible Assets

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

Valuation of Long-Lived Assets

In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which the Company adopted effective with the beginning of fiscal 2002, the Company assesses the carrying value of its long-lived assets for possible impairment based on a review of forecasted operating cash flows and the profitability of the related business. The Company did not record any impairment losses in fiscal 2005, fiscal 2004 or fiscal 2003.

Minority Interest in Subsidiary

Minority interest in the statements of income represents Sumitomo Corporation's share of the earnings in Coach Japan. The minority interest in the consolidated balance sheets as of July 3, 2004 reflects the original investment by Sumitomo in that consolidated subsidiary, along with its proportional share of the cumulative income, net of tax. The Company acquired Sumitomo's share of the equity in Coach Japan, Inc. on July 1, 2005.

Revenue Recognition

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

Advertising

Advertising costs, which include media and production, totaled \$28,112, \$21,574 and \$19,885 in fiscal years 2005, 2004 and 2003, 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 \$16,188, \$13,080 and \$11,290 in fiscal years 2005, 2004 and 2003, respectively, and are included in selling, general and administrative expenses.

COACH, INC.

Notes to Consolidated Financial Statements — (Continued)
(dollars and shares in thousands, except per share data)**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. As of the fourth quarter of fiscal 2005, the Company intends to permanently reinvest the controlled foreign corporation's undistributed earnings outside the United States. As permitted in the Accounting Principles Board ("APB") Opinion No. 23, "Accounting for Income Taxes — Special Areas," the Company does not provide U.S. income taxes on these earnings.

Stock-Based Compensation

The Company's stock-based compensation plans and the employee stock purchase plan, as more fully described in Note 8, "Stock-Based Compensation," are accounted for in accordance with APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations. Accordingly, no compensation cost is recognized for stock options and replacement stock options issued under stock-based compensation plans or for shares purchased under the employee stock purchase plan. The compensation cost that has been charged against income, reflecting amortization of restricted stock units, was \$6,633, \$4,410 and \$1,568 in fiscal 2005, 2004 and 2003, respectively. The following illustrates the effect on net income and earnings per share as if the fair value based method of accounting, defined in SFAS No. 123, "Accounting for Stock-Based Compensation," had been applied:

	Fiscal Year Ended		
	July 2, 2005	July 3, 2004	June 28, 2003
Net income, as reported	\$ 388,652	\$ 261,748	\$ 146,628
Deduct:			
Total stock-based employee compensation expense determined under the fair value based method for all awards, net of related tax effects	(30,040)	(23,799)	(15,947)
Proforma net income	\$ 358,612	\$ 237,949	\$ 130,681
Earnings per share:			
Basic — as reported	\$ 1.03	\$ 0.70	\$ 0.41
Basic — proforma	\$ 0.95	\$ 0.64	\$ 0.36
Diluted — as reported	\$ 1.00	\$ 0.68	\$ 0.39
Diluted — proforma	\$ 0.92	\$ 0.62	\$ 0.35

Fair Value of Financial Instruments

The fair value of the revolving credit facility at July 2, 2005 and July 3, 2004 approximated its carrying value due to its floating interest rates. The Company has evaluated its Industrial Revenue Bond and believes, based on the interest rate, related term and maturity, that the fair value of such instrument approximates its carrying amount. As of July 2, 2005 and July 3, 2004, the carrying values of cash and cash equivalents, investments, trade accounts receivable, accounts payable and accrued liabilities approximated their values due to the short-term maturities of these accounts. See Note 7, "Investments," for the fair values of the Company's investments as of July 2, 2005.

COACH, INC.

Notes to Consolidated Financial Statements — (Continued)
(dollars and shares in thousands, except per share data)

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

Foreign Currency

The functional currency of the Company's foreign operations is the applicable local currency. Assets and liabilities are translated into U.S. dollars using the current exchange rates in effect at the balance sheet date, while revenues and expenses are translated at the weighted-average exchange rates for the period. The resulting translation adjustments are recorded as a component of accumulated other comprehensive income (loss) within stockholders' equity. Translation adjustment losses in fiscal 2005 were \$2,331 compared to translation adjustment gains in fiscal 2004 of \$2,892. Translation adjustment losses in fiscal 2003 were \$348.

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 stock, to be effected in the form of a special dividend of one share of the Company's common stock for each share outstanding. The additional shares issued as a result of the stock split were distributed on July 3, 2002 to stockholders of record on June 19, 2002.

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

In January 2005, Coach's Board of Directors authorized a two-for-one stock 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 April 4, 2005 to stockholders of record on March 21, 2005.

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

Recent Accounting Pronouncements

In October 2004, the Emerging Issues Task Force ("EITF") issued its abstract No. 04-1 "Accounting for Preexisting Relationships between the Parties to a Business Combination." EITF 04-1 addresses the appropriate accounting treatment for portions of the acquisition costs of an entity that may be deemed to apply to elements of a preexisting business relationship between the acquiring company and the target company. EITF 04-1 is effective for combinations consummated after October 2004. The adoption of EITF 04-1 had no effect on historical financial statements.

COACH, INC.

Notes to Consolidated Financial Statements — (Continued)
(dollars and shares in thousands, except per share data)

In November 2004, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 151, “Inventory Costs — an amendment of ARB No. 43, Chapter 4.” SFAS 151 is an amendment of Accounting Research Board Opinion No. 43 and sets standards for the treatment of abnormal amounts of idle facility expense, freight, handling costs and spoilage. SFAS 151 is effective for fiscal years beginning after June 15, 2005. The Company is currently evaluating the impact of SFAS 151 on the financial statements.

In December 2004, the FASB issued Staff Position No. 109-2, “Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004” (“FSP No. 109-2”). FSP No. 109-2 provides guidance under SFAS No. 109, “Accounting for Income Taxes,” with respect to recording the potential impact of the repatriation provisions of the American Jobs Creation Act of 2004 (the “Jobs Act”) on enterprises’ income tax expense and deferred tax liability. FSP 109-2 states that an enterprise is allowed time beyond the financial reporting period of enactment to evaluate the effect of the Jobs Act on its plan for reinvestment or repatriation of foreign earnings for purposes of applying SFAS 109. The Company does not plan to make any dividends under this provision but is still evaluating the impact of FSP 109-2 on its consolidated financial statements.

In December 2004, the FASB issued SFAS No. 153, “Exchanges of Nonmonetary Assets — an amendment of APB Opinion No. 29,” which eliminates certain narrow differences between APB 29 and international accounting standards. SFAS 153 is effective for fiscal periods beginning on or after June 15, 2005. The adoption of SFAS 153 is not expected to have a material impact on the Company’s consolidated financial statements.

On December 16, 2004, the FASB issued SFAS No. 123 (revised 2004), “Share-Based Payment,” which is a revision of SFAS 123, “Accounting for Stock-Based Compensation.” SFAS 123R supersedes APB 25, “Accounting for Stock Issued to Employees.” The pronouncement requires an entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost will be recognized over the period during which an employee is required to provide service in exchange for the award — the requisite service period (typically the vesting period). SFAS 123R is effective as of the beginning of the first interim or annual reporting period that begins after June 15, 2005. The Company is currently evaluating the effect of SFAS 123R on its financial statements with the intent of implementing this standard in fiscal 2006.

In March 2005, the SEC issued Staff Accounting Bulletin (“SAB”) No. 107 “Share-Based Payment.” SAB 107 expresses views of the SEC staff regarding the interaction between SFAS 123R and certain SEC rules and regulations and provides the staff’s views regarding the valuation of share-based payments arrangements. Subsequently, the SEC decided to delay the required implementation of SFAS 123R to fiscal years beginning after June 15, 2005. The Company is currently evaluating the effect of SFAS 123R and SAB 107 on its financial statements with the intent of implementing this standard in fiscal 2006.

In March 2005, the FASB issued Statement of Financial Accounting Standards Interpretation Number 47 (“FIN 47”), “Accounting for Conditional Asset Retirement Obligations.” FIN 47 provides clarification regarding the meaning of the term “conditional asset retirement obligation” as used in FASB 143, “Accounting for Asset Retirement Obligations.” The Company is currently evaluating the impact of FIN 47 on the financial statements.

In May 2005, the FASB issued SFAS No. 154, “Accounting Changes and Error Corrections — a replacement of APB Opinion No. 20 and FASB Statement No. 3.” SFAS 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. This statement is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. Early adoption is permitted. The Company will adopt SFAS 154 in the required period.

COACH, INC.

Notes to Consolidated Financial Statements — (Continued)
(dollars and shares in thousands, except per share data)

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

Reclassifications

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

2. Balance Sheet Components

The components of certain balance sheet accounts are as follows:

	<u>July 2, 2005</u>	<u>July 3, 2004</u>
Property and Equipment		
Machinery and equipment	\$ 7,618	\$ 8,346
Furniture and fixtures	148,252	140,005
Leasehold improvements	243,784	212,000
Construction in progress	21,428	11,522
Less: accumulated depreciation	(217,220)	(207,582)
Total property and equipment, net	<u>\$ 203,862</u>	<u>\$ 164,291</u>
Accrued Liabilities		
Income and other taxes	\$ 49,180	\$ 16,699
Payroll and employee benefits	65,653	54,291
Operating expenses	70,669	52,657
Total accrued liabilities	<u>\$ 185,502</u>	<u>\$ 123,647</u>

COACH, INC.

Notes to Consolidated Financial Statements — (Continued)
(dollars and shares in thousands, except per share data)

3. Income Taxes

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

	Fiscal Year Ended					
	July 2, 2005		July 3, 2004		June 28, 2003	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
Income (loss) before provision for income taxes and minority interest:						
United States	\$ 584,695	91.7%	\$ 388,862	86.9%	\$ 224,380	91.7%
Foreign	52,875	8.3	58,795	13.1	20,441	8.3
Total income before provision for income taxes and minority interest	<u>\$ 637,570</u>	<u>100.0%</u>	<u>\$ 447,657</u>	<u>100.0%</u>	<u>\$ 244,821</u>	<u>100.0%</u>
Tax expense at U.S. statutory rate	\$ 223,150	35.0%	\$ 156,680	35.0%	\$ 85,687	35.0%
State taxes, net of federal benefit	33,279	5.2	16,179	3.6	10,358	4.2
Reversal of deferred U.S. taxes on foreign earnings	(16,247)	(2.5)	—	—	—	—
Nontaxable foreign sourced income	(4,458)	(0.7)	(5,182)	(1.2)	(2,069)	(0.8)
Other, net	(447)	(0.1)	189	0.0	(3,391)	(1.3)
Taxes at effective worldwide rates	<u>\$ 235,277</u>	<u>36.9%</u>	<u>\$ 167,866</u>	<u>37.5%</u>	<u>\$ 90,585</u>	<u>37.0%</u>

Current and deferred tax provisions (benefits) were:

	Fiscal Year Ended					
	July 2, 2005		July 3, 2004		June 28, 2003	
	Current	Deferred	Current	Deferred	Current	Deferred
Federal	\$ 184,318	\$ (29,744)	\$ 128,449	\$ (7,314)	\$ 67,432	\$ 1,728
Puerto Rico	—	—	—	—	31	(1,182)
Foreign	28,228	1,276	2,302	19,538	402	6,239
State	60,849	(9,650)	25,468	(577)	13,942	1,993
Total current and deferred tax provisions (benefits)	<u>\$ 273,395</u>	<u>\$ (38,118)</u>	<u>\$ 156,219</u>	<u>\$ 11,647</u>	<u>\$ 81,807</u>	<u>\$ 8,778</u>

COACH, INC.

Notes to Consolidated Financial Statements — (Continued)
(dollars and shares in thousands, except per share data)

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

	Fiscal Year Ended		
	July 2, 2005	July 3, 2004	June 28, 2003
Deferred tax provisions (benefits)			
Depreciation	\$ (9,546)	\$ (3)	\$ 2,269
Employee benefits	(2,945)	(3,267)	1,048
Advertising accruals	2	(280)	348
Nondeductible reserves	(6,681)	(5,228)	(2,025)
Earnings of foreign subsidiaries	(9,226)	23,920	9,296
Other, net	(9,722)	(3,495)	(2,158)
Total deferred tax provisions (benefits)	<u>\$ (38,118)</u>	<u>\$ 11,647</u>	<u>\$ 8,778</u>

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

	Fiscal Year Ended	
	July 2, 2005	July 3, 2004
Deferred tax assets		
Reserves not deductible until paid	\$ 45,978	\$ 31,060
Pension and other employee benefits	11,289	7,041
Property, plant and equipment	21,456	11,499
Other	3,617	5,212
Total deferred tax assets	<u>\$ 82,340</u>	<u>\$ 54,812</u>
Deferred tax liabilities		
Earnings of foreign subsidiaries	\$ —	\$ 29,578
Equity adjustments	2,644	—
Other	4,719	6,504
Total deferred tax liabilities	<u>\$ 7,363</u>	<u>\$ 36,082</u>
Net deferred tax assets	<u>\$ 74,977</u>	<u>\$ 18,730</u>

The Company has received tax benefit from the exercise of stock options. This benefit is reflected as a credit to stockholders' equity and not reflected in the provision for income taxes. The amount of this benefit was \$78,480, \$106,458 and \$41,503 in fiscal 2005, 2004 and 2003, respectively.

On July 1, 2005, the Company acquired the minority interest that it had not previously owned in Coach Japan, Inc., becoming the 100% owner of the Japanese operation. The Company currently does not intend to distribute to the U.S. the earnings of the Japanese company, but will reinvest such earnings offshore. As a result, the excess provision for the tax that would have been due upon the distribution of the Japanese company's earnings accumulated through July 2, 2005 was reversed. The impact of this reversal on the current year provision for income taxes was a reduction of \$16,247.

The American Jobs Creation Act of 2004 was signed into law on October 22, 2004. The Act included a special one-time 85% dividends received deduction (the "Repatriation Provision") on the repatriation of

COACH, INC.

Notes to Consolidated Financial Statements — (Continued)
(dollars and shares in thousands, except per share data)

certain foreign earnings to a U.S. taxpayer provided that specified conditions and restrictions are satisfied. As Coach does not intend to repatriate the foreign earnings, the Company expects that the Repatriation Provision will have no effect on its financial statements.

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

4. Debt

Revolving Credit Facilities

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

During fiscal 2005 and 2004, there were no borrowings under the Bank of America facility. As of July 2, 2005, there were no outstanding borrowings under the Bank of America facility.

Coach pays a commitment fee of 10 to 25 basis points based on any unused amounts of the Bank of America facility. The initial commitment fee was 15 basis points. At July 2, 2005, the commitment fee was 12.5 basis points. The initial LIBOR margin under the Bank of America facility was 62.5 basis points. At July 2, 2005, the LIBOR margin was 55 basis points, reflecting an improvement in our fixed-charge coverage ratio.

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

To provide funding for working capital and general corporate purposes, Coach Japan entered into credit facilities with several Japanese financial institutions. These facilities allow a maximum borrowing of 8.6 billion yen, or approximately \$77,000, at July 2, 2005. Interest is based on the Tokyo Interbank rate plus a margin of up to 50 basis points.

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

During fiscal 2005 and 2004, the peak borrowings under the Japanese credit facilities were \$50,461 and \$36,084, respectively. As of July 2, 2005 and July 3, 2004, outstanding borrowings under the Japanese credit facilities were \$12,292 and \$1,699, respectively.

COACH, INC.

Notes to Consolidated Financial Statements — (Continued)
(dollars and shares in thousands, except per share data)**Long-Term Debt**

Coach is party to an Industrial Revenue Bond related to its Jacksonville, Florida facility. This loan bears interest at 8.77%. Principal and interest payments are made semi annually, with the final payment due in 2014. As of July 2, 2005 and July 3, 2004, the remaining balance on the loan was \$3,420 and \$3,535, respectively. Future principal payments under the Industrial Revenue Bond are as follows:

Fiscal Year	Amount
2006	\$ 150
2007	170
2008	235
2009	285
2010	335
Subsequent to 2010	2,245
Total	\$ 3,420

5. Leases

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

	Fiscal Year Ended		
	July 2, 2005	July 3, 2004	June 28, 2003
Minimum rentals	\$ 73,283	\$ 55,352	\$ 47,098
Contingent rentals	12,101	7,555	4,885
Total rent expense	\$ 85,384	\$ 62,907	\$ 51,983

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

Fiscal Year	Amount
2006	\$ 62,597
2007	57,900
2008	57,173
2009	53,846
2010	48,538
Subsequent to 2010	175,000
Total minimum future rental payments	\$ 455,054

COACH, INC.

Notes to Consolidated Financial Statements — (Continued)
(dollars and shares in thousands, except per share data)

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

6. Commitments and Contingencies

At July 2, 2005 and July 3, 2004, the Company had letters of credit outstanding totaling \$68,849 and \$50,473, respectively. Of these amounts, \$15,425 and \$16,764, respectively, related to the letter of credit obtained in connection with leases transferred to the Company by the Sara Lee Corporation, for which Sara Lee retains contingent liability. Coach expects that it will be required to maintain the letter of credit for at least 10 years. The remaining letters of credit, which expire at various dates through 2008, primarily collateralize the Company's obligation to third parties for the purchase of inventory and lease guarantees.

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

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

7. Investments

The Company's investments consist of U.S. government and agency debt securities as well as municipal government and corporate debt securities. As the Company has both the ability and the intent to hold these securities until maturity, all investments are classified as held to maturity and stated at amortized cost. The following table shows the amortized cost, fair value, and gross unrealized gains and losses of the Company's investments at July 2, 2005 and July 3, 2004.

	Fiscal Year Ended					
	Amortized Cost	July 2, 2005 Fair Value	Unrealized Loss	Amortized Cost	July 3, 2004 Fair Value	Unrealized Loss
Short-term investments:						
U.S. government and agency securities	\$ 55,000	\$ 54,861	\$ (139)	\$ 50,000	\$ 49,930	\$ (70)
Commercial paper	—	—	—	74,260	74,187	\$ (73)
Corporate debt securities	173,485	172,467	(1,018)	22,500	22,500	\$ —
Certificates of deposit	—	—	—	24,963	24,860	(103)
Short-term investments	<u>\$ 228,485</u>	<u>\$ 227,328</u>	<u>\$ (1,157)</u>	<u>\$ 171,723</u>	<u>\$ 171,477</u>	<u>\$ (246)</u>
Long-term investments:						
U.S. government and agency securities	\$ 49,945	\$ 49,405	\$ (540)	\$ 130,000	\$ 129,975	\$ (25)
Corporate debt securities	72,120	71,216	(904)	—	—	—
Long-term investments	<u>\$ 122,065</u>	<u>\$ 120,621</u>	<u>\$ (1,444)</u>	<u>\$ 130,000</u>	<u>\$ 129,975</u>	<u>\$ (25)</u>

Securities with maturity dates within one year are classified as short-term investments. Securities with maturity dates greater than one year are classified as long-term investments. At July 2, 2005, the maturity dates of long-term investments, based on current contractual maturities, extend to February 2007. Actual

COACH, INC.

Notes to Consolidated Financial Statements — (Continued)
(dollars and shares in thousands, except per share data)

maturities could differ from contractual maturities, as some borrowers have the right to call certain obligations.

The difference between amortized cost and fair value is the result of unrealized gains and losses, caused primarily by interest rate fluctuations. The securities to which the unrealized losses relate have been in a continuous loss position for less than twelve months. The Company does not consider these investments to be other-than-temporarily impaired at July 2, 2005, as the Company has both the ability and the intent to hold these investments until a recovery of fair value, which may be at maturity.

8. Stock-Based Compensation

Coach Stock-Based Plans. Coach maintains the 2000 Stock Incentive Plan, the 2000 Non-Employee Director Stock Plan and the 2004 Stock Incentive Plan to award stock options and other forms of equity compensation to certain members of Coach management and the outside members of its Board of Directors. The 2000 Stock Incentive Plan and the 2000 Non-Employee Director Stock Plan were approved by Coach's stockholders during fiscal 2002. The 2004 Stock Incentive Plan was approved by Coach's stockholders during fiscal 2005. The exercise price of each stock option equals 100% of the market price of Coach's stock on the date of grant and generally has a maximum term of 10 years. Options generally vest ratably over three years.

For options granted under Coach's stock option plans prior to July 1, 2003, an active employee can receive a replacement stock option equal to the number of shares surrendered upon a stock-for-stock exercise. The exercise price of the replacement option is 100% of the market value at the date of exercise of the original option and will remain exercisable for the remaining term of the original option. Replacement stock options generally vest six months from the grant date. Replacement stock options of 7,029, 11,264, and 7,360 were granted in fiscal 2005, 2004 and 2003, respectively.

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

	Number of Coach Outstanding Options	Weighted- Average Exercise Price	Exercisable Shares	Weighted- Average Exercise Price
Outstanding at June 29, 2002	40,040	\$ 3.49	6,368	\$ 3.41
Granted	19,040	7.67		
Exercised	(20,352)	3.76		
Canceled/expired	(3,668)	3.95		
Outstanding at June 28, 2003	35,060	\$ 5.56	5,748	\$ 5.43
Granted	22,748	16.55		
Exercised	(24,120)	8.12		
Canceled/expired	(1,004)	6.87		
Outstanding at July 3, 2004	32,684	\$ 11.28	5,278	\$ 6.52
Granted	14,927	23.20		
Exercised	(15,184)	12.74		
Canceled/expired	(873)	12.84		
Outstanding at July 2, 2005	31,554	\$ 16.17	11,178	\$ 16.48

COACH, INC.

Notes to Consolidated Financial Statements — (Continued)
(dollars and shares in thousands, except per share data)

The following table summarizes information about stock options under the Coach option plans at July 2, 2005.

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding at July 2, 2005	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Number Exercisable at July 2, 2005	Weighted-Average Exercise Price
\$ 2.00 – 5.00	2,418	5.12	\$ 3.66	2,418	\$ 3.66
\$ 5.01 – 10.00	4,756	6.98	6.38	1,685	6.82
\$10.01 – 20.00	16,108	8.47	15.52	1,727	13.72
\$20.01 – 35.00	8,272	5.63	26.74	5,348	26.21
	<u>31,554</u>	<u>7.24</u>	<u>\$ 16.17</u>	<u>11,178</u>	<u>\$ 16.48</u>

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

	Fiscal Year Ended		
	July 2, 2005	July 3, 2004	June 28, 2003
Expected lives (years)	1.4	1.6	1.5
Risk-free interest rate	2.6%	1.6%	1.7%
Expected volatility	29.2%	32.4%	35.2%
Dividend yield	—%	—%	—%

The weighted-average fair values of individual options granted during fiscal 2005, 2004 and 2003 were \$3.10, \$2.45 and \$1.23, respectively.

Employee Stock Purchase Plan. Under the Employee Stock Purchase Plan, full-time Coach employees are permitted to purchase a limited number of Coach common shares at 85% of market value. Under this plan, Coach sold 159, 200 and 268 shares to employees in fiscal 2005, 2004 and 2003, respectively. Pro forma compensation expense is calculated for the fair value of employees' purchase rights using the Black-Scholes model and the following weighted-average assumptions:

	Fiscal Year Ended		
	July 2, 2005	July 3, 2004	June 28, 2003
Expected lives (years)	0.5	0.5	0.5
Risk-free interest rate	2.8%	1.2%	1.2%
Expected volatility	27.6%	28.8%	38.3%
Dividend yield	—%	—%	—%

The weighted-average fair value of the purchase rights granted during fiscal 2005, 2004 and 2003 was \$6.24, \$4.85 and \$2.60, respectively.

Stock Unit Awards. Restricted stock unit awards of Coach common stock have been granted to employees as retention awards. The value of retention awards is determined based upon the fair value of Coach stock at the grant date. Stock awards are restricted and subject to forfeiture until the retention period is completed. The retention period is generally three years. As of July 2, 2005, retention awards of 1,861 shares were outstanding. This value is initially recorded as unearned compensation and is charged to earnings over

COACH, INC.

Notes to Consolidated Financial Statements — (Continued)
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the retention period. The amortization expense related to these awards was \$6,633, \$4,410 and \$1,568 for fiscal 2005, 2004 and 2003, respectively.

Deferred Compensation. Under the Coach, Inc. Executive Deferred Compensation Plan, executive officers and certain employees at or above the senior director level may elect to defer all or a portion of their annual bonus or annual base salary into the plan. Under the Coach, Inc. Deferred Compensation Plan for Non-Employee Directors, Coach's outside directors may similarly defer their director's fees. Amounts deferred under these plans may, at the participants' election, be either represented by deferred stock units, which represent the right to receive shares of Coach common stock on the distribution date elected by the participant, or placed in an interest-bearing account to be paid on such distribution date. The amounts accrued under these plans at July 2, 2005 and July 3, 2004 were \$4,777 and \$4,263, respectively, and are included in other noncurrent liabilities in the consolidated balance sheets.

The following table summarizes share and exercise price information about Coach's equity compensation plans as of July 2, 2005.

<u>Plan Category</u>	<u>Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants or Rights</u>	<u>Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights</u>	<u>Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans</u>
Equity compensation plans approved by security holders	33,415	\$ 15.27	30,384
Equity compensation plans not approved by security holders	768	\$ 4.52	3,073
Total	34,183		33,457

9. Retirement Plans

Coach maintains the Coach, Inc. Savings and Profit Sharing Plan, which is a defined contribution plan. Employees who meet certain eligibility requirements and are not part of a collective bargaining agreement may participate in this program. The annual expense incurred by Coach for this defined contribution plan was \$8,621, \$7,620 and \$5,308 in fiscal 2005, 2004 and 2003, respectively.

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

COACH, INC.

Notes to Consolidated Financial Statements — (Continued)
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The Company uses a March 31 measurement date for its defined benefit retirement plan. Obligation and funded status information for the Company's defined benefit retirement plan is as follows:

	Fiscal Year Ended	
	July 2, 2005	July 3, 2004
Change in Benefit Obligation		
Benefit obligation at beginning of year	\$ 5,260	\$ 5,983
Service cost	14	13
Interest cost	308	381
Benefits paid	(178)	(249)
Actuarial loss	394	797
Plan settlements(1)	—	(1,665)
Benefit obligation at end of year	<u>\$ 5,798</u>	<u>\$ 5,260</u>
Change in Plan Assets		
Fair value of plan assets at beginning of year	\$ 2,706	\$ 3,863
Actual return on plan assets	34	757
Employer contributions	1,290	—
Benefits paid	(178)	(249)
Plan settlements(1)	—	(1,665)
Fair value of plan assets at end of year	<u>\$ 3,852</u>	<u>\$ 2,706</u>

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

	Fiscal Year Ended	
	July 2, 2005	July 3, 2004
Funded status		
Funded status at end of year	\$ (1,946)	\$ (2,554)
Unrecognized prior service cost	—	—
Unrecognized net actuarial loss	2,117	1,766
Net amount recognized	<u>\$ 171</u>	<u>\$ (788)</u>
Amounts recognized in the consolidated balance sheets		
Other noncurrent assets	\$ —	\$ —
Accrued benefit liability	(1,946)	(2,554)
Accumulated other comprehensive income	2,117	1,766
Net amount recognized	<u>\$ 171</u>	<u>\$ (788)</u>

COACH, INC.

Notes to Consolidated Financial Statements — (Continued)
(dollars and shares in thousands, except per share data)

The accumulated benefit obligation for the defined benefit pension plan was \$5,798 and \$5,260 at July 2, 2005 and July 3, 2004, respectively.

	Fiscal Year Ended	
	July 2, 2005	July 3, 2004
Information for pension plans with an accumulated benefit obligation in excess of plan assets		
Projected benefit obligation	\$ 5,798	\$ 5,260
Accumulated benefit obligation	5,798	5,260
Fair value of plan assets	3,852	2,706
Additional Information		
Increase in minimum liability included in other comprehensive income	\$ 350	\$ (479)
Weighted-average assumptions used to determine benefit obligations		
Discount rate	5.75%	6.00%
Rate of compensation increase	N/A	N/A
Weighted-average assumptions used to determine net periodic benefit cost		
Discount rate	6.00%	6.50%
Expected long term return on plan assets	6.75%	7.50%
Rate of compensation increase	N/A	N/A

To develop the expected long-term rate of return on plan assets assumption, the Company considered the current level of expected returns on risk-free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected long-term rate of return on plan assets assumption for the portfolio. This resulted in the selection of the 6.75% assumption for fiscal 2005.

	Fiscal Year Ended		
	July 2, 2005	July 3, 2004	June 28, 2003
Components of net periodic benefit cost			
Service cost	\$ 14	\$ 13	\$ 15
Interest cost	308	381	370
Expected return on plan assets	(181)	(281)	(381)
Amortization of prior service cost	—	—	1
Amortization of net actuarial loss	190	246	46
Settlement loss	—	559	—
Net periodic benefit cost	<u>\$ 331</u>	<u>\$ 918</u>	<u>\$ 51</u>

COACH, INC.

Notes to Consolidated Financial Statements — (Continued)
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The Company's pension plan weighted-average asset allocations, by asset category, as of the measurement dates, are as follows:

Asset Category	Plan Assets	
	Fiscal 2005	Fiscal 2004
Domestic equities	62.4%	69.0%
International equities	4.5	4.1
Fixed income	20.9	25.1
Cash equivalents	12.2	1.8
Total	100.0%	100.0%

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

	Low	Target	High
Equity securities	30%	45%	60%
Fixed income	25%	40%	55%
Cash equivalents	5%	15%	25%

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

The Company expects to contribute \$442 to its defined benefit pension plan during the year ending July 1, 2006.

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

Fiscal Year	Pension Benefits
2006	274
2007	293
2008	307
2009	319
2010	338
2011 — 2015	1,956

10. Segment Information

The Company operates its business in two reportable segments: direct-to-consumer and indirect. The Company's reportable segments represent channels of distribution that offer similar merchandise, service and marketing strategies. Sales of Coach products through Company-operated retail and factory stores, the Internet and the Coach catalog constitute the direct-to-consumer segment. Indirect refers to sales of Coach products to other retailers and includes sales through Coach Japan. In deciding how to allocate resources and assess performance, Coach's executive officers regularly evaluate the sales and operating income of these

COACH, INC.

Notes to Consolidated Financial Statements — (Continued)
(dollars and shares in thousands, except per share data)

segments. Operating income is the gross margin of the segment less direct expenses of the segment. Unallocated corporate expenses include production variances, general marketing, administration and information systems, as well as distribution and customer service expenses.

Fiscal 2005	Direct-to-Consumer	Indirect	Corporate Unallocated	Total
Net sales	\$ 935,461	\$ 774,962	\$ —	\$ 1,710,423
Operating income (loss)	406,122	385,674	(169,986)	621,810
Interest income	—	—	16,980	16,980
Interest expense	—	—	1,220	1,220
Income (loss) before provision for income taxes and minority interest	406,122	385,674	(154,226)	637,570
Provision for income taxes	—	—	235,277	235,277
Minority interest, net of tax	—	—	13,641	13,641
Depreciation and amortization	29,510	12,126	15,397	57,033
Total assets	242,604	273,548	830,980	1,347,132
Additions to long-lived assets	47,906	27,673	19,013	94,592
Fiscal 2004	Direct-to-Consumer	Indirect	Corporate Unallocated	Total
Net sales	\$ 726,457	\$ 594,649	\$ —	\$ 1,321,106
Operating income (loss)	293,626	288,648	(137,809)	444,465
Interest income	—	—	4,000	4,000
Interest expense	—	—	808	808
Income (loss) before provision for income taxes and minority interest	293,626	288,648	(134,617)	447,657
Provision for income taxes	—	—	167,866	167,866
Minority interest, net of tax	—	—	18,043	18,043
Depreciation and amortization	26,621	6,940	10,949	44,510
Total assets	227,657	176,568	640,200	1,044,425
Additions to long-lived assets	41,554	19,919	12,186	73,659
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	18,603	5,327	7,420	31,350
Total assets	205,614	137,587	285,908	629,109
Additions to long-lived assets	37,265	16,602	7,990	61,857

COACH, INC.

Notes to Consolidated Financial Statements — (Continued)
(dollars and shares in thousands, except per share data)

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

	Fiscal Year Ended		
	July 2, 2005	July 3, 2004	June 28, 2003
Production variances	\$ 11,028	\$ 12,581	\$ 6,755
Advertising, marketing and design	(70,234)	(56,714)	(48,491)
Administration and information systems	(75,970)	(63,521)	(51,843)
Distribution and customer service	(34,810)	(30,155)	(27,510)
Total corporate unallocated	<u>\$ (169,986)</u>	<u>\$ (137,809)</u>	<u>\$ (121,089)</u>

Geographic Area Information

Geographic revenue information is based on the location of our customer. Geographic long-lived asset information is based on the physical location of the assets at the end of each period. As of July 2, 2005, Coach operated 193 retail stores and 82 factory stores in North America. Indirectly, through Coach Japan, Coach operates 103 department store shop-in-shops and retail and factory store locations in Japan. Coach operates distribution, product development and quality control locations in the United States, Italy, Hong Kong, China and South Korea.

	United States	Japan	Other International(1)	Total
Fiscal 2005				
Net sales	\$ 1,242,004	\$ 372,326	\$ 96,093	\$ 1,710,423
Long-lived assets	314,919	288,338	2,995	606,252
Fiscal 2004				
Net sales	\$ 982,668	\$ 278,011	\$ 60,427	\$ 1,321,106
Long-lived assets	280,938	55,487	2,384	338,809
Fiscal 2003				
Net sales	\$ 735,890	\$ 177,821	\$ 39,515	\$ 953,226
Long-lived assets	138,708	31,966	785	171,459

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

11. Derivative Instruments and Hedging Activities

Substantially all purchases and sales involving international parties are denominated in U.S. dollars, the majority of which are not hedged using any derivative instruments. However, the Company is exposed to market risk from foreign currency exchange rate fluctuations with respect to Coach Japan as a result of its U.S. dollar-denominated inventory purchases. Coach Japan enters into certain foreign currency derivative contracts, primarily foreign exchange forward contracts, to manage these risks. In addition, the Company is exposed to foreign currency exchange rate fluctuations related to the euro-denominated expenses of its Italian sourcing office. During the third quarter of fiscal 2003, the Company began a program to enter into certain foreign currency derivative contracts, primarily foreign exchange forward contracts, in order to manage these fluctuations. However, during the second quarter of fiscal 2004, the Company reassessed this program and determined, based on current business conditions, that the Company would discontinue hedging against the euro.

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

The foreign currency contracts entered into by the Company have durations no greater than 12 months. The fair values of open foreign currency derivatives included in accrued liabilities at July 2, 2005 and July 3, 2004 were \$0 and \$486, respectively. The fair values of open foreign currency derivatives included in current assets at July 2, 2005 and July 3, 2004 were \$1,535 and \$0, respectively. As of July 2, 2005, open foreign currency forward contracts designated as hedges with a notional amount of \$46,900 were fair valued, resulting in an increase to equity as a benefit to other comprehensive income of \$1,229, net of taxes. As of July 3, 2004, open foreign currency forward contracts designated as hedges with a notional amount of \$63,600 were fair valued, resulting in a reduction to equity as a charge to other comprehensive income of \$460, net of taxes.

12. Goodwill

Changes in the carrying amounts of net goodwill for the years ended July 2, 2005 and July 3, 2004 are as follows:

	<u>Direct-to- Consumer</u>	<u>Indirect</u>	<u>Total</u>
Balance at June 28, 2003	\$ 3,408	\$ 9,601	\$ 13,009
Foreign exchange impact	—	596	596
Balance at July 3, 2004	\$ 3,408	\$ 10,197	\$ 13,605
Acquisition of Coach Japan	—	225,263	225,263
Foreign exchange impact	—	(157)	(157)
Balance at July 2, 2005	<u>\$ 3,408</u>	<u>\$ 235,303</u>	<u>\$ 238,711</u>

On July 1, 2005, Coach completed the purchase of Sumitomo's 50% interest in Coach Japan. See Note 17, "Acquisition of Coach Japan, Inc." for more information on the acquisition.

13. Business Interruption Insurance

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

During fiscal 2005, 2004 and 2003, Coach received payments of \$2,644, \$2,657 and \$1,484, respectively, under its business interruption coverage. These amounts are included as a reduction to selling, general and administrative expenses.

COACH, INC.

Notes to Consolidated Financial Statements — (Continued)
(dollars and shares in thousands, except per share data)**14. Earnings Per Share**

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

	Fiscal Year Ended		
	July 2, 2005	July 3, 2004	June 28, 2003
Net earnings	\$ 388,652	\$ 261,748	\$ 146,628
Total basic shares	378,670	372,120	359,116
Dilutive securities:			
Employee benefit and stock award plans	2,784	2,578	1,840
Stock option programs	8,737	10,860	10,728
Total diluted shares	390,191	385,558	371,684
Earnings per share:			
Basic	\$ 1.03	\$ 0.70	\$ 0.41
Diluted	\$ 1.00	\$ 0.68	\$ 0.39

15. Stock Repurchase Program

On September 17, 2001, the Coach Board of Directors authorized the establishment of a common stock repurchase program. Under this program, up to \$80,000 may be utilized to repurchase common stock through September 2004. On January 30, 2003, the Coach Board of Directors approved an additional common stock repurchase program to acquire up to \$100,000 of Coach's outstanding common stock through January 2006 and extended the duration of Coach's existing repurchase program through January 2006. On May 11, 2005, the Coach Board of Directors approved a common stock repurchase program to acquire up to \$250,000 of Coach's outstanding common stock. Purchases of Coach stock may be made from time to time, subject to market conditions and at prevailing market prices, through open market purchases. Repurchased shares will become authorized but unissued shares and may be issued in the future for general corporate and other uses. The Company may terminate or limit the stock repurchase program at any time.

During fiscal 2005, 2004 and 2003, the Company repurchased and retired 11,000, 3,022 and 7,716 shares of common stock at an average cost of \$24.09, \$18.18 and \$6.48 per share, respectively. As of July 2, 2005, Coach had approximately \$250,000 remaining in the stock repurchase program.

16. Related-Party Transaction

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

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

COACH, INC.**Notes to Consolidated Financial Statements — (Continued)**
(dollars and shares in thousands, except per share data)**17. Acquisition of Coach Japan, Inc.**

On July 1, 2005, Coach completed the purchase of Sumitomo's 50% interest in Coach Japan, Inc. for \$228,431, including transaction costs, plus undistributed profits and paid-in capital of \$72,927. Coach Japan was a joint venture established between Coach and Sumitomo Corporation, to operate and expand the Coach business in Japan. Coach Japan is accounted for as a consolidated subsidiary. Coach recorded the 50% interest in the assets and liabilities of Coach Japan acquired through this acquisition at their fair values as follows: trade accounts receivable of \$15,369, inventory of \$43,089, property and equipment of \$21,848, customer list of \$250, goodwill of \$225,263, other assets of \$24,969 and liabilities of \$30,672. The results of operations for Coach Japan, Inc. from July 1, 2005 are included in our consolidated results of operations for the fiscal year ended July 2, 2005.

The following unaudited pro forma information assumes the Coach Japan, Inc. acquisition had occurred on July 4, 2004. The pro forma information, as presented below, is not indicative of the results that would have been obtained had the transaction occurred July 4, 2004, nor is it indicative of our future results. The final purchase price allocation and the resulting effect on net income may differ significantly from the unaudited pro forma amounts included herein.

	Fiscal Year Ended	
	July 2, 2005	July 3, 2004
	(Unaudited)	(Unaudited)
Net revenue	\$ 1,710,423	\$ 1,321,106
Net income	402,293	279,791
Net income per share — Basic	1.06	0.75
Net income per share — Diluted	1.03	0.73

18. Shareholder Rights Plan

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

Subject to limited exceptions, these rights may be exercised if a person or group intentionally acquires 10% or more of the Company's common stock or announces a tender offer for 10% or more of the common stock on terms not approved by the Coach Board of Directors. In this event, each right would entitle the holder of each share of Coach's common stock to buy one additional common share of the Company at an exercise price far below the then-current market price. Subject to certain exceptions, Coach's Board of Directors will be entitled to redeem the rights at \$0.001 per right at any time before the close of business on the tenth day following either the public announcement that, or the date on which a majority of Coach's Board of Directors becomes aware that, a person has acquired 10% or more of the outstanding common stock. As of the end of fiscal 2005, there were no shareholders whose common stock holdings exceeded the 10% threshold established by the rights plan.

19. Subsequent Event

On August 22, 2005, Coach, Inc. entered into three-year extensions to the employment agreements of three key executives: Lew Frankfort, Chairman and Chief Executive Officer; Reed Krakoff, President and Executive Creative Director; and Keith Monda, President and Chief Operating Officer. These amendments extend the terms of the executives' employment agreements from July 2008 through August 2011.

COACH, INC.

Notes to Consolidated Financial Statements — (Continued)
(dollars and shares in thousands, except per share data)

20. Quarterly Financial Data (Unaudited)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Fiscal Year
Fiscal 2005					
Net sales	\$ 344,065	\$ 531,759	\$ 415,939	\$ 418,660	\$ 1,710,423
Gross profit	258,174	402,968	324,673	324,956	1,310,771
Net income	67,725	134,123	89,239	97,565	388,652
Earnings per common share:					
Basic	\$ 0.18	\$ 0.35	\$ 0.24	\$ 0.26	\$ 1.03
Diluted	\$ 0.17	\$ 0.34	\$ 0.23	\$ 0.25	\$ 1.00
Fiscal 2004					
Net sales(1)	\$ 258,375	\$ 411,513	\$ 313,073	\$ 338,145	\$ 1,321,106
Gross profit	187,909	305,143	237,517	259,513	990,082
Net income	42,329	95,438	58,311	65,670	261,748
Earnings per common share:					
Basic	\$ 0.12	\$ 0.26	\$ 0.16	\$ 0.17	\$ 0.70
Diluted	\$ 0.11	\$ 0.25	\$ 0.15	\$ 0.17	\$ 0.68
Fiscal 2003					
Net sales	\$ 192,791	\$ 308,523	\$ 220,396	\$ 231,516	\$ 953,226
Gross profit	131,224	216,842	159,807	169,556	677,429
Net income	22,480	62,431	31,853	29,864	146,628
Earnings per common share:					
Basic	\$ 0.06	\$ 0.18	\$ 0.09	\$ 0.08	\$ 0.41
Diluted	\$ 0.06	\$ 0.17	\$ 0.09	\$ 0.08	\$ 0.39

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

The sum of the quarterly earnings per 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.

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

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

	Fiscal Year Ended 2005	
	High	Low
Quarter ended		
October 2, 2004	\$ 23.03	\$ 18.06
January 1, 2005	28.53	19.83
April 2, 2005	29.75	26.41
July 2, 2005	33.92	25.22
Closing price at July 1, 2005	\$ 33.55	

	Fiscal Year Ended 2004	
	High	Low
Quarter ended		
September 27, 2003	\$ 14.82	\$ 12.44
December 27, 2003	19.96	13.54
March 27, 2004	21.84	17.08
July 3, 2004	23.10	19.75
Closing price at July 2, 2004	\$ 23.05	

	Fiscal Year Ended 2003	
	High	Low
Quarter ended		
September 28, 2002	\$ 7.34	\$ 4.53
December 28, 2002	8.62	5.90
March 29, 2003	9.98	7.29
June 28, 2003	13.22	9.27
Closing price at June 27, 2003	\$ 12.49	

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 Bank of America 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, INC.

Schedule II — Valuation and Qualifying Accounts

For the Fiscal Years Ended July 2, 2005, July 3, 2004 and June 28, 2003

	Balance at Beginning of Year	Provision Charged to Costs and Expenses	Write-offs/ Allowances Taken	Balance at End of Year
(amounts in thousands)				
Fiscal 2005				
Allowance for bad debts	\$ 1,804	\$ 100	\$ (239)	\$ 1,665
Allowance for returns	3,652	4,303	(5,496)	2,459
Total	<u>\$ 5,456</u>	<u>\$ 4,403</u>	<u>\$ (5,735)</u>	<u>\$ 4,124</u>
Fiscal 2004				
Allowance for bad debts	\$ 1,312	\$ 610	\$ (118)	\$ 1,804
Allowance for returns	4,783	3,292	(4,423)	3,652
Total	<u>\$ 6,095</u>	<u>\$ 3,902</u>	<u>\$ (4,541)</u>	<u>\$ 5,456</u>
Fiscal 2003				
Allowance for bad debts	\$ 1,335	\$ 97	\$ (120)	\$ 1,312
Allowance for returns	2,841	3,561	(1,619)	4,783
Total	<u>\$ 4,176</u>	<u>\$ 3,658</u>	<u>\$ (1,739)</u>	<u>\$ 6,095</u>

COACH, INC.
EXHIBITS TO FORM 10-K
For the Fiscal Year Ended July 2, 2005
Commission File No. 1-16153

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

<u>Exhibit No.</u>	<u>Description</u>
3.1	Amended and Restated Bylaws of Coach, Inc., dated May 3, 2001, which is incorporated herein by reference from Exhibit 3.1 to Coach's Current Report on Form 8-K filed on May 9, 2001
3.2	Articles Supplementary of Coach, Inc., dated May 3, 2001, which is incorporated herein by reference from Exhibit 3.2 to Coach's Current Report on Form 8-K filed on May 9, 2001
3.3	Articles of Amendment of Coach, Inc., dated May 3, 2001, which is incorporated herein by reference from Exhibit 3.3 to Coach's Current Report on Form 8-K filed on May 9, 2001
3.4	Articles of Amendment of Coach, Inc., dated May 3, 2002, which is incorporated by reference from Exhibit 3.4 to Coach's Annual Report on Form 10-K for the fiscal year ended June 29, 2002
3.5	Articles of Amendment of Coach, Inc., dated February 1, 2005, which is incorporated by reference from Exhibit 99.1 to Coach's Current Report on Form 8-K filed on February 2, 2005
4.1	Amended and Restated Rights Agreement, dated as of May 3, 2001, between Coach, Inc. and Mellon Investor Services LLC
4.2	Specimen Certificate for Common Stock of Coach, which is incorporated herein by reference from Exhibit 4.1 to Coach's Registration Statement on Form S-1 (Registration No. 333-39502)
10.1	Revolving Credit Agreement by and between Coach, certain lenders and Fleet National Bank, which is incorporated by reference from Exhibit 10.1 to Coach's Annual Report on Form 10-K for the fiscal year ended July 3, 2004
10.2	Master Separation Agreement between Coach and Sara Lee, which is incorporated herein by reference from Exhibit 2.1 to Coach's Registration Statement on Form S-1 (Registration No. 333-39502)
10.3	Tax Sharing Agreement between Coach and Sara Lee, which is incorporated herein by reference from Exhibit 2.2 to Coach's Registration Statement on Form S-1 (Registration No. 333-39502)
10.4	General Assignment and Assumption Agreement between Coach and Sara Lee, which is incorporated herein by reference from Exhibit 2.3 to Coach's Registration Statement on Form S-1 (Registration No. 333-39502)
10.5	Employee Matters Agreement between Coach and Sara Lee, which is incorporated by reference herein from Exhibit 2.4 to Coach's Form 10-Q for the quarterly period ended September 30, 2000, filed with the Commission on November 14, 2000
10.6	Real Estate Matters Agreement between Coach and Sara Lee, which is incorporated herein by reference from Exhibit 2.5 to Coach's Registration Statement on Form S-1 (Registration No. 333-39502)
10.7	Master Transitional Services Agreement between Coach and Sara Lee, which is incorporated herein by reference from Exhibit 2.6 to Coach's Registration Statement on Form S-1 (Registration No. 333-39502)
10.8	Indemnification and Insurance Matters Agreement between Coach and Sara Lee, which is incorporated herein by reference from Exhibit 2.7 to Coach's Registration Statement on Form S-1 (Registration No. 333-39502)
10.9	Lease Indemnification and Reimbursement Agreement between Sara Lee and Coach, which is incorporated herein by reference from Exhibit 2.10 to Coach's Registration Statement on Form S-1 (Registration No. 333-39502)
10.10	Coach, Inc. 2000 Stock Incentive Plan, which is incorporated by reference from Exhibit 10.10 to Coach's Annual Report on Form 10-K for the fiscal year ended June 28, 2003
10.11	Coach, Inc. Executive Deferred Compensation Plan, which is incorporated by reference from Exhibit 10.11 to Coach's Annual Report on Form 10-K for the fiscal year ended June 28, 2003

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Exhibit No.	Description
10.12	Coach, Inc. Performance-Based Annual Incentive Plan, which is incorporated by reference from Appendix C to the Registrant's Definitive Proxy Statement for the 2001 Annual Meeting of Stockholders, filed on October 4, 2001
10.13	Coach, Inc. 2000 Non-Employee Director Stock Plan, which is incorporated by reference from Exhibit 10.13 to Coach's Annual Report on Form 10-K for the fiscal year ended June 28, 2003
10.14	Coach, Inc. Non-Qualified Deferred Compensation Plan for Outside Directors, which is incorporated by reference from Exhibit 10.14 to Coach's Annual Report on Form 10-K for the fiscal year ended June 28, 2003
10.15	Coach, Inc. 2001 Employee Stock Purchase Plan, which is incorporated by reference from Exhibit 10.15 to Coach's Annual Report on Form 10-K for the fiscal year ended June 29, 2002
10.16	Jacksonville, FL Lease Agreement, which is incorporated herein by reference from Exhibit 10.6 to Coach's Registration Statement on Form S-1 (Registration No. 333-39502)
10.17	New York, NY Lease Agreement, which is incorporated herein by reference from Exhibit 10.7 to Coach's Registration Statement on Form S-1 (Registration No. 333-39502)
10.18	Coach, Inc. 2004 Stock Incentive Plan, which is incorporated by reference from Appendix A to the Registrant's Definitive Proxy Statement for the 2004 Annual Meeting of Stockholders, filed on September 29, 2004
10.19	Stock Purchase Agreement, dated April 25, 2005, among Coach, Coach Japan Holdings, Inc., Coach Japan, Inc., Coach Japan Investments, Inc. and Sumitomo Corporation, which is incorporated by reference from Exhibit 10.1 to Coach's Quarterly Report on Form 10-Q for the Period Ended April 2, 2005
10.20	Employment Agreement dated June 1, 2003 between Coach and Lew Frankfort, which is incorporated by reference from Exhibit 10.20 to Coach's Annual Report on Form 10-K for the fiscal year ended June 28, 2003
10.21	Employment Agreement dated June 1, 2003 between Coach and Reed Krakoff, which is incorporated by reference from Exhibit 10.21 to Coach's Annual Report on Form 10-K for the fiscal year ended June 28, 2003
10.22	Employment Agreement dated June 1, 2003 between Coach and Keith Monda, which is incorporated by reference from Exhibit 10.22 to Coach's Annual Report on Form 10-K for the fiscal year ended June 28, 2003
10.23	Amendment to Employment Agreement, dated August 22, 2005, between Coach and Lew Frankfort
10.24	Amendment to Employment Agreement, dated August 22, 2005, between Coach and Reed Krakoff
10.25	Amendment to Employment Agreement, dated August 22, 2005, between Coach and Keith Monda
21.1	List of Subsidiaries of Coach
23.1	Consent of Deloitte & Touche LLP
31.1	Rule 13(a)-14(a)/15(d)-14(a) Certifications
32.1	Section 1350 Certifications

(b) Reports on Form 8-K

Current Report on Form 8-K, filed with the Commission on August 4, 2004. This report contained the Company's preliminary earnings result for the fourth quarter of, and full year for, fiscal year 2004.

Current Report on Form 8-K, filed with the Commission on October 13, 2004. This report contained a description of actions taken by the Company to amend and restate the Rights Agreement dated as of May 3, 2001 between Coach and Mellon Investor Services LLC.

Current Report on Form 8-K, filed with the Commission on October 26, 2004. This report contained the Company's preliminary earnings result for the first quarter of fiscal year 2005.

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Current Report on Form 8-K, filed with the Commission on January 12, 2005. This report contained the Company's preliminary sales results for the second quarter and first half of fiscal year 2005.

Current Report on Form 8-K, filed with the Commission on January 25, 2005. This report contained the Company's preliminary earnings results for the second quarter and first half of fiscal year 2005.

Current Report on Form 8-K, filed with the Commission on February 25, 2005. This report announced the appointment of a new member of the Company's board of directors.

Current Report on Form 8-K, filed with the Commission on April 26, 2005. This report contained the Company's preliminary earnings results for the third quarter and first nine months of fiscal year 2005.

Current Report on Form 8-K/ A, filed with the Commission on May 17, 2005. This report announced the appointment of Mr. Menezes to the Audit Committee and the Human Resources and Governance Committee of the Board.

Current Report on Form 8-K, filed with the Commission on July 7, 2005. This report announced the completion of the Company's purchase of Sumitomo's 50% ownership interest in Coach Japan, Inc.

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Coach, Inc.

and

Mellon Investor Services LLC

as Rights Agent

First Amended and Restated Rights Agreement

Dated as of February 2, 2005

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FIRST AMENDED AND RESTATED RIGHTS AGREEMENT

First Amended and Restated Rights Agreement, dated as of February 2, 2005, between Coach, Inc., a Maryland corporation (the "Company"), and Mellon Investor Services LLC, a New Jersey limited liability company, as Rights Agent (the "Rights Agent").

RECITALS

WHEREAS, the Company and the Rights Agent entered into a Rights Agreement, dated as of May 3, 2001 (the "Original Rights Agreement").

WHEREAS, on May 3, 2001, the Board of Directors of the Company authorized and declared a dividend of one right (a "Right") for each Common Share (as defined in Section 1.6) of the Company outstanding at the close of business on May 22, 2001 (the "Record Date") and has authorized and directed the issuance of one Right (subject to adjustment as provided herein) with respect to each Common Share that shall become outstanding between the Record Date and the earliest of the Distribution Date and the Expiration Date (as such terms are defined in Sections 3.1 and 7.1), each Right initially representing the right to purchase one Common Share of the Company, upon the terms and subject to the conditions hereinafter set forth PROVIDED, HOWEVER, that Rights may be issued with respect to Common Shares that shall become outstanding after the Distribution Date and prior to the Expiration Date in accordance with Section 22.

WHEREAS, on October 12, 2004, the Board of Directors of the Company approved certain amendments to the Original Rights Agreement, and authorized the amendment and restatement of the Original Rights Agreement as set forth in this Agreement.

NOW, THEREFORE, in consideration of the premises and the mutual agreements herein set forth, the parties hereby agree as follows:

Section 1. Certain Definitions. For purposes of this Agreement, the following terms have the meanings indicated:

1.1. "Acquiring Person" shall mean any Person (as such term is hereinafter defined) who or which, together with all Affiliates and Associates (as such terms are hereinafter defined) of such Person, shall be the Beneficial Owner (as such term is hereinafter defined) of 10% or more of the Common Shares of the Company then outstanding but shall not include (i) an Exempt Person or (ii) any Existing Holder, unless and until such time as such Existing Holder shall become the Beneficial Owner of (A) 15% or more of the Common Shares of the Company then outstanding or (B) less than 10% of the Common Shares of the Company then outstanding. "Existing Holder" shall mean Fidelity Management & Research and Wellington Management Company, LLP, together with all of their respective Affiliates and Associates. Notwithstanding the foregoing, no Person shall become an "Acquiring Person" as the result of an acquisition of Common Shares by the Company which, by reducing the number of shares outstanding, increases the proportionate number of shares beneficially owned by such Person to 10% (or, in the case of an Existing Holder, 15%) or more of the Common Shares of the Company then outstanding; PROVIDED, HOWEVER, that if a Person shall become the Beneficial Owner of 10% (or, in the case of an Existing Holder, 15%)

or more of the Common Shares of

the Company then outstanding solely by reason of share purchases by the Company and shall, after such share purchases by the Company, become the Beneficial Owner of one or more additional Common Shares of the Company, then such Person shall be deemed to be an "Acquiring Person." Notwithstanding the foregoing, if the Board of Directors of the Company determines in good faith that a Person who would otherwise be an "Acquiring Person," as defined pursuant to the foregoing provisions of this Section 1.1, has become such inadvertently (including, without limitation, because (A) such Person was unaware that it beneficially owned a percentage of Common Stock that would otherwise cause such Person to be an "Acquiring Person" or (B) such Person was aware of the extent of its Beneficial Ownership of Common Stock but had no actual knowledge of the consequences of such Beneficial Ownership under this Agreement), and in any such case without any intention of changing or influencing control of the Company, and such Person divests as promptly as practicable a sufficient number of Common Shares so that such Person would no longer be an Acquiring Person, as defined pursuant to the foregoing provisions of this Section 1.1, then such Person shall not be deemed to be or have become an "Acquiring Person" at any time for any purposes of this Agreement. For all purposes of this Agreement, any calculation of the number of Common Shares outstanding at any particular time, including for purposes of determining the particular percentage of such outstanding Common Shares of which any Person is the Beneficial Owner, shall be made in accordance with the last sentence of Rule 13d-3(d)(1)(i) of the General Rules and Regulations under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as in effect on the date of this Agreement.

1.2. "Affiliate" and "Associate" shall have the respective meanings ascribed to such terms in Rule 12b-2 of the General Rules and Regulations, under the Exchange Act, as in effect on the date of this Agreement.

1.3. A Person shall be deemed the "Beneficial Owner" of and shall be deemed to "beneficially own" any securities:

(i) which such Person or any of such Person's Affiliates or Associates beneficially owns, directly or indirectly (as determined pursuant to Rule 13d-3 of the General Rules and Regulations under the Exchange Act as in effect on the date of this Agreement);

(ii) which such Person or any of such Person's Affiliates or Associates, directly or indirectly, has (A) the right to acquire (whether such right is exercisable immediately, or only after the passage of time, compliance with regulatory requirements, fulfillment of a condition or otherwise) pursuant to any agreement, arrangement or understanding, whether or not in writing (other than customary agreements with and between underwriters and selling group members with respect to a bona fide public offering of securities), or upon the exercise of conversion rights, exchange rights, rights, warrants or options, or otherwise; PROVIDED, HOWEVER, that a Person shall not be deemed the Beneficial Owner of, or to beneficially own, (w) securities tendered pursuant to a tender or exchange offer made by or on behalf of such Person or any of such Person's Affiliates or Associates until such tendered securities are accepted for purchase or exchange, (x) securities which such Person has a right to acquire upon the exercise of Rights at any time prior to the time that any Person becomes an Acquiring Person, (y) securities issuable upon the exercise

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of Rights from and after the time that any Person becomes an Acquiring Person if such Rights were acquired by such Person or any of such Person's Affiliates or Associates prior to the Distribution Date or pursuant to Section 3.1 or Section 22 ("Original Rights") or pursuant to Section 11.9 or Section 11.15 with respect to an adjustment to Original Rights or (z) securities which such Person or any of such Person's Affiliates or Associates may acquire, does or do acquire or may be deemed to acquire or may be deemed to have the right to acquire, pursuant to any merger or other acquisition agreement between the Company and such Person (or one or more of such Person's Affiliates or Associates) if prior to such Person becoming a Acquiring Person the Board of Directors of the Company has approved such agreement and determined that such Person shall not be or be deemed to be the beneficial owner of such securities within the meaning of this Section 1.3; or (B) the right to vote pursuant to any agreement, arrangement or

understanding (whether or not in writing); PROVIDED, HOWEVER, that a Person shall not be deemed the Beneficial Owner of, or to beneficially own, any security under this clause (B) if the agreement, arrangement or understanding to vote such security (1) arises solely from a revocable proxy or consent given to such Person in response to a public proxy or consent solicitation made pursuant to, and in accordance with, the applicable rules and regulations of the Exchange Act and (2) is not also then reportable on Schedule 13D under the Exchange Act (or any comparable or successor report); or

(iii) which are beneficially owned, directly or indirectly, by any other Person (or any Affiliate or Associate thereof) and with respect to which such Person or any of such Person's Affiliates or Associates has any agreement, arrangement or understanding (other than customary agreements with and between underwriters and selling group members with respect to a bona fide public offering of securities), whether or not in writing, for the purpose of acquiring, holding, voting (except pursuant to a revocable proxy or consent as described in the proviso to Section 1.3(ii)(B)) or disposing of any securities of the Company; PROVIDED, HOWEVER, that no Person who is an officer, director or employee of an Exempt Person shall be deemed, solely by reason of such Person's status or authority as such, to be the "Beneficial Owner" of, to have "Beneficial Ownership" of or to "beneficially own" any securities that are "beneficially owned" (as defined in this Section 1.3), including, without limitation, in a fiduciary capacity, by an Exempt Person or by any other such officer, director or employee of an Exempt Person.

1.4. "Business Day" shall mean any day other than a Saturday, Sunday, or a day on which banking institutions in the State of New York are authorized or obligated by law or executive order to close.

1.5. "close of business" on any given date shall mean 5:00 p.m., New York time, on such date; PROVIDED, HOWEVER, that if such date is not a Business Day it shall mean 5:00 p.m., New York time, on the next succeeding Business Day.

1.6. "Common Shares" when used with reference to the Company shall mean the shares of common stock, \$0.01 par value per share, of the Company. "Common Shares" when used with reference to any Person other than the Company shall mean the capital stock with the greatest voting power, or the equity securities or other equity interest having power to control or direct the management, of such other Person or, if such Person is a Subsidiary (as

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such term is hereinafter defined) of another Person, the Person or Persons which ultimately control such first-mentioned Person, and which has issued and outstanding such capital stock, equity securities or equity interest.

1.7. "Exempt Person" shall mean the Company, any Subsidiary of the Company, in each case including, without limitation, its fiduciary capacity, or any employee benefit plan of the Company or of any Subsidiary of the Company or any entity or trustee holding shares of capital stock of the Company for or pursuant to the terms of any such plan, or for the purpose of funding other employee benefits for employees of the Company or any Subsidiary of the Company.

1.8. "Person" shall mean any individual, partnership, joint venture, limited liability company, firm, corporation, unincorporated association, trust or other entity, and shall include any successor (by merger or otherwise) of such entity.

1.9. "Shares Acquisition Date" shall mean the first date of public announcement (which, for purposes of this definition, shall include, without limitation, the filing of a report pursuant to Section 13(d) of the Exchange Act or pursuant to a comparable successor statute) by the Company or an Acquiring Person that an Acquiring Person has become such or that discloses information which reveals the existence of an Acquiring Person or such earlier date as a majority of the Board of Directors shall become aware of the existence of an Acquiring Person.

1.10. "Subsidiary" of any Person shall mean any corporation or other entity of which a majority of the voting power of the voting equity securities or equity interests is owned, of record or beneficially, directly or indirectly, by such Person.

1.11. A "Trigger Event" shall be deemed to have occurred upon any

Person becoming an Acquiring Person.

1.12. The following terms shall have the meanings defined for such terms in the Sections set forth below:

Term ----	Section -----
Adjustment Shares	11.1.2
common stock equivalent	11.1.3
Company	Recitals
current per share market price	11.4
Current Value	11.1.3
Distribution Date	3.1
Exchange Act	1.1
Exchange Consideration	27
Existing Holder	1.1
Expiration Date	7.1
Final Expiration Date	7.1
Nasdaq	9
Original Rights	1.3

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Principal Party	13.2
Purchase Price	4
Record Date	Recitals
Redemption Date	7.1
Redemption Price	23.1
Right	Recitals
Right Certificate	3.1
Rights Agent	Recitals
Security	11.4
Spread	11.1.3
Substitution Period	11.1.3
Summary of Rights	3.2
Trading Day	11.4

Section 2. Appointment of Rights Agent. The Company hereby appoints the Rights Agent to act as agent for the Company in accordance with the terms and conditions hereof, and the Rights Agent hereby accepts such appointment. The Company may from time to time appoint such co-Rights Agents as it may deem necessary or desirable. In the event the Company appoints one or more co-Rights Agents, the respective duties of the Rights Agent and any co-Rights Agent shall be as the Company shall determine. Contemporaneously with such appointment, if any, the Company shall notify the Rights Agent thereof. Notwithstanding the foregoing, the Rights Agent shall have no duty to supervise, and in no event shall be liable for, the acts or omissions of any such co-Rights Agent.

Section 3. Issuance of Right Certificates.

3.1. Rights Evidenced by Share Certificates. Until the earlier of the close of business on (i) the tenth day after the Shares Acquisition Date or (ii) the tenth Business Day after the date of the commencement of, or first public announcement of the intent of any Person (other than an Exempt Person) to commence, a tender or exchange offer the consummation of which would result in any Person (other than an Exempt Person) becoming the Beneficial Owner of Common Shares aggregating 10% or more of the then outstanding Common Shares of the Company (the earlier of (i) and (ii) being herein referred to as the "Distribution Date"), (x) the Rights (unless earlier expired, redeemed or terminated) will be evidenced (subject to the provisions of Section 3.2) by the certificates for Common Shares registered in the names of the holders thereof (which certificates for Common Shares shall also be deemed to be Right Certificates) and not by separate certificates, and (y) the Rights (and the right to receive certificates therefor) will be transferable only in connection

with the transfer of the underlying Common Shares. The preceding sentence notwithstanding, prior to the occurrence of a Distribution Date specified as a result of an event described in clause (ii) (or such later Distribution Date as the Board of Directors of the Company may select pursuant to this sentence), the Board of Directors may postpone, one or more times, the Distribution Date which would occur as a result of an event described in clause (ii) beyond the date set forth in such clause (ii). The Company shall promptly notify the Rights Agent in writing of any such postponement. Nothing herein shall permit such a postponement of a Distribution Date after a Person becomes an Acquiring Person, except as a result of the operation of the third sentence of Section 1.1 or as permitted by Section 23.1. As soon as practicable after the Distribution Date,

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the Company will prepare and execute, the Rights Agent will countersign and the Company (or, if requested and provided with all necessary information, the Rights Agent) will send, by first-class, postage-prepaid mail, to each record holder of Common Shares as of the close of business on the Distribution Date (other than any Acquiring Person or any Associate or Affiliate of an Acquiring Person), at the address of such holder shown on the records of the Company, one or more certificates for Rights, in substantially the form of Exhibit A hereto (a "Right Certificate"), evidencing one Right (subject to adjustment as provided herein) for each Common Share so held. As of the Distribution Date, the Rights will be evidenced solely by such Right Certificates.

3.2. Summary of Rights. On the Record Date or as soon as practicable thereafter, the Company sent or caused to be sent a copy of a Summary of Rights to Purchase Common Shares, in substantially the form attached as Exhibit B to the Original Rights Agreement (the "Summary of Rights"), by first-class, postage-prepaid mail, to each record holder of Common Shares as of the close of business on the Record Date at the address of such holder shown on the records of the Company. With respect to certificates for Common Shares outstanding as of the close of business on the Record Date, until the Distribution Date (or the earlier Expiration Date), the Rights will be evidenced by such certificates for Common Shares registered in the names of the holders thereof together with a copy of the Summary of Rights and the registered holders of the Common Shares shall also be registered holders of the associated Rights. Until the Distribution Date (or the earlier Expiration Date), the surrender for transfer of any certificate for Common Shares outstanding at the close of business on the Record Date, with or without a copy of the Summary of Rights, shall also constitute the transfer of the Rights associated with the Common Shares represented thereby.

3.3. New Certificates After Record Date. Certificates for Common Shares which become outstanding (whether upon issuance out of authorized but unissued Common Shares or transfer or exchange of outstanding Common Shares) after the Record Date but prior to the earliest of the Distribution Date or the Expiration Date, shall have impressed, printed, stamped, written or otherwise affixed onto them the following legend:

This certificate also evidences and entitles the holder hereof to certain rights as set forth in an Agreement between Coach, Inc. (the "Company") and Mellon Investor Services LLC, as Rights Agent, dated as of May 3, 2001, as the same may be amended from time to time (the "Agreement"), the terms of which are hereby incorporated herein by reference and a copy of which is on file at the principal executive offices of the Company. Under certain circumstances, as set forth in the Agreement, such Rights will be evidenced by separate certificates and will no longer be evidenced by this certificate. The Company will mail to the holder of this certificate a copy of the Agreement without charge after receipt of a written request therefor. AS DESCRIBED IN THE AGREEMENT, RIGHTS WHICH ARE OWNED BY, TRANSFERRED TO OR HAVE BEEN OWNED BY ACQUIRING PERSONS OR ASSOCIATES OR AFFILIATES THEREOF (AS DEFINED IN THE AGREEMENT) SHALL BECOME NULL AND VOID AND WILL NO LONGER BE TRANSFERABLE.

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With respect to such certificates containing the foregoing legend, until the Distribution Date (or the earlier Expiration Date), the Rights associated with the Common Shares represented by such certificates shall be evidenced by such certificates alone, and the surrender for transfer of any such certificates, except as otherwise provided herein, shall also constitute the transfer of the

Rights associated with the Common Shares represented thereby. In the event that the Company purchases or acquires any Common Shares after the Record Date but prior to the Distribution Date, any Rights associated with such Common Shares shall be deemed canceled and retired so that the Company shall not be entitled to exercise any Rights associated with the Common Shares which are no longer outstanding.

Notwithstanding this Section 3.3, the omission of a legend shall not affect the enforceability of any part of this Agreement or the rights of any holder of the Rights.

Section 4. Form of Right Certificates. The Right Certificates (and the forms of election to purchase shares, certification and assignment to be printed on the reverse thereof) shall be substantially the same as Exhibit A hereto and may have such marks of identification or designation and such legends, summaries or endorsements printed thereon as the Company may deem appropriate (but which do not affect the rights, duties or responsibilities of the Rights Agent) and as are not inconsistent with the provisions of this Agreement, or as may be required to comply with any applicable law or with any rule or regulation made pursuant thereto or with any rule or regulation of any stock exchange or trading system on which the Rights may from time to time be listed or quoted, or to conform to usage. Subject to the terms and conditions hereof, the Right Certificates, whenever issued, shall be dated as of the Record Date, and shall show the date of countersignature by the Rights Agent, and on their face shall entitle the holders thereof to purchase such number of Common Shares as shall be set forth therein at the price per Common Share set forth therein (the "Purchase Price"), but the number of such Common Shares and the Purchase Price shall be subject to adjustment as provided herein.

Section 5. Countersignature and Registration. The Right Certificates shall be executed on behalf of the Company by its Chairman of the Board of Directors, the Chief Executive Officer, President or any Vice President, either manually or by facsimile signature, and shall have affixed thereto the Company's seal or a facsimile thereof which shall be attested by the Secretary or any Assistant Secretary, or the Treasurer or any Assistant Treasurer, of the Company, either manually or by facsimile signature. The Right Certificates shall be countersigned, either manually or by facsimile signature, by an authorized signatory of the Rights Agent, but it shall not be necessary for the same signatory to countersign all of the Right Certificates hereunder. No Right Certificate shall be valid for any purpose unless so countersigned. In case any officer of the Company who shall have signed any of the Right Certificates shall cease to be such officer of the Company before countersignature by the Rights Agent and issuance and delivery by the Company, such Right Certificates, nevertheless, may be countersigned by the Rights Agent, and issued and delivered by the Company with the same force and effect as though the person who signed such Right Certificates had not ceased to be such officer of the Company; and any Right Certificate may be signed on behalf of the Company by any person who, at the actual date of the execution of such Right Certificate, shall be a proper officer of the Company to sign such Right Certificate, although at the date of the execution of this Agreement any such person was not such an officer.

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Following the Distribution Date and receipt by the Rights Agent of all necessary information, the Rights Agent will keep or cause to be kept, at its office designated for such purpose, books for registration and transfer of the Right Certificates issued hereunder. Such books shall show the names and addresses of the respective holders of the Right Certificates, the number of Rights evidenced on its face by each of the Right Certificates, the certificate number of each of the Right Certificates and the date of each of the Right Certificates.

Section 6. Transfer, Split Up, Combination and Exchange of Right Certificates; Mutilated, Destroyed, Lost or Stolen Right Certificates. Subject to the provisions of Section 11.1.2 and Section 14, at any time after the close of business on the Distribution Date, and at or prior to the close of business on the Expiration Date, any Right Certificate or Right Certificates (other than Right Certificates representing Rights that have become null and void pursuant to Section 11.1.2 or that have been exchanged pursuant to Section 27) may be transferred, split up or combined or exchanged for another Right Certificate or Right Certificates, entitling the registered holder to purchase a like number of Common Shares as the Right Certificate or Right Certificates surrendered then entitled such holder to purchase. Any registered holder desiring to transfer, split up or combine or exchange any Right Certificate shall make such request in

writing delivered to the Rights Agent, and shall surrender, together with any required form of assignment and certificate duly completed, the Right Certificate or Right Certificates to be transferred, split up or combined or exchanged at the office of the Rights Agent designated for such purpose. Neither the Rights Agent nor the Company shall be obligated to take any action whatsoever with respect to the transfer of any such surrendered Right Certificate or Right Certificates until the registered holder shall have properly completed and signed the certificate contained in the form of assignment on the reverse side of such Right Certificate or Right Certificates and shall have provided such additional evidence of the identity of the Beneficial Owner (or former Beneficial Owner) or Affiliates or Associates thereof as the Company or the Rights Agent shall reasonably request. Thereupon the Rights Agent shall countersign and deliver to the person entitled thereto a Right Certificate or Right Certificates, as the case may be, as so requested. The Company may require payment from the holders of Right Certificates of a sum sufficient to cover any tax or governmental charge that may be imposed in connection with any transfer, split up or combination or exchange of such Right Certificates. The Rights Agent shall have no duty or obligation to take any action under any Section of this Agreement which requires the payment by a Rights holder of applicable taxes and governmental charges unless and until the Rights Agent is satisfied that all such taxes and/or charges have been paid.

Subject to the provisions of Section 11.1.2 , at any time after the Distribution Date and prior to the Expiration Date, upon receipt by the Company and the Rights Agent of evidence reasonably satisfactory to them of the loss, theft, destruction or mutilation of a Right Certificate, and, in case of loss, theft or destruction, of indemnity or security satisfactory to them, and, at the Company's or the Rights Agent's request, reimbursement to the Company and the Rights Agent of all reasonable expenses incidental thereto, and upon surrender to the Rights Agent and cancellation of the Right Certificate if mutilated, the Company will make and deliver a new Right Certificate of like tenor to the Rights Agent for countersignature and delivery to the registered owner in lieu of the Right Certificate so lost, stolen, destroyed or mutilated.

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Section 7. Exercise of Rights; Purchase Price; Expiration Date of Rights.

7.1. Exercise of Rights. Subject to Section 11.1.2 and except as otherwise provided herein, the registered holder of any Right Certificate may exercise the Rights evidenced thereby in whole or in part at any time after the Distribution Date upon surrender of the Right Certificate, with the form of election to purchase and certification on the reverse side thereof duly executed, to the Rights Agent at the office of the Rights Agent designated for such purpose, together with payment of the aggregate Purchase Price for each Common Share (or other securities, cash or other assets) as to which the Rights are exercised, at or prior to the time (the "Expiration Date") that is the earliest of (i) the close of business on May 2, 2011 (the "Final Expiration Date"), (ii) the time at which the Rights are redeemed as provided in Section 23 (the "Redemption Date"), (iii) the closing of any merger or other acquisition transaction involving the Company pursuant to an agreement of the type described in Section 13.3, at which time the Rights are deemed terminated, or (iv) the time at which the Rights are exchanged as provided in Section 27.

7.2. Purchase. The Purchase Price for each Common Share pursuant to the exercise of a Right shall be initially \$170.00, shall be subject to adjustment from time to time as provided in Sections 11, 13 and 26 and shall be payable in lawful money of the United States of America in accordance with Section 7.3.

7.3. Payment Procedures. Upon receipt of a Right Certificate representing exercisable Rights, with the form of election to purchase and certification duly executed, accompanied by payment of the aggregate Purchase Price for the total number of Common Shares to be purchased and an amount equal to any applicable tax or charge required to be paid by the holder of such Right Certificate in accordance with Section 9, in cash or by certified or cashier's check or money order payable to the order of the Company, the Rights Agent shall thereupon promptly (i) (A) requisition from any transfer agent of the Common Shares (or make available, if the Rights Agent is the transfer agent) certificates for the number of Common Shares to be purchased and the Company hereby irrevocably authorizes its transfer agent to comply with all such requests, or (B) if the Company shall have elected to deposit the total number of Common Shares issuable upon exercise of the Rights hereunder with a depository agent, requisition from the depository agent depository receipts

representing interests in such number of Common Shares as are to be purchased (in which case certificates for the Common Shares represented by such receipts shall be deposited by the transfer agent with the depository agent) and the Company hereby directs the depository agent to comply with all such requests, (ii) when appropriate, requisition from the Company the amount of cash to be paid in lieu of the issuance of fractional shares in accordance with Section 14 or otherwise in accordance with Section 11.1.3, (iii) promptly after receipt of such certificates or depository receipts, cause the same to be delivered to or upon the order of the registered holder of such Right Certificate, registered in such name or names as may be designated by such holder and (iv) when appropriate, after receipt, promptly deliver such cash to or upon the order of the registered holder of such Right Certificate. In the event that the Company is obligated to issue other securities of the Company, pay cash and/or distribute other property pursuant to Section 11.1.3, the Company will make all arrangements necessary so that such other securities, cash and/or other property are available for distribution by the Rights Agent, if and when necessary to comply with this Agreement.

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7.4. Partial Exercise. In case the registered holder of any Right Certificate shall exercise less than all the Rights evidenced thereby, a new Right Certificate evidencing Rights equivalent to the Rights remaining unexercised shall be issued by the Rights Agent and delivered to the registered holder of such Right Certificate or to his duly authorized assigns, subject to the provisions of Section 14.

7.5. Full Information Concerning Ownership. Notwithstanding anything in this Agreement to the contrary, neither the Rights Agent nor the Company shall be obligated to undertake any action with respect to a registered holder of Rights upon the occurrence of any purported exercise as set forth in this Section 7 unless the certificate contained in the form of election to purchase set forth on the reverse side of the Right Certificate surrendered for such exercise shall have been duly and properly completed and signed by the registered holder thereof and the Company shall have been provided with such additional evidence of the identity of the Beneficial Owner (or former Beneficial Owner) or Affiliates or Associates thereof as the Company or the Rights Agent shall reasonably request.

Section 8. Cancellation and Destruction of Right Certificates. All Right Certificates surrendered for the purpose of exercise, transfer, split up, combination or exchange shall, if surrendered to the Company or to any of its agents, be delivered to the Rights Agent for cancellation or in canceled form, or, if surrendered to the Rights Agent, shall be canceled by it, and no Right Certificates shall be issued in lieu thereof except as expressly permitted by any of the provisions of this Agreement. The Company shall deliver to the Rights Agent for cancellation and retirement, and the Rights Agent shall so cancel and retire, any other Right Certificate purchased or acquired by the Company otherwise than upon the exercise thereof. The Rights Agent shall deliver all canceled Right Certificates to the Company, or shall, at the written request of the Company, destroy such canceled Right Certificates, and in such case shall deliver a certificate of destruction thereof to the Company.

Section 9. Reservation and Availability of Capital Stock. The Company covenants and agrees that from and after the Distribution Date it will cause to be reserved and kept available out of its authorized and unissued Common Shares the number of Common Shares (and, following the occurrence of a Trigger Event, Common Shares and/or other securities) that will be sufficient to permit the exercise in full of all outstanding Rights.

So long as the Common Shares (and, following the occurrence of a Trigger Event, Common Shares and/or other securities) issuable upon the exercise of Rights may be listed on any national securities exchange or traded in the over-the-counter market and quoted on the National Association of Securities Dealers, Inc. Automated Quotation System ("Nasdaq") (including the National Market or Small Cap Market), the Company shall use its best efforts to cause, from and after such time as the Rights become exercisable, all shares reserved for such issuance to be listed or admitted to trading on such exchange or quoted on Nasdaq upon official notice of issuance upon such exercise.

The Company covenants and agrees that it will take all such action as may be necessary to ensure that all Common Shares (and, following the occurrence of a Trigger Event, Common Shares and/or other securities) delivered upon exercise of Rights shall, at the time of

delivery of the certificates for such shares (subject to payment of the Purchase Price), be duly and validly authorized and issued and fully paid and nonassessable shares.

From and after such time as the Rights become exercisable, the Company shall use its best efforts, if then necessary to permit the issuance of Common Shares upon the exercise of Rights, to register and qualify such Common Shares under the Securities Act and any applicable state securities or "Blue Sky" laws (to the extent exemptions therefrom are not available), cause such registration statement and qualifications to become effective as soon as possible after such filing and keep such registration and qualifications effective until the earlier of the date as of which the Rights are no longer exercisable for such securities and the Expiration Date. The Company may temporarily suspend, for a period of time not to exceed 90 days, the exercisability of the Rights in order to prepare and file a registration statement under the Securities Act and permit it to become effective. Upon any such suspension, the Company shall issue a public announcement stating that the exercisability of the Rights has been temporarily suspended, as well as a public announcement at such time as the suspension is no longer in effect. The Company shall promptly provide the Rights Agent with copies of such announcements. Notwithstanding any provision of this Agreement to the contrary, the Rights shall not be exercisable in any jurisdiction unless the requisite qualification in such jurisdiction shall have been obtained and until a registration statement under the Securities Act (if required) shall have been declared effective.

The Company further covenants and agrees that it will pay when due and payable any and all taxes and governmental charges which may be payable in respect of the issuance or delivery of the Right Certificates or of any Common Shares (or Common Shares and/or other securities, as the case may be) upon the exercise of Rights. The Company shall not, however, be required to pay any tax or charge which may be payable in respect of any transfer or delivery of Right Certificates to a person other than, or the issuance or delivery of certificates for the Common Shares (or Common Shares and/or other securities, as the case may be) in a name other than that of, the registered holder of the Right Certificate evidencing Rights surrendered for exercise or to issue or deliver any certificates for Common Shares (or Common Shares and/or other securities, as the case may be) in a name other than that of the registered holder upon the exercise of any Rights until any such tax or charge shall have been paid (any such tax or charge being payable by the holder of such Right Certificate at the time of surrender) or until it has been established to the Company's satisfaction that no such tax or charge is due.

Section 10. Common Shares Record Date. Each Person in whose name any certificate for Common Shares (or Common Shares and/or other securities, as the case may be) is issued upon the exercise of Rights shall for all purposes be deemed to have become the holder of record of the Common Shares (or Common Shares and/or other securities, as the case may be) represented thereby on, and such certificate shall be dated, the date upon which the Right Certificate evidencing such Rights was duly surrendered and payment of the Purchase Price (and any applicable taxes and charges) was made; PROVIDED, HOWEVER, that if the date of such surrender and payment is a date upon which the Common Shares (or Common Shares and/or other securities, as the case may be) transfer books of the Company are closed, such person shall be deemed to have become the record holder of such shares (fractional or otherwise) on, and such certificate shall be dated, the next succeeding Business Day on which the Common Shares

(or Common Shares and/or other securities, as the case may be) transfer books of the Company are open.

Section 11. Adjustment of Purchase Price, Number of Shares or Number of Rights. The Purchase Price, the number of Common Shares or other securities or property purchasable upon exercise of each Right and the number of Rights outstanding are subject to adjustment from time to time as provided in this Section 11.

11.1. Post Execution Events.

11.1.1 Corporate Dividends, Reclassifications, Etc. In the event the

Company shall at any time after the date of the Original Rights Agreement (A) declare and pay a dividend on the Common Shares payable in Common Shares, (B) subdivide the outstanding Common Shares, (C) combine the outstanding Common Shares into a smaller number of Common Shares or (D) issue any shares of its capital stock in a reclassification of the Common Shares (including any such reclassification in connection with a consolidation or merger in which the Company is the continuing or surviving corporation), except as otherwise provided in this Section 11.1, the Purchase Price in effect at the time of the record date for such dividend or of the effective date of such subdivision, combination or reclassification, and the number and kind of shares of capital stock issuable on such date, shall be proportionately adjusted so that the holder of any Right exercised after such time shall be entitled to receive the aggregate number and kind of shares of capital stock which, if such Right had been exercised immediately prior to such date and at a time when the Common Shares transfer books of the Company were open, he would have owned upon such exercise and been entitled to receive by virtue of such dividend, subdivision, combination or reclassification; PROVIDED, HOWEVER, that in no event shall the consideration to be paid upon the exercise of one Right be less than the aggregate par value of the shares of capital stock of the Company issuable upon exercise of one Right. If an event occurs which would require an adjustment under both Section 11.1.1 and Section 11.1.2, the adjustment provided for in this Section 11.1.1 shall be in addition to, and shall be made prior to, the adjustment required pursuant to, Section 11.1.2.

11.1.2 Acquiring Person Events; Triggering Events. Subject to Sections 23.1 and 27, in the event that a Trigger Event occurs, then, from and after the first occurrence of such event, each holder of a Right, except as provided below, shall thereafter have a right to receive, upon exercise thereof at a price per Right equal to the then current Purchase Price multiplied by the number of Common Shares for which a Right is then exercisable (without giving effect to this Section 11.1.2), in accordance with the terms of this Agreement, such number of Common Shares as shall equal the result obtained by (x) multiplying the then current Purchase Price by the number of Common Shares for which a Right is then exercisable (without giving effect to this Section 11.1.2) and (y) dividing that product by 50% of the current per share market price of the Common Shares (determined pursuant to Section 11.4) on the first of the date of the occurrence of, or the date of the first public announcement of, a Trigger Event (the "Adjustment Shares"); PROVIDED that the Purchase Price and the number of Adjustment Shares shall thereafter be subject to further adjustment as appropriate in accordance with Section 11.6; PROVIDED, FURTHER, that nothing contained in this Section 11.1.2 shall limit or otherwise diminish the power of the Board of Directors to postpone the Distribution Date pursuant to Section 3.1 or to extend the period during which the Rights may be redeemed pursuant to Section 23.1. Notwithstanding the

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foregoing, upon the occurrence of a Trigger Event, any Rights that are or were acquired or beneficially owned by (1) any Acquiring Person or any Associate or Affiliate thereof, (2) a transferee of any Acquiring Person (or of any such Associate or Affiliate) who becomes a transferee after the Acquiring Person becomes such, or (3) a transferee of any Acquiring Person (or of any such Associate or Affiliate) who becomes a transferee prior to or concurrently with the Acquiring Person becoming such and receives such Rights pursuant to either (A) a transfer (whether or not for consideration) from the Acquiring Person to holders of equity interests in such Acquiring Person or to any Person with whom the Acquiring Person has any continuing agreement, arrangement or understanding regarding the transferred Rights or (B) a transfer which the Board of Directors of the Company has determined is part of a plan, arrangement or understanding which has as a primary purpose or effect avoidance of this Section 11.1.2, and subsequent transferees, shall become null and void without any further action, and any holder (whether or not such holder is an Acquiring Person or an Associate or Affiliate of an Acquiring Person) of such Rights shall thereafter have no right to exercise such Rights under any provision of this Agreement or otherwise. From and after the Trigger Event, no Right Certificate shall be issued pursuant to Section 3 or Section 6 that represents Rights that are or have become null and void pursuant to the provisions of this paragraph, and any Right Certificate delivered to the Rights Agent that represents Rights that are or have become null and void pursuant to the provisions of this paragraph shall be canceled.

The Company shall notify the Rights Agent when this Section 11.1.2 applies and shall use all reasonable efforts to ensure that the provisions of this Section 11.1.2 are complied with, but neither the Company nor the Rights

Agent shall have any liability to any holder of Right Certificates or other Person as a result of the Company's failure to make any determinations with respect to any Acquiring Person or its Affiliates, Associates or transferees hereunder.

From and after the occurrence of an event specified in Section 13.1, any Rights that theretofore have not been exercised pursuant to this Section 11.1.2 shall thereafter be exercisable only in accordance with Section 13 and not pursuant to this Section 11.1.2.

11.1.3 Insufficient Shares. In the event that upon the occurrence of a Trigger Event there shall not be sufficient Common Shares authorized but unissued to permit the exercise in full of the Rights in accordance with the foregoing Section 11.1.2, the Company shall take all such action as may be necessary to authorize additional Common Shares for issuance upon exercise of the Rights, PROVIDED, HOWEVER, that if the Company determines that it is unable to cause the authorization of a sufficient number of additional Common Shares, then, in the event the Rights become exercisable, the Company, with respect to each Right and to the extent necessary and permitted by applicable law and any agreements or instruments in effect on the date of the Original Rights Agreement to which it is a party, shall: (A) determine the excess of (1) the value of the Adjustment Shares issuable upon the exercise of a Right (the "Current Value"), over (2) the Purchase Price (such excess, the "Spread") and (B) with respect to each Right (other than Rights which have become null and void pursuant to Section 11.1.2), make adequate provision to substitute for the Adjustment Shares, upon payment of the applicable Purchase Price, (1) cash, (2) a reduction in the Purchase Price, (3) shares of preferred stock or other equity securities of the Company (including, without limitation, shares, or fractions of shares, of preferred stock which, by virtue of having dividend, voting and liquidation rights

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substantially comparable to those of the Common Shares, the Board of Directors of the Company has deemed in good faith to have substantially the same value as Common Shares) (each such share of preferred stock or fractions of shares of preferred stock constituting a "common stock equivalent")), (4) debt securities of the Company, (5) other assets or (6) any combination of the foregoing having an aggregate value equal to the Current Value, where such aggregate value has been determined by the Board of Directors of the Company based upon the advice of a nationally recognized investment banking firm selected in good faith by the Board of Directors of the Company; PROVIDED, HOWEVER, that if the Company shall not have made adequate provision to deliver value pursuant to clause (B) above within thirty (30) days following the occurrence of a Trigger Event, then the Company shall be obligated to deliver, to the extent necessary and permitted by applicable law and any agreements or instruments in effect on the date of the Original Rights Agreement to which it is a party, upon the surrender for exercise of a Right and without requiring payment of the Purchase Price, Common Shares (to the extent available) and then, if necessary, cash, which shares and/or cash have an aggregate value equal to the Spread. If the Board of Directors of the Company shall determine in good faith that it is unlikely that sufficient additional Common Shares could be authorized for issuance upon exercise in full of the Rights, the thirty (30) day period set forth above may be extended and re-extended to the extent necessary, but not more than ninety (90) days following the occurrence of a Trigger Event, in order that the Company may seek shareholder approval for the authorization of such additional shares (such period as may be extended, the "Substitution Period"). To the extent that the Company determines that some action need be taken pursuant to the second and/or third sentences of this Section 11.1.3, the Company (x) shall provide that such action shall apply uniformly to all outstanding Rights, and (y) may suspend the exercisability of the Rights until the expiration of the Substitution Period in order to seek any authorization of additional shares and/or to decide the appropriate form of distribution to be made pursuant to such first sentence and to determine the value thereof. In the event of any such suspension, the Company shall issue a public announcement stating that the exercisability of the Rights has been temporarily suspended as well as a public announcement at such time as the suspension is no longer in effect and the Company shall promptly provide the Rights Agent copies of such announcements. For purposes of this Section 11.1.3, the value of a Common Share shall be the current per share market price (as determined pursuant to Section 11.4) on the date of the occurrence of a Trigger Event and the value of any "common stock equivalent" shall be deemed to have the same value as the Common Shares on such date. The Board of Directors of the Company may, but shall not be required to, establish procedures to allocate the right to receive Common Shares upon the

exercise of the Rights among holders of Rights pursuant to this Section 11.1.3.

11.2. Dilutive Rights Offering. In case the Company shall fix a record date for the issuance of rights, options or warrants to all holders of Common Shares entitling them (for a period expiring within 45 calendar days after such record date) to subscribe for or purchase Common Shares (or securities convertible into Common Shares or common stock equivalents) at a price per Common Share (or having a conversion or exercise price per Common Share, if a security convertible into or exercisable for Common Shares or common stock equivalents) less than the current per share market price of the Common Shares (as determined pursuant to Section 11.4) on such record date, the Purchase Price to be in effect after such record date shall be determined by multiplying the Purchase Price in effect immediately prior to such record date by a fraction, the numerator of which shall be the number of Common Shares or common stock equivalents outstanding on such record date plus the number of Common Shares or common

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stock equivalents which the aggregate offering price of the total number of Common Shares or common stock equivalents to be offered (and/or the aggregate initial conversion price of the convertible securities so to be offered) would purchase at such current per share market price and the denominator of which shall be the number of Common Shares or common stock equivalents outstanding on such record date plus the number of additional Common Shares or common stock equivalents to be offered for subscription or purchase (or into which the convertible securities so to be offered are initially convertible); PROVIDED, HOWEVER, that in no event shall the consideration to be paid upon the exercise of one Right be less than the aggregate par value of the shares of capital stock of the Company issuable upon exercise of one Right. In case such subscription price may be paid in a consideration part or all of which shall be in a form other than cash, the value of such consideration shall be as determined in good faith by the Board of Directors of the Company, whose determination shall be described in a statement filed with the Rights Agent and shall be binding on the Rights Agent and the holders of the Rights. Common Shares and/or common stock equivalents owned by or held for the account of the Company or any Subsidiary of the Company shall not be deemed outstanding for the purpose of any such computation. Such adjustments shall be made successively whenever such a record date is fixed; and in the event that such rights or warrants are not so issued, the Purchase Price shall be adjusted to be the Purchase Price which would then be in effect if such record date had not been fixed.

11.3. Distributions. In case the Company shall fix a record date for the making of a distribution to all holders of the Common Shares (including any such distribution made in connection with a consolidation or merger in which the Company is the continuing or surviving corporation) of evidences of indebtedness, cash, securities or assets (other than a regular periodic cash dividend at a rate not in excess of 125% of the rate of the last regular periodic cash dividend theretofore paid or, in case regular periodic cash dividends have not theretofore been paid, at a rate not in excess of 50% of the average net income per share of the Company for the four quarters ended immediately prior to the payment of such dividend, or a dividend payable in Common Shares (which dividend, for purposes of this Agreement, shall be subject to the provisions of Section 11.1.1(A)) or convertible securities, or subscription rights or warrants (excluding those referred to in Section 11.2), the Purchase Price to be in effect after such record date shall be determined by multiplying the Purchase Price in effect immediately prior to such record date by a fraction, the numerator of which shall be the current per share market price of the Common Shares (as determined pursuant to Section 11.4) on such record date, less the fair market value (as determined in good faith by the Board of Directors of the Company, whose determination shall be described in a statement filed with the Rights Agent) of the portion of the cash, assets, securities or evidences of indebtedness so to be distributed or of such subscription rights or warrants applicable to one Common Share and the denominator of which shall be such current per share market price of the Common Shares (as determined pursuant to Section 11.4); PROVIDED, HOWEVER, that in no event shall the consideration to be paid upon the exercise of one Right be less than the aggregate par value of the shares of capital stock of the Company to be issued upon exercise of one Right. Such adjustments shall be made successively whenever such a record date is fixed; and in the event that such distribution is not so made, the Purchase Price shall again be adjusted to be the Purchase Price which would then be in effect if such record date had not been fixed.

11.4. Current Per Share Market Value. For the purpose of any

hereunder, the "current per share market price" of any security (a "Security" for the purpose of this Section 11.4) on any date shall be deemed to be the average of the daily closing prices per share of such Security for the thirty (30) consecutive Trading Days (as such term is hereinafter defined) immediately prior to but not including such date; PROVIDED, HOWEVER, that in the event that the current per share market price of the Security is determined during any period following the announcement by the issuer of such Security of (i) a dividend or distribution on such Security payable in shares of such Security or securities convertible into such shares or (ii) any subdivision, combination or reclassification of such Security, and prior to the expiration of thirty (30) Trading Days after but not including the ex-dividend date for such dividend or distribution, or the record date for such subdivision, combination or reclassification, then, and in each such case, the "current per share market price" shall be appropriately adjusted to reflect the current market price per share equivalent of such Security. The closing price for each day shall be the last sale price, regular way, or, in case no such sale takes place on such day, the average of the closing bid and asked prices, regular way, in either case as reported in the principal consolidated transaction reporting system with respect to securities listed or admitted to trading on the New York Stock Exchange or, if the Security is not listed or admitted to trading on the New York Stock Exchange, as reported in the principal consolidated transaction reporting system with respect to securities listed on the principal national securities exchange on which the Security is listed or admitted to trading or, if the Security is not listed or admitted to trading on any national securities exchange, the last quoted price or, if not so quoted, the average of the high bid and low asked prices in the over-the-counter market, as reported by Nasdaq or such other system then in use, or, if on any such date the Security is not quoted by any such organization, the average of the closing bid and asked prices as furnished by a professional market maker making a market in the Security selected by the Board of Directors of the Company. If on any such date no such market maker is making a market in the Security, the fair value of the Security on such date as determined in good faith by the Board of Directors of the Company shall be used. The term "Trading Day" shall mean a day on which the principal national securities exchange on which the Security is listed or admitted to trading is open for the transaction of business or, if the Security is not listed or admitted to trading on any national securities exchange, a Business Day. If the Security is not publicly held or not so listed or traded, or if on any such date the Security is not so quoted and no such market maker is making a market in the Security, "current per share market price" shall mean the fair value per share as determined in good faith by the Board of Directors of the Company.

11.5. Insignificant Changes. No adjustment in the Purchase Price shall be required unless such adjustment would require an increase or decrease of at least 1% in the Purchase Price. Any adjustments which by reason of this Section 11.5 are not required to be made shall be carried forward and taken into account in any subsequent adjustment. All calculations under this Section 11 shall be made to the nearest cent or to the nearest ten thousandth of a Common Share or other share or security, as the case may be.

11.6. Shares Other Than Common Shares. If as a result of an adjustment made pursuant to Section 11.1, the holder of any Right thereafter exercised shall become entitled to receive any shares of capital stock of the Company other than Common Shares, thereafter the number of such other shares so receivable upon exercise of any Right shall be subject to adjustment from time to time in a manner and on terms as nearly equivalent as practicable to the provisions with respect to the Common Shares contained in Sections 11.1, 11.2, 11.3, 11.5,

11.8, 11.9 and 11.13, and the provisions of Sections 7, 9, 10, 13 and 14 with respect to the Common Shares shall apply on like terms to any such other shares.

11.7. Rights Issued Prior to Adjustment. All Rights originally issued by the Company subsequent to any adjustment made to the Purchase Price hereunder shall evidence the right to purchase, at the adjusted Purchase Price, the number of Common Shares purchasable from time to time hereunder upon exercise of the Rights, all subject to further adjustment as provided herein.

11.8. Effect of Adjustments. Unless the Company shall have exercised its election as provided in Section 11.9, upon each adjustment of the Purchase Price as a result of the calculations made in Sections 11.2 and 11.3, each Right outstanding immediately prior to the making of such adjustment shall thereafter evidence the right to purchase, at the adjusted Purchase Price, that number of Common Shares (calculated to the nearest ten-thousandth) obtained by (i) multiplying (x) the number of Common Shares covered by a Right immediately prior to this adjustment by (y) the Purchase Price in effect immediately prior to such adjustment of the Purchase Price and (ii) dividing the product so obtained by the Purchase Price in effect immediately after such adjustment of the Purchase Price.

11.9. Adjustment in Number of Rights. The Company may elect on or after the date of any adjustment of the Purchase Price to adjust the number of Rights, in substitution for any adjustment in the number Common Shares issuable upon the exercise of a Right. Each of the Rights outstanding after such adjustment of the number of Rights shall be exercisable for the number of Common Shares for which a Right was exercisable immediately prior to such adjustment. Each Right held of record prior to such adjustment of the number of Rights shall become that number of Rights (calculated to the nearest ten-thousandth) obtained by dividing the Purchase Price in effect immediately prior to adjustment of the Purchase Price by the Purchase Price in effect immediately after adjustment of the Purchase Price. The Company shall make a public announcement of its election to adjust the number of Rights, indicating the record date for the adjustment, and, if known at the time, the amount of the adjustment to be made, and shall promptly give the Rights Agent a copy of such announcement. This record date may be the date on which the Purchase Price is adjusted or any day thereafter, but, if the Right Certificates have been issued, shall be at least ten (10) days later than the date of the public announcement. If Right Certificates have been issued, upon each adjustment of the number of Rights pursuant to this Section 11.9, the Company may, as promptly as practicable, cause to be distributed to holders of record of Right Certificates on such record date Right Certificates evidencing, subject to Section 14, the additional Rights to which such holders shall be entitled as a result of such adjustment, or, at the option of the Company, shall cause to be distributed to such holders of record in substitution and replacement for the Right Certificates held by such holders prior to the date of adjustment, and upon surrender thereof, if required by the Company, new Right Certificates evidencing all the Rights to which such holders shall be entitled after such adjustment. Right Certificates so to be distributed shall be issued, executed and countersigned in the manner provided for herein (and may bear, at the option of the Company, the adjusted Purchase Price) and shall be registered in the names of the holders of record of Right Certificates on the record date specified in the public announcement.

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11.10. Right Certificates Unchanged. Irrespective of any adjustment or change in the Purchase Price or the number of Common Shares issuable upon the exercise of the Rights, the Right Certificates theretofore and thereafter issued may continue to express the Purchase Price per share and the number of Common Shares which were expressed in the initial Right Certificates issued hereunder.

11.11. Par Value Limitations. Before taking any action that would cause an adjustment reducing the Purchase Price below the then par value, if any, of the Common Shares issuable upon exercise of the Rights, the Company shall take any corporate action which may, in the opinion of its counsel, be necessary in order that the Company may validly and legally issue fully paid and nonassessable Common Shares at such adjusted Purchase Price.

11.12. Deferred Issuance. In any case in which this Section 11 shall require that an adjustment in the Purchase Price be made effective as of a record date for a specified event, the Company may elect to defer (and shall give prompt written notice of such election to the Rights Agent) until the occurrence of such event the issuance to the holder of any Right exercised after such record date of that number of Common Shares and shares of other capital stock or securities of the Company, if any, issuable upon such exercise over and above the Common Shares and shares of other capital stock or other securities, assets or cash of the Company, if any, issuable upon such exercise on the basis of the Purchase Price in effect prior to such adjustment; PROVIDED, HOWEVER, that the Company shall deliver to such holder a due bill or other appropriate instrument evidencing such holder's right to receive such additional shares upon the occurrence of the event requiring such adjustment.

11.13. Reduction in Purchase Price. Anything in this Section 11 to

the contrary notwithstanding, the Company shall be entitled to make such reductions in the Purchase Price, in addition to those adjustments expressly required by this Section 11, as and to the extent that it in its sole discretion shall determine to be advisable in order that any consolidation or subdivision of the Common Shares, issuance wholly for cash of any of the Common Shares at less than the current market price, issuance wholly for cash of Common Shares or securities which by their terms are convertible into or exchangeable for Common Shares, stock dividends or issuance of rights, options or warrants referred to hereinabove in this Section 11, hereafter made by the Company to holders of its Common Shares shall not be taxable to such shareholders.

11.14. Company Not to Diminish Benefits of Rights. The Company covenants and agrees that after the earlier of the Shares Acquisition Date or Distribution Date it will not, except as permitted by Section 23, Section 26 or Section 27, take (or permit any Subsidiary to take) any action if at the time such action is taken it is reasonably foreseeable that such action will substantially diminish or otherwise eliminate the benefits intended to be afforded by the Rights.

11.15. Adjustment of Rights Associated with Common Shares. Notwithstanding anything contained in this Agreement to the contrary, in the event that the Company shall at any time after the date of the Original Rights Agreement and prior to the Distribution Date (i) declare or pay any dividend on the outstanding Common Shares payable in Common Shares, (ii) effect a subdivision or consolidation of the outstanding Common Shares

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(by reclassification or otherwise than by the payment of dividends payable in Common Shares), or (iii) combine the outstanding Common Shares into a greater or lesser number of Common Shares, then in any such case, the number of Rights associated with each Common Share then outstanding, or issued or delivered thereafter but prior to the Distribution Date or in accordance with Section 22, shall be proportionately adjusted so that the number of Rights thereafter associated with each Common Share following any such event shall equal the result obtained by multiplying the number of Rights associated with each Common Share immediately prior to such event by a fraction, the numerator of which shall be the total number of Common Shares outstanding immediately prior to the occurrence of the event and the denominator of which shall be the total number of Common Shares outstanding immediately following the occurrence of such event. The adjustments provided for in this Section 11.15 shall be made successively whenever such a dividend is declared or paid or such a subdivision, combination or consolidation is effected.

Section 12. Certificate of Adjusted Purchase Price or Number of Shares. Whenever an adjustment is made as provided in Sections 11 or 13, the Company shall (a) promptly prepare a certificate setting forth such adjustment, and a brief statement of the computations and facts accounting for such adjustment, (b) promptly file with the Rights Agent and with each transfer agent for the Common Shares a copy of such certificate and (c) mail a brief summary thereof to each holder of a Right Certificate in accordance with Section 25. The Rights Agent shall be fully protected in relying on any such certificate and on any adjustment therein contained and shall have no duty with respect to and shall not be deemed to have knowledge of any such adjustment unless and until it shall have received such certificate.

Section 13. Consolidation, Merger or Sale or Transfer of Assets or Earning Power.

13.1. Certain Transactions. In the event that, from and after the first occurrence of a Trigger Event, directly or indirectly, (A) the Company shall consolidate with, or merge with and into, any other Person and the Company shall not be the continuing or surviving corporation, (B) any Person shall consolidate with the Company, or merge with and into the Company and the Company shall be the continuing or surviving corporation of such merger and, in connection with such merger, all or part of the Common Shares shall be changed into or exchanged for stock or other securities of the Company or any other Person or cash or any other property, or (C) the Company shall sell, exchange, mortgage or otherwise transfer (or one or more of its Subsidiaries shall sell, exchange, mortgage or otherwise transfer), in one or more transactions, assets or earning power aggregating 50% or more of the assets or earning power of the Company and its Subsidiaries (taken as a whole) to any other Person or Persons (other than the Company or one or more wholly-owned Subsidiaries of the Company in one or more transactions each of which complies with Section 11.14), then,

and in each such case, proper provision shall be made so that (i) each holder of a Right (other than Rights which have become null and void pursuant to Section 11.1.2) shall thereafter have the right to receive, upon the exercise thereof at a price per Right equal to the then current Purchase Price multiplied by the number of Common Shares for which a Right was exercisable immediately prior to the first occurrence of a Trigger Event (as subsequently adjusted pursuant to Sections 11.1.1, 11.2, 11.3, 11.8, 11.9 and 11.12), in accordance with the terms of this Agreement and in lieu of Common Shares, such number of validly authorized and issued, fully paid, non-assessable and freely tradable Common Shares of the Principal Party (as such term is hereinafter defined) not subject

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to any liens, encumbrances, rights of first refusal or other adverse claims, as shall be equal to the result obtained by (x) multiplying the then current Purchase Price by the number of Common Shares for which a Right was exercisable immediately prior to the first occurrence of a Trigger Event (as subsequently adjusted pursuant to Sections 11.1.1, 11.2, 11.3, 11.8, 11.9 and 11.12) and (y) dividing that product by 50% of the then current per share market price of the Common Shares of such Principal Party (determined pursuant to Section 11.4) on the date of consummation of such consolidation, merger, sale or transfer; PROVIDED, that the price per Right so payable and the number of Common Shares of such Principal Party so receivable upon exercise of a Right shall thereafter be subject to further adjustment as appropriate in accordance with Section 11.6 to reflect any events covered thereby occurring in respect of the Common Shares of such Principal Party after the occurrence of such consolidation, merger, sale or transfer; (ii) such Principal Party shall thereafter be liable for, and shall assume, by virtue of such consolidation, merger, sale or transfer, all the obligations and duties of the Company pursuant to this Agreement; (iii) the term "Company" shall thereafter be deemed to refer to such Principal Party; and (iv) such Principal Party shall take such steps (including, but not limited to, the reservation of a sufficient number of its Common Shares in accordance with Section 9) in connection with such consummation as may be necessary to assure that the provisions hereof shall thereafter be applicable, as nearly as reasonably may be, in relation to its Common Shares thereafter deliverable upon the exercise of the Rights; PROVIDED that, upon the subsequent occurrence of any consolidation, merger, sale or transfer of assets or other extraordinary transaction in respect of such Principal Party, each holder of a Right shall thereupon be entitled to receive, upon exercise of a Right and payment of the Purchase Price as provided in this Section 13.1, such cash, shares, rights, warrants and other property which such holder would have been entitled to receive had such holder, at the time of such transaction, owned the Common Shares of the Principal Party receivable upon the exercise of a Right pursuant to this Section 13.1, and such Principal Party shall take such steps (including, but not limited to, reservation of shares of stock) as may be necessary to permit the subsequent exercise of the Rights in accordance with the terms hereof for such cash, shares, rights, warrants and other property. The Company shall not consummate any such consolidation, merger, sale or transfer unless prior thereto the Company and such Principal Party shall have executed and delivered to the Rights Agent a supplemental agreement confirming that the requirements of this Section 13.1 and Section 13.2 shall promptly be performed in accordance with their terms and that such consolidation, merger, sale or transfer of assets shall not result in a default by the Principal Party under this Agreement as the same shall have been assumed by the Principal Party pursuant to this Section 13.1 and Section 13.2 and providing that, as soon as practicable after executing such agreement pursuant to this Section 13, the Principal Party, at its own expense, shall

(1) prepare and file a registration statement under the Securities Act, if necessary, with respect to the Rights and the securities purchasable upon exercise of the Rights on an appropriate form, use its best efforts to cause such registration statement to become effective as soon as practicable after such filing and use its best efforts to cause such registration statement to remain effective (with a prospectus at all times meeting the requirements of the Securities Act) until the Expiration Date and similarly comply with applicable state securities laws;

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(2) use its best efforts, if the Common Shares of the Principal Party shall be listed or admitted to trading on the New York Stock Exchange or on another national securities exchange, to list or

admit to trading (or continue the listing of) the Rights and the securities purchasable upon exercise of the Rights on the New York Stock Exchange or such securities exchange, or, if the Common Shares of the Principal Party shall not be listed or admitted to trading on the New York Stock Exchange or a national securities exchange, to cause the Rights and the securities receivable upon exercise of the Rights to be authorized for quotation on Nasdaq or on such other system then in use;

(3) deliver to holders of the Rights historical financial statements for the Principal Party which comply in all respects with the requirements for registration on Form 10 (or any successor form) under the Exchange Act; and

(4) obtain waivers of any rights of first refusal or preemptive rights in respect of the Common Shares of the Principal Party subject to purchase upon exercise of outstanding Rights.

In case the Principal Party has provision in any of its authorized securities or in its certificate of incorporation or by-laws or other instrument governing its corporate affairs, which provision would have the effect of (i) causing such Principal Party to issue (other than to holders of Rights pursuant to this Section 13), in connection with, or as a consequence of, the consummation of a transaction referred to in this Section 13, Common Shares or common stock equivalents of such Principal Party at less than the then current market price per share thereof (determined pursuant to Section 11.4) or securities exercisable for, or convertible into, Common Shares or common stock equivalents of such Principal Party at less than such then current market price (other than to holders of Rights pursuant to this Section 13), or (ii) providing for any special payment, taxes or similar provision in connection with the issuance of the Common Shares of such Principal Party pursuant to the provision of Section 13, then, in such event, the Company hereby agrees with each holder of Rights that it shall not consummate any such transaction unless prior thereto the Company and such Principal Party shall have executed and delivered to the Rights Agent a supplemental agreement providing that the provision in question of such Principal Party shall have been canceled, waived or amended, or that the authorized securities shall be redeemed, so that the applicable provision will have no effect in connection with, or as a consequence of, the consummation of the proposed transaction.

The Company covenants and agrees that it shall not, at any time after the Trigger Event, enter into any transaction of the type described in clauses (A) through (C) of this Section 13.1 if (i) at the time of or immediately after such consolidation, merger, sale, transfer or other transaction there are any rights, warrants or other instruments or securities outstanding or agreements in effect which would substantially diminish or otherwise eliminate the benefits intended to be afforded by the Rights, (ii) prior to, simultaneously with or immediately after such consolidation, merger, sale, transfer or other transaction, the shareholders of the Person who constitutes, or would constitute, the Principal Party for purposes of Section 13.2 shall have received a distribution of Rights previously owned by such Person or any of its Affiliates or Associates or (iii) the form or nature of organization of the Principal Party would preclude or limit the exercisability of the Rights. The provisions of this Section 13 shall similarly apply to successive transactions of the type described in clauses (A) through (C) of this Section 13.1.

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13.2. Principal Party. "Principal Party" shall mean:

(i) in the case of any transaction described in (A) or (B) of the first sentence of Section 13.1: (i) the Person that is the issuer of the securities into which the Common Shares are converted in such merger or consolidation, or, if there is more than one such issuer, the issuer the Common Shares of which have the greatest aggregate market value of shares outstanding, or (ii) if no securities are so issued, (x) the Person that is the other party to the merger, if such Person survives said merger, or, if there is more than one such Person, the Person the Common Shares of which have the greatest aggregate market value of shares outstanding or (y) if the Person that is the other party to the merger does not survive the merger, the Person that does survive the merger (including the Company if it survives) or (z) the Person resulting from the consolidation; and

(ii) in the case of any transaction described in (C) of the

first sentence in Section 13.1, the Person that is the party receiving the greatest portion of the assets or earning power transferred pursuant to such transaction or transactions, or, if each Person that is a party to such transaction or transactions receives the same portion of the assets or earning power so transferred or if the Person receiving the greatest portion of the assets or earning power cannot be determined, whichever of such Persons is the issuer of Common Shares having the greatest aggregate market value of shares outstanding; PROVIDED, HOWEVER, that in any such case described in the foregoing clause (i) or (ii) of this Section 13.2, if the Common Shares of such Person are not at such time or have not been continuously over the preceding 12 month period registered under Section 12 of the Exchange Act, then (1) if such Person is a direct or indirect Subsidiary of another Person the Common Shares of which are and have been so registered, the term "Principal Party" shall refer to such other Person, or (2) if such Person is a Subsidiary, directly or indirectly, of more than one Person, the Common Shares of all of which are and have been so registered, the term "Principal Party" shall refer to whichever of such Persons is the issuer of Common Shares having the greatest aggregate market value of shares outstanding, or (3) if such Person is owned, directly or indirectly, by a joint venture formed by two or more Persons that are not owned, directly or indirectly, by the same Person, the rules set forth in clauses (1) and (2) above shall apply to each of the owners having an interest in the venture as if the Person owned by the joint venture was a Subsidiary of both or all of such joint ventures, and the Principal Party in each such case shall bear the obligations set forth in this Section 13 in the same ratio as its interest in such Person bears to the total of such interests.

13.3. Approved Acquisitions. Notwithstanding anything contained herein to the contrary, upon the consummation of any merger or other acquisition transaction of the type described in clause (A), (B) or (C) of Section 13.1 involving the Company pursuant to a merger or other acquisition agreement between the Company and any Person (or one or more of such Person's Affiliates or Associates) which agreement has been approved by the Board of Directors of the Company prior to any Person becoming an Acquiring Person, this Agreement and the rights of holders of Rights hereunder shall be terminated in accordance with Section 7.1.

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Section 14. Fractional Rights and Fractional Shares.

14.1. Cash in Lieu of Fractional Rights. The Company shall not be required to issue fractions of Rights or to distribute Right Certificates which evidence fractional Rights (except prior to the Distribution Date in accordance with Section 11.15). In lieu of such fractional Rights, there shall be paid to the registered holders of the Right Certificates with regard to which such fractional Rights would otherwise be issuable an amount in cash equal to the same fraction of the current market value of a whole Right. For the purposes of this Section 14.1, the current market value of a whole Right shall be the closing price of the Rights for the Trading Day immediately prior to the date on which such fractional Rights would have been otherwise issuable. The closing price for any day shall be the last sale price, regular way, or, in case no such sale takes place on such day, the average of the closing bid and asked prices, regular way, in either case as reported in the principal consolidated transaction reporting system with respect to securities listed or admitted to trading on the New York Stock Exchange or, if the Rights are not listed or admitted to trading on the New York Stock Exchange, as reported in the principal consolidated transaction reporting system with respect to securities listed on the principal national securities exchange on which the Rights are listed or admitted to trading or, if the Rights are not listed or admitted to trading on any national securities exchange, the last quoted price or, if not so quoted, the average of the high bid and low asked prices in the over-the-counter market, as reported by Nasdaq or such other system then in use or, if on any such date the Rights are not quoted by any such organization, the average of the closing bid and asked prices as furnished by a professional market maker making a market in the Rights selected by the Board of Directors of the Company. If on any such date no such market maker is making a market in the Rights, the current market value of the Rights on such date shall be the fair value of the Rights as determined in good faith by the Board of Directors of the Company.

14.2. Cash In Lieu of Fractional Common Shares. The Company shall not be required to issue fractions of Common Shares or to distribute certificates which evidence fractional Common Shares upon the exercise or exchange of Rights. In lieu of such fractional Common Shares, the Company shall pay to the registered holders of the Right Certificates with regard to which

such fractional Common Shares would otherwise be issuable an amount in cash equal to the same fraction of the current market value of a whole Common Share (as determined in accordance with Section 14.1) for the Trading Day immediately prior to the date of such exercise or exchange.

14.3. Waiver of Right to Receive Fractional Rights or Shares. The holder of a Right by the acceptance of the Rights expressly waives his right to receive any fractional Rights or any fractional shares upon exercise or exchange of a Right, except as permitted by this Section 14.

14.4 Rights Agents Duties Regarding Fractional Shares. Whenever a payment for fractional Rights or fractional shares is to be made by the Rights Agent, the Company shall (i) promptly prepare and deliver to the Rights Agent a certificate setting forth in reasonable detail the facts related to such payment and the prices and/or formulas utilized in calculating such payments, and (ii) provide sufficient monies to the Rights Agent in the form of fully collected funds to make such payments. The Rights Agent shall be fully protected in relying upon such a

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certificate and shall have no duty with respect to, and shall not be deemed to have knowledge of any payment for fractional Rights or fractional shares under any Section of this Agreement relating to the payment of fractional Rights or fractional shares unless and until the Rights Agent shall have received such a certificate and sufficient monies.

Section 15. Rights of Action. All rights of action in respect of this Agreement, except the rights of action given to the Rights Agent under Section 18, are vested in the respective registered holders of the Right Certificates (and, prior to the Distribution Date, the registered holders of the Common Shares); and any registered holder of any Right Certificate (or, prior to the Distribution Date, of the Common Shares), without the consent of the Rights Agent or of the holder of any other Right Certificate (or, prior to the Distribution Date, of the Common Shares), may, in his own behalf and for his own benefit, enforce this Agreement, and may institute and maintain any suit, action or proceeding against the Company to enforce this Agreement, or otherwise enforce or act in respect of his right to exercise the Rights evidenced by such Right Certificate in the manner provided in such Right Certificate and in this Agreement. Without limiting the foregoing or any remedies available to the holders of Rights, it is specifically acknowledged that the holders of Rights would not have an adequate remedy at law for any breach of this Agreement and shall be entitled to specific performance of the obligations under, and injunctive relief against actual or threatened violations of, the obligations of any Person (including, without limitation, the Company) subject to this Agreement.

Section 16. Agreement of Right Holders. Every holder of a Right by accepting the same consents and agrees with the Company and the Rights Agent and with every other holder of a Right that:

(a) prior to the Distribution Date, the Rights will be transferable only in connection with the transfer of the Common Shares;

(b) as of and after the Distribution Date, the Right Certificates are transferable only on the registry books of the Rights Agent if surrendered at the office of the Rights Agent designated for such purpose, duly endorsed or accompanied by a proper instrument of transfer with all required certifications completed; and

(c) the Company and the Rights Agent may deem and treat the Person in whose name the Right Certificate (or, prior to the Distribution Date, the associated Common Shares certificate) is registered as the absolute owner thereof and of the Rights evidenced thereby (notwithstanding any notations of ownership or writing on the Right Certificates or the associated Common Shares certificate made by anyone other than the Company or the Rights Agent) for all purposes whatsoever, and neither the Company nor the Rights Agent shall be affected by any notice to the contrary.

Section 17. Right Certificate Holder Not Deemed a Shareholder. No holder, as such, of any Right Certificate shall be entitled to vote, receive dividends or be deemed for any purpose the holder of the Common Shares or any other securities of the Company which may at any time be issuable on the exercise of

the Rights represented thereby, nor shall anything contained herein or in any Right Certificate be construed to confer upon the holder of any Right Certificate, as such, any of the rights of a shareholder of the Company or any right to vote for the election of

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directors or upon any matter submitted to shareholders at any meeting thereof, or to give or withhold consent to any corporate action, or to receive notice of meetings or other actions affecting shareholders (except as provided in Section 24), or to receive dividends or subscription rights, or otherwise, until the Right or Rights evidenced by such Right Certificate shall have been exercised in accordance with the provisions hereof.

Section 18. Concerning the Rights Agent. The Company agrees to pay to the Rights Agent reasonable compensation for all services rendered by it hereunder in accordance with a fee schedule to be mutually agreed upon and, from time to time, on demand of the Rights Agent, its reasonable expenses and counsel fees and disbursements and other disbursements incurred in the preparation, execution, delivery, amendment and administration of this Agreement and the exercise and performance of its duties hereunder. The Company also agrees to indemnify the Rights Agent for, and to hold it harmless against, any loss, liability, damage, judgment, fine, penalty, claim, demand, settlement, cost or expense, incurred without gross negligence, bad faith or willful misconduct on the part of the Rights Agent (each as determined by a final, non-appealable order, judgment, decree or ruling of a court of competent jurisdiction), for any action taken, suffered or omitted by the Rights Agent in connection with the acceptance and administration of this Agreement, including, without limitation, the costs and expenses of defending against any claim of liability arising therefrom, directly or indirectly. The costs and expenses incurred in enforcing this right of indemnification shall be paid by the Company. The provisions of this Section 18 and Section 20 below shall survive the termination of this Agreement, the exercise or expiration of the Rights and the resignation or removal of the Rights Agent.

The Rights Agent shall be authorized and protected and shall incur no liability for or in respect of any action taken, suffered or omitted by it in connection with its acceptance and administration of this Agreement in reliance upon any Right Certificate or certificate for the Common Shares or the Common Shares or for other securities of the Company, instrument of assignment or transfer, power of attorney, endorsement, affidavit, letter, notice, instruction, direction, consent, certificate, statement, or other paper or document believed by it to be genuine and to be signed, executed and, where necessary, verified or acknowledged, by the proper Person or Persons. The Rights Agent shall not be deemed to have knowledge of any event of which it was supposed to receive notice thereof hereunder, and the Rights Agent shall be fully protected and shall incur no liability for failing to take any action in connection therewith unless and until it has received such notice in writing.

Section 19. Merger or Consolidation or Change of Name of Rights Agent. Any Person into which the Rights Agent or any successor Rights Agent may be merged or with which it may be consolidated, or any Person resulting from any merger or consolidation to which the Rights Agent or any successor Rights Agent shall be a party, or any Person succeeding to the corporate trust or stock transfer business of the Rights Agent or any successor Rights Agent, shall be the successor to the Rights Agent under this Agreement without the execution or filing of any paper or any further act on the part of any of the parties hereto; PROVIDED that such Person would be eligible for appointment as a successor Rights Agent under the provisions of Section 21. In case at the time such successor Rights Agent shall succeed to the agency created by this Agreement, any of the Right Certificates shall have been countersigned but not delivered, any such successor Rights Agent may adopt the countersignature of the predecessor Rights Agent

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and deliver such Right Certificates so countersigned; and in case at that time any of the Right Certificates shall not have been countersigned, any successor Rights Agent may countersign such Right Certificates either in the name of the predecessor Rights Agent or in the name of the successor Rights Agent; and in all such cases such Right Certificates shall have the full force provided in the Right Certificates and in this Agreement.

In case at any time the name of the Rights Agent shall be changed and at such time any of the Right Certificates shall have been countersigned but not delivered, the Rights Agent may adopt the countersignature under its prior name and deliver Right Certificates so countersigned; and in case at that time any of the Right Certificates shall not have been countersigned, the Rights Agent may countersign such Right Certificates either in its prior name or in its changed name; and in all such cases such Right Certificates shall have the full force provided in the Right Certificates and in this Agreement.

Section 20. Duties of Rights Agent. The Rights Agent undertakes only the duties and obligations imposed by this Agreement (and no implied duties and obligations) upon the following terms and conditions, by all of which the Company and the holders of Right Certificates, by their acceptance thereof, shall be bound:

20.1. Legal Counsel. The Rights Agent may consult with legal counsel selected by it (who may be legal counsel for the Company), and the advice or opinion of such counsel shall be full and complete authorization and protection to the Rights Agent, and the Rights Agent shall incur no liability for or in respect of, any action taken, suffered or omitted by it in accordance with such advice or opinion.

20.2. Certificates as to Facts or Matters. Whenever in the performance of its duties under this Agreement the Rights Agent shall deem it necessary or desirable that any fact or matter be proved or established by the Company prior to taking, suffering or omitting to take any action hereunder, such fact or matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a certificate signed by any one of the Chairman of the Board of Directors, the Chief Executive Officer, the President, the Chief Financial Officer, any Vice President, the Treasurer, the Secretary or any Assistant Treasurer or Assistant Secretary of the Company and delivered to the Rights Agent; and such certificate shall be full authorization and protection to the Rights Agent and the Rights Agent shall incur no liability for or in respect of any action taken, suffered or omitted to be taken by it under the provisions of this Agreement in reliance upon such certificate.

20.3. Standard of Care. The Rights Agent shall be liable hereunder only for its own gross negligence, bad faith or willful misconduct (each as determined by a final, nonappealable order, judgment, decree or ruling of a court of competent jurisdiction). Anything to the contrary notwithstanding, in no event shall the Rights Agent be liable for special, punitive, indirect, consequential or incidental loss or damage of any kind whatsoever (including but not limited to lost profits), even if the Rights Agent has been advised of the likelihood of such loss or damage. Any liability of the Rights Agent under this Rights Agreement will be limited to the amount of fees paid by the Company to the Rights Agent.

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20.4. Reliance on Agreement and Right Certificates. The Rights Agent shall not be liable for or by reason of any of the statements of fact or recitals contained in this Agreement or in the Right Certificates (except as to its countersignature thereof) or be required to verify the same, but all such statements and recitals are and shall be deemed to have been made by the Company only.

20.5. No Responsibility as to Certain Matters. The Rights Agent shall not be under any responsibility or have any liability in respect of the validity of this Agreement or the execution and delivery hereof (except the due execution hereof by the Rights Agent) or in respect of the validity or execution of any Right Certificate (except its countersignature thereof); nor shall it be responsible for any breach by the Company of any covenant or condition contained in this Agreement or in any Right Certificate; nor shall it be responsible for any change in the exercisability of the Rights (including the Rights becoming null and void pursuant to Section 11.1.2) or any adjustment required under the provisions of Sections 3, 11, 13, 23 or 27 or responsible for the manner, method or amount of any such adjustment or the ascertaining of the existence of facts that would require any such adjustment (except with respect to the exercise of Rights evidenced by Right Certificates after actual notice of any such change or adjustment); nor shall it by any act hereunder be deemed to make any representation or warranty as to the authorization or reservation of any Common Shares or other securities to be issued pursuant to this Agreement or any Right Certificate or as to whether any Common Shares will, when so issued, be validly

authorized and issued, fully paid and nonassessable.

20.6. Further Assurance by Company. The Company agrees that it will perform, execute, acknowledge and deliver or cause to be performed, executed, acknowledged and delivered all such further and other acts, instruments and assurances as may reasonably be required by the Rights Agent for the carrying out or performing by the Rights Agent of the provisions of this Agreement.

20.7. Authorized Company Officers. The Rights Agent is hereby authorized and directed to accept instructions with respect to the performance of its duties hereunder from any one of the Chairman of the Board of Directors, the Chief Executive Officer, the President, the Chief Financial Officer, any Vice President, the Treasurer, the Secretary or any Assistant Treasurer or Assistant Secretary of the Company, and to apply to such officers for advice or instructions in connection with its duties under this Agreement, and such instructions shall be full authorization and protection to the Rights Agent and the Rights Agent shall incur no liability for or in respect of any action taken, suffered or omitted to be taken by it in accordance with instructions of any such officer or for any delay in acting while waiting for these instructions. Any application by the Rights Agent for written instructions from the Company may, at the option of the Rights Agent, set forth in writing any action proposed to be taken or omitted by the Rights Agent with respect to its duties or obligations under this Agreement and the date on and/or after which such action shall be taken or such omission shall be effective. The Rights Agent shall not be liable to the Company for any action taken by, or omission of, the Rights Agent in accordance with a proposal included in any such application on or after the date specified therein (which date shall not be less than three business days after the date any such officer actually receives such application, unless any such officer shall have consented in writing to an earlier date) unless, prior to taking of any such action (or the effective date in the

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case of omission), the Rights Agent shall have received written instructions in response to such application specifying the action to be taken or omitted.

20.8. Freedom to Trade in Company Securities. The Rights Agent and any shareholder, affiliate, director, officer or employee of the Rights Agent may buy, sell or deal in any of the Rights or other securities of the Company or become pecuniarily interested in any transaction in which the Company may be interested, or contract with or lend money to the Company or otherwise act as fully and freely as though it were not Rights Agent under this Agreement. Nothing herein shall preclude the Rights Agent from acting in any other capacity for the Company or for any other legal entity.

20.9. Reliance on Attorneys and Agents. The Rights Agent may execute and exercise any of the rights or powers hereby vested in it or perform any duty hereunder either itself or by or through its attorneys or agents, and the Rights Agent shall not be answerable or accountable for any act, omission, default, neglect or misconduct of any such attorneys or agents or for any loss to the Company resulting from any such act, omission, default, neglect or misconduct, absent gross negligence, bad faith or willful misconduct (each as determined by a final, non-appealable order, judgment, decree or ruling of a court of competent jurisdiction) in the selection and continued employment thereof.

20.10. Incomplete Certificate. If, with respect to any Rights Certificate surrendered to the Rights Agent for exercise or transfer, the certificate contained in the form of assignment or the form of election to purchase set forth on the reverse thereof, as the case may be, has not been completed to certify the holder is not an Acquiring Person (or an Affiliate or Associate thereof), the Rights Agent shall not take any further action with respect to such requested exercise or transfer without first consulting with the Company.

20.11. Rights Holders List. At any time and from time to time after the Distribution Date, and no more often than quarterly upon the reasonable request of the Company, the Rights Agent shall promptly deliver to the Company a list, as of the most recent practicable date (or as of such earlier date as may be specified by the Company), of the holders of record of Rights.

20.12. Assurance to Rights Agent. No provision of this Agreement shall require the Rights Agent to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder or in the exercise of its rights if it believes that repayment of such funds or

adequate indemnification against such risk or liability is not assured to it.

Section 21. Change of Rights Agent. The Rights Agent or any successor Rights Agent may resign and be discharged from its duties under this Agreement upon thirty (30) days' notice in writing mailed to the Company and to each transfer agent of the Common Shares, as applicable, by registered or certified mail. Following the Distribution Date, the Company shall promptly notify the holders of the Right Certificates by first-class mail of any such resignation. The Company may remove the Rights Agent or any successor Rights Agent upon thirty (30) days' notice in writing, mailed to the Rights Agent or successor Rights Agent, as the case may be, and to each transfer agent of the Common Shares, as applicable, by registered or certified

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mail, and to the holders of the Right Certificates by first-class mail. If the Rights Agent shall resign or be removed or shall otherwise become incapable of acting, the resigning, removed, or incapacitated Rights Agent shall remit to the Company, or to any successor Rights Agent designated by the Company, all books, records, funds, certificates or other documents or instruments of any kind then in its possession which were acquired by such resigning, removed or incapacitated Rights Agent in connection with its services as Rights Agent hereunder, and shall thereafter be discharged from all duties and obligations hereunder. Following notice of such removal, resignation or incapacity, the Company shall appoint a successor to such Rights Agent. If the Company shall fail to make such appointment within a period of thirty (30) days after giving notice of such removal or after it has been notified in writing of such resignation or incapacity by the resigning or incapacitated Rights Agent or by the holder of a Right Certificate (who shall, with such notice, submit his Right Certificate for inspection by the Company), then the registered holder of any Right Certificate may apply to any court of competent jurisdiction for the appointment of a new Rights Agent. Any successor Rights Agent, whether appointed by the Company or by such a court, shall be (i) a Person organized and doing business under the laws of the United States or any other state of the United States so long as such Person is duly qualified and authorized to do business, authorized to exercise stock transfer powers and subject to supervision or examination by Federal or state authority, and which has at the time of its appointment as Rights Agent a combined capital and surplus of at least \$10 million or (ii) an affiliate of such Person referenced in clause (i) above. After appointment, the successor Rights Agent shall be vested with the same powers, rights, duties and responsibilities as if it had been originally named as Rights Agent without further act or deed; but the predecessor Rights Agent shall deliver and transfer to the successor Rights Agent any property at the time held by it hereunder, and execute and deliver any further assurance, conveyance, act or deed necessary for the purpose. Not later than the effective date of any such appointment the Company shall file notice thereof in writing with the predecessor Rights Agent and each transfer agent of the Common Shares, as applicable, and, following the Distribution Date, mail a notice thereof in writing to the registered holders of the Right Certificates. Failure to give any notice provided for in this Section 21, however, or any defect therein, shall not affect the legality or validity of the resignation or removal of the Rights Agent or the appointment of the successor Rights Agent, as the case may be.

Section 22. Issuance of New Right Certificates. Notwithstanding any of the provisions of this Agreement or of the Rights to the contrary, the Company may, at its option, issue new Right Certificates evidencing Rights in such form as may be approved by its Board of Directors to reflect any adjustment or change in the Purchase Price and the number or kind or class of shares or other securities or property purchasable under the Right Certificates made in accordance with the provisions of this Agreement. In addition, in connection with the issuance or sale of Common Shares following the Distribution Date and prior to the Expiration Date, the Company shall, with respect to Common Shares so issued or sold pursuant to the exercise of stock options or under any employee plan or arrangement, granted or awarded, or upon exercise, conversion or exchange of securities hereinafter issued by the Company, in each case existing prior to the Distribution Date, issue Right Certificates representing the appropriate number of Rights in connection with such issuance or sale; PROVIDED, HOWEVER, that (i) no such Right Certificate shall be issued if, and to the extent that, the Company shall be advised by counsel that such issuance would create a significant risk of material adverse tax consequences to the Company or the Person to whom such Right Certificate would be issued and (ii) no such Right

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Certificate shall be issued if, and to the extent that, appropriate adjustment shall otherwise have been made in lieu of the issuance thereof.

Section 23. Redemption.

23.1. Right to Redeem. The Board of Directors of the Company may, at its option, at any time prior to the close of business on the tenth day following the Shares Acquisition Date, redeem all but not less than all of the then outstanding Rights at a redemption price of \$.001 per Right, appropriately adjusted to reflect any stock split, stock dividend, recapitalization or similar transaction occurring after the date of the Original Rights Agreement (such redemption price being hereinafter referred to as the "Redemption Price"), and the Company may, at its option, pay the Redemption Price in Common Shares (based on the "current per share market price," determined pursuant to Section 11.4, of the Common Shares at the time of redemption), cash or any other form of consideration deemed appropriate by the Board of Directors. The preceding sentence notwithstanding, prior to the expiration of the period during which the Rights may be redeemed as specified therein (or such longer period as the Board of Directors of the Company may select pursuant to this sentence), the Board of Directors of the Company may extend, one or more times, the period during which the Rights may be redeemed beyond the close of business on the tenth day following the Shares Acquisition Date. The redemption of the Rights by the Board of Directors may be made effective at such time, on such basis and subject to such conditions as the Board of Directors in its sole discretion may establish. Notwithstanding anything contained in this Agreement to the contrary, the Rights shall not be exercisable following a transaction or event described in Section 11.1.2 prior to the expiration or termination of the Company's right of redemption hereunder.

23.2. Redemption Procedures. Immediately upon the action of the Board of Directors of the Company ordering the redemption of the Rights (or at such later time as the Board of Directors may establish for the effectiveness of such redemption), and without any further action and without any notice, the right to exercise the Rights will terminate and the only right thereafter of the holders of Rights shall be to receive the Redemption Price for each Right so held. The Company shall promptly give public notice of such redemption (as well as prompt written notice thereof to the Rights Agent); PROVIDED, HOWEVER, that the failure to give, or any defect in, any such notice shall not affect the validity of such redemption. The Company shall promptly give, or cause the Rights Agent to give, notice of such redemption to the holders of the then outstanding Rights by mailing such notice to all such holders at their last addresses as they appear upon the registry books of the Rights Agent or, prior to the Distribution Date, on the registry books of the transfer agent for the Common Shares. Any notice which is mailed in the manner herein provided shall be deemed given, whether or not the holder receives the notice. Each such notice of redemption shall state the method by which the payment of the Redemption Price will be made. Neither the Company nor any of its Affiliates or Associates may redeem, acquire or purchase for value any Rights at any time in any manner other than that specifically set forth in this Section 23 or in Section 27, and other than in connection with the purchase, acquisition or redemption of Common Shares prior to the Distribution Date.

Section 24. Notice of Certain Events. In case the Company shall propose at any time after the earlier of the Shares Acquisition Date and the Distribution Date (a) to pay any dividend payable in stock of any class to the holders of Common Shares or to make any other distribution

to the holders of Common Shares (other than a regular periodic cash dividend at a rate not in excess of 125% of the rate of the last regular periodic cash dividend theretofore paid or, in case regular periodic cash dividends have not theretofore been paid, at a rate not in excess of 50% of the average net income per share of the Company for the four quarters ended immediately prior to the payment of such dividends, or a stock dividend on, or a subdivision, combination or reclassification of the Common Shares), or (b) to offer to the holders of Common Shares rights or warrants to subscribe for or to purchase any additional Common Shares or shares of stock of any class or any other securities, rights or options, or (c) to effect any reclassification of its Common Shares (other than a reclassification involving only the subdivision of outstanding Common Shares), or (d) to effect any consolidation or merger into or with, or to effect any sale or other transfer (or to permit one or more of its Subsidiaries to effect any sale or other transfer), in one or more transactions, of 50% or more of the

assets or earning power of the Company and its Subsidiaries (taken as a whole) to, any other Person (other than pursuant to a merger or other acquisition agreement of the type described in Section 1.3(ii)(A)(z)), or (e) to effect the liquidation, dissolution or winding up of the Company, or (f) to declare or pay any dividend on the Common Shares payable in Common Shares or to effect a subdivision, combination or consolidation of the Common Shares (by reclassification or otherwise than by payment of dividends in Common Shares), then, in each such case, the Company shall give to the Rights Agent and to each holder of a Right Certificate, in accordance with Section 25, a notice of such proposed action, which shall specify the record date for the purposes of such stock dividend, distribution of rights or warrants, or the date on which such reclassification, consolidation, merger, sale, transfer, liquidation, dissolution, or winding up is to take place and the date of participation therein by the holders of the Common Shares, if any such date is to be fixed, and such notice shall be so given in the case of any action covered by clause (a) or (b) above at least ten (10) days prior to the record date for determining holders of the Common Shares for purposes of such action, and in the case of any such other action, at least ten (10) days prior to the date of the taking of such proposed action or the date of participation therein by the holders of the Common Shares, whichever shall be the earlier.

In case any event set forth in Section 11.1.2 or Section 13 shall occur, then, in any such case, the Company shall as soon as practicable thereafter give to the Rights Agent and to each holder of a Right Certificate, in accordance with Section 25, a notice of the occurrence of such event, which notice shall describe the event and the consequences of the event to holders of Rights under Section 11.1.2 and Section 13.

Notwithstanding anything in this Agreement to the contrary, prior to the Distribution Date a filing by the Company with the Securities and Exchange Commission shall constitute sufficient notice to the holders of securities of the Company, including the Rights, for purposes of this Agreement and no other notice need be given.

Section 25. Notices. Notices or demands authorized by this Agreement to be given or made by the Rights Agent or by the holder of any Right Certificate to or on the Company shall be sufficiently given or made if sent by first-class mail, postage-prepaid, addressed (until another address is filed in writing with the Rights Agent) or by facsimile transmission as follows:

Coach, Inc.
516 West 34th Street

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New York, NY 10001
Attention: General Counsel
Facsimile No.: 212-629-2398

Subject to the provisions of Section 21 and Section 24, any notice or demand authorized by this Agreement to be given or made by the Company or by the holder of any Right Certificate to or on the Rights Agent shall be sufficiently given or made if sent by first-class mail, postage-prepaid, addressed (until another address is filed in writing with the Company) or by facsimile transmission as follows:

Mellon Investor Services LLC
120 Broadway, 13th Floor
New York, New York 10271
Attention: Relationship Manager
Facsimile No.: (917) 320-6318

with a copy to:

Mellon Investor Services LLC
85 Challenger Road
Ridgefield Park, NJ 07660
Attention: General Counsel
Facsimile No.: (201) 296-4004

Notices or demands authorized by this Agreement to be given or made by the Company or the Rights Agent to the holder of any Right Certificate (or, prior to the Distribution Date, to the holder of any certificate representing Common Shares) shall be sufficiently given or made if sent by first-class mail,

postage-prepaid, addressed to such holder at the address of such holder as shown on the registry books of the Company.

Section 26. Supplements and Amendments. For so long as the Rights are redeemable, the Board of Directors may in its sole and absolute discretion, and the Rights Agent shall, if the Board of Directors (or an appropriate officer of the Company acting at the direction of the Board of Directors) so directs but subject to the other provisions of this Section, supplement or amend any provision of this Agreement in any respect without the approval of any holders of Rights or Common Shares. From and after the time that the Rights are no longer redeemable, the Board of Directors may, and the Rights Agent shall, if the Board of Directors so (or an appropriate officer of the Company acting at the direction of the Board of Directors) directs but subject to the other provisions of this Section, from time to time supplement or amend this Agreement without the approval of any holders of Rights (i) to cure any ambiguity or to correct or supplement any provision contained herein which may be defective or inconsistent with any other provisions herein, (ii) to shorten or lengthen any time period hereunder or (iii) to make any other changes or provisions in regard to matters or questions arising hereunder which the Board of Directors may deem necessary or desirable, including but not limited to extending the Final Expiration Date; PROVIDED, HOWEVER, that no such supplement or amendment shall adversely affect the interests of the holders of Rights as such (other than an Acquiring Person or an Affiliate or Associate of an Acquiring Person), and no such supplement or amendment may cause the Rights again to

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become redeemable or cause this Agreement again to become amendable other than in accordance with this sentence; PROVIDED FURTHER, that the right of the Board of Directors to extend the Distribution Date or the Redemption Date shall not require any amendment or supplement hereunder. Upon the delivery of a certificate from an appropriate officer of the Company which states that the proposed supplement or amendment is in compliance with the terms of this Section 26, and provided, such supplement or amendment does not change or increase the Rights Agent's rights, duties, liabilities or obligations, the Rights Agent shall execute such supplement or amendment.

Section 27. Exchange.

27.1. Exchange of Common Shares for Rights. The Board of Directors of the Company may, at its option, at any time after the occurrence of a Trigger Event, exchange Common Shares for all or part of the then outstanding and exercisable Rights (which shall not include Rights that have become null and void pursuant to the provisions of Section 11.1.2) by exchanging at an exchange ratio of one Common Share per Right or that number of Common Shares having an aggregate value equal to the Spread (with such value being based on the current per share market price (as determined pursuant to Section 11.4) on the date of the occurrence of a Trigger Event) per Right, appropriately adjusted to reflect any stock split, stock dividend or similar transaction occurring after the date of the Original Rights Agreement (such amount per Right being hereinafter referred to as the "Exchange Consideration"). Notwithstanding the foregoing, the Board of Directors shall not be empowered to effect such exchange at any time after any Acquiring Person shall have become the Beneficial Owner of 50% or more of the Common Shares then outstanding. From and after the occurrence of an event specified in Section 13.1, any Rights that theretofore have not been exchanged pursuant to this Section 27.1 shall thereafter be exercisable only in accordance with Section 13 and may not be exchanged pursuant to this Section 27.1. The exchange of the Rights by the Board of Directors may be made effective at such time, on such basis and with such conditions as the Board of Directors in its sole discretion may establish.

27.2. Exchange Procedures. Immediately upon the action of the Board of Directors of the Company ordering the exchange for any Rights pursuant to Section 27.1 and without any further action and without any notice, the right to exercise such Rights shall terminate and the only right thereafter of a the holders of such Rights shall be to receive the Exchange Consideration. The Company shall promptly give public notice of any such exchange (as well as prompt written notice thereof to the Rights Agent); PROVIDED, HOWEVER, that the failure to give, or any defect in, such notice shall not affect the validity of such exchange. The Company promptly shall mail a notice of any such exchange to all of the holders of such Rights at their last addresses as they appear upon the registry books of the Rights Agent. Any notice which is mailed in the manner herein provided shall be deemed given, whether or not the holder receives the notice. Each such notice of exchange shall state the method by which the

exchange of the Common Shares for Rights will be effected and, in the event of any partial exchange, the number of Rights which will be exchanged. Any partial exchange shall be effected pro rata based on the number of Rights (other than the Rights that have become null and void pursuant to the provisions of Section 11.1.2) held by each holder of Rights.

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27.3. Insufficient Shares. The Company shall not be required to issue fractions of Common Shares or to distribute certificates which evidence fractional Common Shares. In lieu of such fractional Common Shares, the Company shall pay to the registered holders of the Rights Certificates with regard to which such fractional Common Shares would otherwise be issuable an amount in cash equal to the same fraction of the current market value of a whole Common Share. For the purposes of this Section 27.3, the current market value of a whole Common Share shall be the current per share market price (as determined pursuant to Section 11.4) for the Trading Day immediately prior to the date of exchange pursuant to this Section 27.

Section 28. Successors. All the covenants and provisions of this Agreement by or for the benefit of the Company or the Rights Agent shall bind and inure to the benefit of their respective successors and assigns hereunder.

Section 29. Benefits of this Agreement. Nothing in this Agreement shall be construed to give to any Person or corporation other than the Company, the Rights Agent and the registered holders of the Right Certificates (and, prior to the Distribution Date, the Common Shares) any legal or equitable right, remedy or claim under this Agreement; but this Agreement shall be for the sole and exclusive benefit of the Company, the Rights Agent and the registered holders of the Right Certificates (and, prior to the Distribution Date, the Common Shares).

Section 30. Determination and Actions by the Board of Directors; General Limitations on Redemption, Modification or Termination of Rights or Amendment to Agreement. The Board of Directors of the Company shall have the exclusive power and authority to administer this Agreement and to exercise the rights and powers specifically granted to the Board of Directors of the Company, or as may be necessary or advisable in the administration of this Agreement, including, without limitation, the right and power to (i) redeem, modify or terminate the Rights, (ii) amend this Agreement in any way, (iii) interpret the provisions of this Agreement and (iv) make all determinations deemed necessary or advisable for the administration of this Agreement. All Board of Director actions (including, for purposes of clause (y) below, all omissions with respect to Board of Director actions) that are done or made by the Board of Directors of the Company in good faith, shall (x) be final, conclusive and binding on the Company, the Rights Agent, the holders of the Rights, as such, and all other Persons, and (y) not subject the Board of Directors to any liability to the holders of the Rights. The Rights Agent shall always be entitled to assume that the Company's Board of Directors acted in good faith and shall be fully protected and incur no liability in reliance thereon.

Section 31. Severability. If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction or other authority to be invalid, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions of this Agreement shall remain in full force and effect and shall in no way be affected, impaired or invalidated.

Section 32. Governing Law. This Agreement and each Right Certificate issued hereunder shall be deemed to be a contract made under the laws of the State of Maryland and for all purposes shall be governed by and construed in accordance with the laws of such State applicable to contracts to be made and performed entirely within such State; provided, however, that all provisions regarding the rights, duties and obligations of the Rights Agent shall be

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governed by and construed in accordance with the laws of the State of New York applicable to contracts made and to be performed entirely within such State.

Section 33. Counterparts. This Agreement may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original, and all such counterparts shall together constitute but one and the same instrument.

Section 34. Descriptive Heading. Descriptive headings of the several Sections of this Agreement are inserted for convenience only and shall not control or affect the meaning or construction of any of the provisions hereof.

[INTENTIONALLY LEFT BLANK]

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed, as of the day and year first above written.

COACH, INC.

By: _____
Name: _____
Title: _____

MELLON INVESTOR SERVICES LLC

By: _____
Name: _____
Title: _____

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EXHIBIT A

[Form of Right Certificate]

Certificate No. R) _____ Rights

NOT EXERCISABLE AFTER THE CLOSE OF BUSINESS ON MAY 2, 2011, OR EARLIER IF NOTICE OF REDEMPTION OR EXCHANGE IS GIVEN OR IF THE COMPANY IS MERGED OR ACQUIRED PURSUANT TO AN AGREEMENT OF THE TYPE DESCRIBED IN SECTION 1.3(ii) (A) (z) OF THE AGREEMENT. THE RIGHTS ARE SUBJECT TO REDEMPTION AT \$.001 PER RIGHT, AND TO EXCHANGE ON THE TERMS SET FORTH IN THE AGREEMENT. UNDER CERTAIN CIRCUMSTANCES (SPECIFIED IN SECTION 11.1.2 OF THE AGREEMENT), RIGHTS BENEFICIALLY OWNED BY OR TRANSFERRED TO AN ACQUIRING PERSON (AS DEFINED IN THE AGREEMENT), OR ANY SUBSEQUENT HOLDER OF SUCH RIGHTS WILL BECOME NULL AND VOID AND WILL NO LONGER BE TRANSFERABLE.

Right Certificate

COACH, INC.

This certifies that _____, or registered assigns, is the registered owner of the number of Rights set forth above, each of which entitles the owner thereof, subject to the terms, provisions and conditions of the First Amended and Restated Rights Agreement, dated as of February 2, 2005, as the same may be amended from time to time (the "Agreement"), between Coach, Inc., a Maryland corporation (the "Company"), and Mellon Investor Services LLC, a New Jersey limited liability company, as Rights Agent (the "Rights Agent"), to purchase from the Company at any time after the Distribution Date and prior to 5:00 P.M. (New York City time) on May 2, 2011, at the offices of the Rights Agent, or its successors as Rights Agent, designated for such purpose, one fully paid, nonassessable common share (the "Common Shares") of the Company, at a purchase price of \$170.00 per share, subject to adjustment (the "Purchase Price"), upon presentation and surrender of this Right Certificate with the Form of Election to Purchase and certification duly executed. The number of Rights evidenced by this Right Certificate (and the number of Common Shares which may be purchased upon exercise thereof) set forth above, and the Purchase Price set forth above, are the number and Purchase Price as of _____, ____ based on the Common Shares as constituted at such date. Capitalized terms used in this Right Certificate without definition shall have the meanings ascribed to them in the Agreement. As provided in the Agreement, the Purchase Price and the number of Common Shares which may be purchased upon the exercise of the Rights evidenced by this Right Certificate are subject to modification and adjustment upon the happening of certain events.

This Right Certificate is subject to all of the terms, provisions and conditions of the Agreement, which terms, provisions and conditions are hereby incorporated herein by reference and made a part hereof and to which Agreement reference is hereby made for a full

description of the rights, limitations of rights, obligations, duties and immunities hereunder of the Rights Agent, the Company and the holders of the Right Certificates. Copies of the Agreement are on file at the offices of the Company.

This Right Certificate, with or without other Right Certificates, upon surrender at the offices of the Rights Agent designated for such purpose, may be exchanged for another Right Certificate or Right Certificates of like tenor and date evidencing Rights entitling the holder to purchase a like aggregate number of Common Shares as the Rights evidenced by the Right Certificate or Right Certificates surrendered shall have entitled such holder to purchase. If this Right Certificate shall be exercised in part, the holder shall be entitled to receive upon surrender hereof-another Right Certificate or Right Certificates for the number of whole Rights not exercised.

Subject to the provisions of the Agreement, the Board of Directors may, at its option, (i) redeem the Rights evidenced by this Right Certificate at a redemption price of \$.001 per Right at any time prior to the close of business on the tenth day after the Shares Acquisition Date, (ii) exchange Common Shares for the Rights evidenced by this Certificate, in whole or in part or (iii) extend the period during which redemption of the Rights is permitted.

No fractional Common Shares will be issued upon the exercise of any Right or Rights evidenced hereby, but in lieu thereof a cash payment will be made, as provided in the Agreement.

No holder of this Right Certificate, as such, shall be entitled to vote or receive dividends or be deemed for any purpose the holder of the Common Shares or of any other securities of the Company which may at any time be issuable on the exercise hereof, nor shall anything contained in the Agreement or herein be construed to confer upon the holder hereof, as such, any of the rights of a shareholder of the Company or any right to vote for the election of directors or upon any matter submitted to shareholders at any meeting thereof, or to give or withhold consent to any corporate action, or to receive notice of meetings or other actions affecting shareholders (except as provided in the Agreement), or to receive dividends or subscription rights, or otherwise, until the Right or Rights evidenced by this Right Certificate shall have been exercised as provided in the Agreement.

If any term, provision, covenant or restriction of the Agreement is held by a court of competent jurisdiction or other authority to be invalid, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions of the Agreement shall remain in full force and effect and shall in no way be affected, impaired or invalidated.

This Right Certificate shall not be valid or binding for any purpose until it shall have been countersigned by the Rights Agent.

WITNESS the facsimile signature of the proper officers of the Company and its corporate seal. Dated as of _____.

Attest: _____ COACH, INC.

By: _____ By: _____
Title: _____ Title: _____

Countersigned:

MELLON INVESTOR SERVICES LLC, as Rights Agent

By: _____
Authorized Signature

(To be executed by the registered holder if such holder desires to transfer the Right Certificate.)

FOR VALUE RECEIVED _____
hereby sells, assigns and transfers unto _____

(Please print name and address
of transferee)

Rights evidenced by this Right Certificate, together with all right, title and interest therein, and does hereby irrevocably constitute and appoint _____ Attorney, to transfer the within Right Certificate on the books of the within named Company, with full power of substitution.

Dated: _____

Signature

Signature Guaranteed:

Signatures must be guaranteed by an "eligible guarantor institution" as defined in Rule 17Ad-15 promulgated under the Securities Exchange Act of 1934, as amended.

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The undersigned hereby certifies that:

(1) the Rights evidenced by this Right Certificate are not beneficially owned by and are not being assigned to an Acquiring Person or an Affiliate or an Associate thereof; and

(2) after due inquiry and to the best knowledge of the undersigned, the undersigned did not acquire the Rights evidenced by this Right Certificate from any person who is, was or subsequently became an Acquiring Person or an Affiliate or Associate thereof.

Dated: _____

Signature

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FORM OF ELECTION TO PURCHASE

(To be executed if holder desires to exercise the Right Certificate.)

To: COACH, INC.

The undersigned hereby irrevocably elects to exercise _____ Rights represented by this Right Certificate to purchase the Common Shares issuable upon the exercise of such Rights (or such other securities or property of the Company or of any other Person which may be issuable upon the exercise of the Rights) and requests that certificates for such shares be issued in the name of:

(Please print name and address)

If such number of Rights shall not be all the Rights evidenced by this Right

Certificate, a new Right Certificate for the balance remaining of such Rights shall be registered in the name of and delivered to:

Please insert social security
or other identifying number

(Please print name and address)

Dated: _____

Signature

Signature Guaranteed:

Signatures must be guaranteed by an "eligible guarantor institution" as defined in Rule 17Ad-15 promulgated under the Securities Exchange Act of 1934, as amended.

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The undersigned hereby certifies that:

(1) the Rights evidenced by this Right Certificate are not beneficially owned by and are not being assigned to an Acquiring Person or an Affiliate or an Associate thereof; and

(2) after due inquiry and to the best knowledge of the undersigned, the undersigned did not acquire the Rights evidenced by this Right Certificate from any person who is, was or subsequently became an Acquiring Person or an Affiliate or Associate thereof.

Dated: _____

Signature

NOTICE

The signature in the foregoing Form of Assignment and Form of Election to Purchase must conform to the name as written upon the face of this Right Certificate in every particular, without alteration or enlargement or any change whatsoever.

In the event the certification set forth above in the Form of Assignment or Form of Election to Purchase is not completed, the Company will deem the beneficial owner of the Rights evidenced by this Right Certificate to be an Acquiring Person or an Affiliate or Associate hereof and such Assignment or Election to Purchase will not be honored.

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EXHIBIT B

As described in the Rights Agreement, Rights which are held by or have been held by an Acquiring Person or Associates or Affiliates thereof (as defined in the Rights Agreement) and certain transferees thereof shall become null and void and will no longer be transferable.

SUMMARY OF RIGHTS TO PURCHASE
COMMON SHARES

On May 3, 2001 the Board of Directors of Coach, Inc. (the "Company")

authorized and declared a dividend of one right (a "Right") for each share of common stock, \$0.01 par value per share (the "Common Shares"), of the Company outstanding at the close of business on May 22, 2001 (the "Record Date"). As long as the Rights are attached to the Common Shares, the Company will issue one Right (subject to adjustment) with each new Common Share so that all such shares will have attached Rights. When exercisable, each Right will entitle the registered holder to purchase from the Company one Common Share at a price of \$170.00 per Common Share, subject to adjustment (the "Purchase Price"). The description and terms of the Rights are set forth in a Rights Agreement, dated as of May 3, 2001, as the same may be amended from time to time (the "Agreement"), between the Company and Mellon Investor Services LLC, as Rights Agent (the "Rights Agent").

Until the earlier to occur of (i) either ten (10) days following a public announcement that, or the date on which a majority of the Board becomes aware that, a person or group of affiliated or associated persons has acquired, or obtained the right to acquire, beneficial ownership of 10% or more of the Common Shares (an "Acquiring Person") or (ii) ten (10) business days (or such later date as may be determined by action of the Board of Directors prior to such time as any person or group of affiliated persons becomes an Acquiring Person) following the commencement or announcement of an intention to make a tender offer or exchange offer the consummation of which would result in the beneficial ownership by a person or group of 10% or more of the Common Shares (the earlier of (i) and (ii) being called the "Distribution Date"), the Rights will be evidenced, with respect to any of the Common Share certificates outstanding as of the Record Date, by such Common Share certificate together with a copy of this Summary of Rights.

The Agreement provides that until the Distribution Date (or earlier redemption exchange, termination, or expiration of the Rights), the Rights will be transferred with and only with the Common Shares. Until the Distribution Date (or earlier redemption or expiration of the Rights), new Common Share certificates issued after the close of business on the Record Date upon transfer or new issuance of the Common Shares will contain a notation incorporating the Agreement by reference. Until the Distribution Date (or earlier redemption, exchange, termination or expiration of the Rights), the surrender for transfer of any certificates for Common Shares, with or without such notation or a copy of this Summary of Rights, will also constitute the transfer of the Rights associated with the Common Shares represented by such certificate. As soon as practicable following the Distribution Date, separate certificates evidencing the Rights ("Right Certificates") will be mailed to holders of record of the Common

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Shares as of the close of business on the Distribution Date and such separate Right Certificates alone will evidence the Rights.

The Rights are not exercisable until the Distribution Date. The Rights will expire on the close of business on May 2, 2011, subject to the Company's right to extend such date (the "Final Expiration Date"), unless earlier redeemed or exchanged by the Company or terminated.

The Purchase Price payable, and the number of Common Shares or other securities or property issuable, upon exercise of the Rights are subject to adjustment from time to time to prevent dilution (i) in the event of a stock dividend on, or a subdivision, combination or reclassification of the Common Shares, (ii) upon the grant to holders of the Common Shares of certain rights or warrants to subscribe for or purchase Common Shares or convertible securities at less than the current market price of the Common Shares or (iii) upon the distribution to holders of the Common Shares of evidences of indebtedness, cash, securities or assets (excluding regular periodic cash dividends at a rate not in excess of 125% of the rate of the last regular periodic cash dividend theretofore paid or, in case regular periodic cash dividends have not theretofore been paid, at a rate not in excess of 50% of the average net income per share of the Company for the four quarters ended immediately prior to the payment of such dividend, or dividends payable in Common Shares (which dividends will be subject to the adjustment described in clause (i) above)) or of subscription rights or warrants (other than those referred to above).

In the event that a Person becomes an Acquiring Person or if the Company were the surviving corporation in a merger with an Acquiring Person or any affiliate or associate of an Acquiring Person and the Common Shares were not changed or exchanged, each holder of a Right, other than Rights that are or were

acquired or beneficially owned by the Acquiring Person (which Rights will thereafter be void), will thereafter have the right to receive upon exercise that number of Common Shares having a market value of two times the then current Purchase Price of the Right. In the event that, after a person has become an Acquiring Person, the Company were acquired in a merger or other business combination transaction or more than 50% of its assets or earning power were sold, proper provision shall be made so that each holder of a Right shall thereafter have the right to receive, upon the exercise thereof at the then current Purchase Price of the Right, that number of shares of common stock of the acquiring company which at the time of such transaction would have a market value of two times the then current Purchase Price of the Right.

At any time after a Person becomes an Acquiring Person and prior to the earlier of one of the events described in the last sentence of the previous paragraph or the acquisition by such Acquiring Person of 50% or more of the outstanding Common Shares, the Board of Directors may cause the Company to exchange the Rights (other than Rights owned by an Acquiring Person which will have become void), in whole or in part, for Common Shares at an exchange rate of one Common Share per Right (subject to adjustment).

No adjustment in the Purchase Price will be required until cumulative adjustments require an adjustment of at least 1% in such Purchase Price. No fractional Common Shares will be issued and in lieu thereof, a payment in cash will be made based on the market price of the Common Shares on the last trading date prior to the date of exercise.

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The Rights may be redeemed in whole, but not in part, at a price of \$.001 per Right (the "Redemption Price") by the Board of Directors at any time prior to the close of business on the tenth day following either the public announcement that, or the date on which a majority of the Board becomes aware that, a Person has become an Acquiring Person. Redeeming the Rights would require the approval of a majority of the Board members. Immediately upon any redemption of the Rights, the right to exercise the Rights will terminate and the only right of the holders of Rights will be to receive the Redemption Price.

Until a Right is exercised, the holder thereof, as such, will have no rights as a shareholder of the Company beyond those as an existing shareholder, including, without limitation, the right to vote or to receive dividends.

Any of the provisions of the Agreement may be amended by the Board of Directors of the Company.

A copy of the Agreement has been filed with the Securities and Exchange Commission as an Exhibit to a Current Report on Form 8-K. A copy of the Agreement is available free of charge from the Company. This summary description of the Rights does not purport to be complete and is qualified in its entirety by reference to the Agreement, which is incorporated herein by reference.

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August 22, 2005

Mr. Lew Frankfort
31 Park Street
Tenafly, NJ 07670

Re: Employment Agreement Amendment

Dear Lew:

This Letter Agreement confirms the understanding reached between you and Coach, Inc., a Maryland corporation (the "Company"), regarding the terms of your continued employment with the Company. This Letter Agreement constitutes an amendment to that certain Employment Agreement by and between you and the Company dated as of June 1, 2003 (the "Employment Agreement"), which is attached hereto as Exhibit A. Capitalized terms used in this Letter Agreement and not defined herein shall have the meaning given such terms in the Employment Agreement.

1. Employment Agreement Term. You and the Company acknowledge and agree that, notwithstanding anything to the contrary in the Employment Agreement, the Initial Term shall end on July 1, 2011 unless earlier terminated as provided in Section 6 of the Employment Agreement.

2. Annual Base Salary. Effective as of September 1, 2005, your Annual Base Salary shall be payable at a rate of no less than \$1,000,000 per year, subject to annual increases as approved by the Committee.

3. Annual Bonus. With respect to each Contract Year commencing on and after July 1, 2005, your Maximum Bonus shall be equal to at least 200% of your Annual Base Salary.

Stock Options. As of August 22, 2005 (the "Grant Date"), you shall be granted a non-qualified stock option (the "Extension Options") to purchase 532,717 shares of Common Stock, pursuant to the terms and conditions of the Stock Incentive Plan and a written Stock Option Agreement to be entered into by and between you and the Company (the "Extension Stock Option Agreement"), which, except as otherwise provided in this Section 4, shall be substantially identical to the Retention Stock Option Agreement. For purposes of the Employment Agreement (including without limitation Sections 7 and 11 thereof), the Extension Options shall be treated identically to the Retention Options. The Extension Options shall have an exercise price equal to the fair market value per share of Common Stock as of the Grant Date and shall have a term of 10 years. The Extension Options shall become exercisable in three cumulative installments as follows: (a) the first installment shall consist of 25% of the shares of Common Stock covered by the Extension Options and shall become vested and exercisable on the fourth anniversary of the Grant Date; (b) the second installment shall consist of 25% of the shares of Common Stock covered by the Extension Options and shall become vested and exercisable on the fifth anniversary of the Grant Date; and (c) the third installment shall consist of 50% of the shares of Common Stock covered by the Extension Options and shall become exercisable on the sixth anniversary of the Grant Date; provided, that, except as otherwise provided in Section 7 of the Employment Agreement or the Extension Stock Option Agreement, no portion of the Extension Options not then exercisable shall become exercisable following your termination of employment for any reason. (For the avoidance of doubt, if your employment shall terminate by reason of your Disability or death, then Section 7(d) of the Employment Agreement shall apply to the Extension Options.) You and the Company acknowledge and agree that the

Extension Options shall not provide for the grant of any "Restoration Options" as defined in the Stock Incentive Plan.

4. Employment Agreement. You and the Company acknowledge and agree that, except as provided by this Letter Agreement, the Employment Agreement shall remain in full force and effect.

[signature page follows]

Please indicate your acceptance of the terms and provisions of this Letter Agreement by signing both copies of this Letter Agreement and returning one copy to me. The other copy is for your files. By signing below, you acknowledge and agree that you have carefully read this Letter Agreement in its entirety; fully understand and agree to its terms and provisions; and intend and agree that it be final and legally binding on you and the Company. This Letter Agreement shall be governed and construed under the internal laws of the State of New York and may be executed in several counterparts.

Very truly yours,

Felice Schulaner

SVP, Human Resources

Agreed and Accepted:

Lew Frankfort

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EXHIBIT A

[EMPLOYMENT AGREEMENT]

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COACH
2000 STOCK INCENTIVE PLAN
EXTENSION OPTION GRANT NOTICE AND AGREEMENT

Lew Frankfort

Coach, Inc. (the "COMPANY") is pleased to confirm that you have been granted a stock option (the "OPTION"), effective as of August 22, 2005 (the "GRANT DATE"), as provided in this agreement (the "Agreement"). The Option evidenced by this Agreement is the "EXTENSION OPTION" as defined in that certain Employment Agreement entered into by and between you and the Company effective as of June 1, 2003 (as amended as of the Grant Date, the "EMPLOYMENT AGREEMENT").

1. OPTION RIGHT. Your Option is to purchase, on the terms and conditions set forth below, the following number of shares (the "OPTION SHARES") of the Company's Common Stock, par value \$.01 per share (the "COMMON STOCK"), at the exercise price specified below (the "EXERCISE PRICE").

	Number of Option Shares	Exercise Price Per Option Share
	-----	-----
Shares Granted	532,717	\$32.37

2. OPTION. This Option is a non-qualified stock option that is intended to conform in all respects with the Company's 2000 Stock Incentive Plan (the "PLAN"), a copy of which will be supplied to you upon your request, and the provisions of which are incorporated herein by reference. This Option is not intended to qualify as an incentive stock option within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended.

3. EXPIRATION DATE. This Option expires on the tenth (10th) anniversary of the Grant Date (the "EXPIRATION DATE"), subject to earlier expiration upon your death, disability or other termination of employment, as provided in Section 5 below.

4. VESTING. This Option may be exercised only to the extent it has vested. Subject to Section 5 below, if you are continuously employed by the Company or any of its affiliates (collectively, the "COACH COMPANIES") from the Grant Date until (a) August 22, 2009, this Option will vest with respect to 25% of the Option Shares as of such date, (b) August 22, 2010, this Option will vest with

respect to an additional 25% of the Option Shares as of such date, and (c) August 22, 2011, this Option will vest with respect to the remaining 50% of the Option Shares as of such date.

5. TERMINATION OF EMPLOYMENT.

(a) DEATH OR DISABILITY. If you cease active employment with the Company because of your death or "DISABILITY" (as defined in the Employment Agreement), any portion of this Option that is not vested and exercisable as of the date of such termination shall thereupon be forfeited; provided, that in the alternative the Human Resources and Corporate Governance Committee (the "COMMITTEE") of the Company's Board of Directors may, in its sole discretion, cause all or any portion of this Option then held by you to become vested and exercisable effective as of the date of such termination. In the event that your employment terminates due to your death or Disability, the last day on which any vested Options may be exercised shall be the earlier of (i) the Expiration Date, or (ii) the fifth anniversary of your death or Disability.

(b) TERMINATION WITHOUT CAUSE OR FOR GOOD REASON. Except as otherwise provided in Section 5(d) with respect to certain terminations of employment in connection with a Change in Control, if your employment is terminated by the Company without "CAUSE" (as defined in the Employment Agreement) or by you for "GOOD REASON" (as defined in the Employment Agreement), then (i) any portion of this Option that is not vested and exercisable as of the date of such termination shall continue to become exercisable as of the dates set forth in Section 4 and (ii) the last day on which this Option may be exercised shall be the Expiration Date.

(c) TERMINATION FOR CAUSE OR WITHOUT GOOD REASON. If your employment is terminated by the Company for Cause or by you without Good Reason (including without limitation by reason of your retirement), then (i) any portion of this Option that is not vested and exercisable as of the date of such termination shall thereupon be forfeited and (ii) the vested portion of this Option shall terminate (A) if your employment is terminated by the Company for Cause, then this Option shall terminate on the date your employment terminates, (B) if your employment is terminated by you without Good Reason (including without limitation by reason of your retirement) prior to August 22, 2011, then this Option shall terminate on the earlier of (x) the Expiration Date, or (y) the 90th day following the date of your termination of employment, or (C) if your employment is terminated by you without Good Reason (including without limitation by reason of your retirement) on or following August 22, 2011, then this Option shall terminate on the Expiration Date.

(d) CERTAIN TERMINATIONS OF EMPLOYMENT IN CONNECTION WITH A CHANGE IN CONTROL. Notwithstanding Section 5(b), if your employment is terminated by the Company without Cause or by you for Good Reason within six months prior to a "CHANGE IN CONTROL" (as defined in the Employment Agreement) or during the 12 month period immediately following such Change in Control, then (i) this Option shall become fully vested and exercisable with respect to all shares subject thereto effective immediately prior to the date of such

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termination, and (ii) the last day on which this Option may be exercised shall be the Expiration Date.

6. EXERCISE. This Option may be exercised (subject to the restrictions contained in this Agreement) in whole or in part for the number of shares specified (which in all cases must be at least the lesser of two-hundred and fifty (250) or the total number of shares outstanding under this Option) in a verbal or written notice that is delivered to the Company or its designated agent and is accompanied by full payment of the Exercise Price for such number of Option Shares in cash, or by surrendering or attesting to the ownership of shares of Common Stock, or a combination of cash and shares of Common Stock, in an amount or having a combined value equal to the aggregate Exercise Price for such Option Shares. In connection with any payment of the Exercise Price by surrender or attesting to the ownership of shares of Common Stock, proof acceptable to the Company shall be submitted upon request that such previously

acquired shares have been owned by you for at least six (6) months prior to the date of exercise. Notwithstanding anything contained in this Agreement to the contrary, this Option shall not provide for the grant of any "RESTORATION OPTIONS" as defined in the Plan.

7. FORFEITURE. Notwithstanding anything contained in this Agreement to the contrary, this Option shall be subject to Section 11 of the Employment Agreement. Accordingly, if you (a) violate any of the covenants set forth in Section 9(a) or 9(b) of the Employment Agreement, or (b) materially violate any of the covenants set forth in Section 9(c), 9(e) or 9(f) of the Employment Agreement, then pursuant to Section 11 of the Employment Agreement, then (i) any portion of this Option that has not been exercised prior to the date of such breach shall thereupon be forfeited and (ii) you shall be required to pay to the Company the amount of all Retention Option Gain (as defined in the Employment Agreement). You shall also be required to pay to the Company the amount of all Retention Option Gain upon the occurrence of those certain events described in Section 11(b) of the Employment Agreement.

8. RIGHTS AS A STOCKHOLDER. You will have no right as a stockholder with respect to any Option Shares until and unless ownership of such Option Shares has been transferred to you.

9. OPTION NOT TRANSFERABLE. This Option will not be assignable or transferable by you, other than by a qualified domestic relations order or by will or by the laws of descent and distribution, and will be exercisable during your lifetime only by you (or your legal guardian or personal representative). If this Option remains exercisable after your death, subject to Sections 1, 5 and 6 above, it may be exercised by the personal representative of your estate or by any person who acquires the right to exercise such Option by bequest, inheritance or otherwise by reason of your death.

10. TRANSFERABILITY OF OPTION SHARES. Option Shares generally are freely tradable in the United States. However, you may not offer, sell or otherwise dispose of any Option Shares in a way which would: (a) require the Company to file any registration statement with the Securities and Exchange Commission (or any similar filing under state

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law or the laws of any other country) or to amend or supplement any such filing or (b) violate or cause the Company to violate the Securities Act of 1933, as amended, the rules and regulations promulgated thereunder, any other state or federal law, or the laws of any other country. The Company reserves the right to place restrictions required by law on Common Stock received by you pursuant to this Option.

11. CONFORMITY WITH THE PLAN. This Option is intended to conform in all respects with, and is subject to applicable provisions of, the Plan. Inconsistencies between this Agreement and the Plan shall be resolved in accordance with the terms of the Plan. By your acceptance of this Agreement, you agree to be bound by all of the terms of this Agreement and the Plan.

12. NO RIGHTS TO CONTINUED EMPLOYMENT. Nothing in this Agreement confers any right on you to continue in the employ of the Coach Companies or affects in any way the right of any of the Coach Companies to terminate your employment at any time with or without cause.

13. MISCELLANEOUS.

(a) AMENDMENT OR MODIFICATIONS. The grant of this Option is documented by the minutes of the Committee, which records are the final determinant of the number of shares granted and the conditions of this grant. The Committee may amend or modify this Option in any manner to the extent that the Committee would have had the authority under the Plan initially to grant such Option, provided that no such amendment or modification shall directly or indirectly impair or otherwise adversely affect your rights under this Agreement without your prior written consent. Except as in accordance with the two immediately preceding sentences, this Agreement may be amended, modified or supplemented only by an instrument in writing signed by both parties hereto.

(b) GOVERNING LAW. All matters regarding or affecting the relationship of the Company and its stockholders shall be governed by the General Corporation Law of the State of Maryland. All other matters

arising under this Agreement shall be governed by the internal laws of the State of New York, including matters of validity, construction and interpretation. You and the Company agree that all claims in respect of any action or proceeding arising out of or relating to this Agreement shall be heard or determined in any state or federal court sitting in New York, New York and you and the Company agree to submit to the jurisdiction of such courts, to bring all such actions or proceedings in such courts and to waive any defense of inconvenient forum to such actions or proceedings. A final judgment in any action or proceeding so brought shall be conclusive and may be enforced in any manner provided by law. Notwithstanding the foregoing, any matter also covered by, or dependent upon any interpretation under, the Employment Agreement shall be resolved pursuant to the arbitration provisions of Section 20 thereof.

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(c) SUCCESSORS AND ASSIGNS. Except as otherwise provided herein, this Agreement will bind and inure to the benefit of the respective successors and permitted assigns and heirs and legal representatives of the parties hereto whether so expressed or not.

(d) SEVERABILITY. Whenever feasible, each provision of this Agreement will be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be prohibited by or invalid under applicable law, such provision will be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of this Agreement.

[signature page follows]

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In witness whereof, the parties hereto have executed and delivered this agreement.

COACH, INC.

Felice Schulaner
Senior Vice President of Human Resources

Date: August 22, 2005

I ACKNOWLEDGE THAT I HAVE READ AND UNDERSTAND THE TERMS AND CONDITIONS OF THIS AGREEMENT AND OF THE PLAN AND I AGREE TO BE BOUND THERETO.

OPTIONEE:

LEW FRANKFORT

SSN: _____

Date: August 22, 2005

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August 22, 2005

Mr. Reed Krakoff
157 East 61st Street
New York, NY 10021

Re: Employment Agreement Amendment

Dear Reed:

This Letter Agreement confirms the understanding reached between you and Coach, Inc., a Maryland corporation (the "Company"), regarding the terms of your continued employment with the Company. This Letter Agreement constitutes an amendment to that certain Employment Agreement by and between you and the Company dated as of June 1, 2003 (the "Employment Agreement"), which is attached hereto as Exhibit A. Capitalized terms used in this Letter Agreement and not defined herein shall have the meaning given such terms in the Employment Agreement.

1. Employment Agreement Term. You and the Company acknowledge and agree that, notwithstanding anything to the contrary in the Employment Agreement, the Initial Term shall end on July 1, 2011 unless earlier terminated as provided in Section 6 of the Employment Agreement.

2. Annual Base Salary. Effective as of September 1, 2005, your Annual Base Salary shall be payable at a rate of no less than \$2,000,000 per year, subject to annual increases as approved by the Committee.

3. Annual Bonus. With respect to each Fiscal Year commencing on and after July 1, 2005, your Maximum Bonus shall be equal to at least 150% of your Annual Base Salary.

4. Contract Extension Bonuses. During the Term, in addition to any other Annual Bonuses or Retention Bonuses that may be paid to you, subject to the terms and conditions set forth below you shall be eligible to receive the following supplemental bonuses:

(a) Subject to your continued employment with the Company (i) through July 1, 2009, you shall be paid a supplemental bonus in the amount of \$1,095,000; (ii) through July 1, 2010, you shall be paid a supplemental bonus in the amount of \$1,095,000; (iii) through July 1, 2011, you shall be paid a supplemental bonus in the amount of \$2,190,000.

(b) With respect to the Contract Year ending on June 30, 2009, you shall be eligible to receive an additional bonus under the Bonus Plan or otherwise in the maximum amount of \$1,867,500 on the basis of the Company's attainment of objective financial or other operating criteria established by the Committee in its sole discretion and in accordance with Code Section 162(m) and the regulations promulgated thereunder, such additional bonus to be paid at the time bonuses under the Bonus Plan are paid generally but, in any event, no later than 90 days after the end of the applicable Contract Year.

(c) With respect to the Contract Year ending on June 30, 2010, you shall be eligible to receive an additional bonus under the Bonus Plan or otherwise in the maximum amount of \$1,867,500 on the basis of the Company's attainment of objective financial or other operating criteria established by the Committee in its sole discretion and in accordance with Code Section

162(m) and the regulations promulgated thereunder, such additional bonus to be paid at the time bonuses under the Bonus Plan are paid generally but, in any event, no later than 90 days after the end of the applicable Contract Year.

(d) With respect to the Contract Year ending on June 30, 2011, you shall be eligible to receive an additional bonus under the Bonus Plan or otherwise in the maximum amount of \$3,735,000 on the basis of the Company's attainment of objective financial or other operating criteria

established by the Committee in its sole discretion and in accordance with Code Section 162(m) and the regulations promulgated thereunder, such additional bonus to be paid at the time bonuses under the Bonus Plan are paid generally but, in any event, no later than 90 days after the end of the applicable Contract Year.

5. Stock Options. As of August 22, 2005 (the "Grant Date"), you shall be granted a non-qualified stock option (the "Extension Options") to purchase 1,686,581 shares of Common Stock, pursuant to the terms and conditions of the Stock Incentive Plan and a written Stock Option Agreement to be entered into by and between you and the Company (the "Extension Stock Option Agreement"), which, except as otherwise provided in this Section 5, shall be substantially identical to the Retention Stock Option Agreement. For purposes of the Employment Agreement (including without limitation Sections 7 and 11 thereof), the Extension Options shall be treated identically to the Retention Options. The Extension Options shall have an exercise price equal to the fair market value per share of Common Stock as of the Grant Date and shall have a term of 10 years. The Extension Options shall become exercisable in three cumulative installments as follows: (a) the first installment shall consist of 25% of the shares of Common Stock covered by the Extension Options and shall become vested and exercisable on the fourth anniversary of the Grant Date; (b) the second installment shall consist of 25% of the shares of Common Stock covered by the Extension Options and shall become vested and exercisable on the fifth anniversary of the Grant Date; and (c) the third installment shall consist of 50% of the shares of Common Stock covered by the Extension Options and shall become exercisable on the sixth anniversary of the Grant Date; provided, that, except as otherwise provided in Section 7 of the Employment Agreement or the Extension Stock Option Agreement, no portion of the Extension Options not then exercisable shall become exercisable following your termination of employment for any reason. (For the avoidance of doubt, if your employment shall terminate by reason of your Disability or death, then Section 7(d) of the Employment Agreement shall apply to the Extension Options.) You and the Company acknowledge and agree that the Extension Options shall not provide for the grant of any "Restoration Options" as defined in the Stock Incentive Plan.

6. Employment Agreement. You and the Company acknowledge and agree that, except as provided by this Letter Agreement, the Employment Agreement shall remain in full force and effect.

[signature page follows]

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Please indicate your acceptance of the terms and provisions of this Letter Agreement by signing both copies of this Letter Agreement and returning one copy to me. The other copy is for your files. By signing below, you acknowledge and agree that you have carefully read this Letter Agreement in its entirety; fully understand and agree to its terms and provisions; and intend and agree that it be final and legally binding on you and the Company. This Letter Agreement shall be governed and construed under the internal laws of the State of New York and may be executed in several counterparts.

Very truly yours,

Felice Schulaner
SVP, Human Resources

Agreed and Accepted:

Reed Krakoff

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EXHIBIT A

[EMPLOYMENT AGREEMENT]

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COACH
2000 STOCK INCENTIVE PLAN
EXTENSION OPTION GRANT NOTICE AND AGREEMENT

Reed Krakoff

Coach, Inc. (the "COMPANY") is pleased to confirm that you have been granted a stock option (the "OPTION"), effective as of August 22, 2005 (the "GRANT DATE"), as provided in this agreement (the "Agreement"). The Option evidenced by this Agreement is the "EXTENSION OPTION" as defined in that certain Employment Agreement entered into by and between you and the Company effective as of June 1, 2003 (as amended as of the Grant Date, the "EMPLOYMENT AGREEMENT").

1. OPTION RIGHT. Your Option is to purchase, on the terms and conditions set forth below, the following number of shares (the "OPTION SHARES") of the Company's Common Stock, par value \$.01 per share (the "COMMON STOCK"), at the exercise price specified below (the "EXERCISE PRICE").

	Number of Option Shares -----	Exercise Price Per Option Share -----
Shares Granted	1,686,581	\$32.37

2. OPTION. This Option is a non-qualified stock option that is intended to conform in all respects with the Company's 2000 Stock Incentive Plan (the "PLAN"), a copy of which will be supplied to you upon your request, and the provisions of which are incorporated herein by reference. This Option is not intended to qualify as an incentive stock option within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended.

3. EXPIRATION DATE. This Option expires on the tenth (10th) anniversary of the Grant Date (the "EXPIRATION DATE"), subject to earlier expiration upon your death, disability or other termination of employment, as provided in Section 5 below.

4. VESTING. This Option may be exercised only to the extent it has vested. Subject to Section 5 below, if you are continuously employed by the Company or any of its affiliates (collectively, the "COACH COMPANIES") from the Grant Date until (a) August 22, 2009, this Option will vest with respect to 25% of the Option Shares as of such date, (b) August 22, 2010, this Option will vest with respect to an additional 25% of the Option Shares as of such date, and (c) August 22, 2011, this Option will vest with respect to the remaining 50% of the Option Shares as of such date.

5. TERMINATION OF EMPLOYMENT.

(a) DEATH OR DISABILITY. If you cease active employment with the Company because of your death or "DISABILITY" (as defined in the Employment Agreement), any portion of this Option that is not vested and exercisable as of the date of such termination shall thereupon be forfeited; provided, that in the alternative the Human Resources and Corporate Governance Committee (the "COMMITTEE") of the Company's Board of Directors may, in its sole discretion, cause all or any portion of this Option then held by you to become vested and exercisable effective as of the date of such termination. In the event that your employment terminates due to your death or Disability, the last day on which any vested Options may be exercised shall be the earlier of (i) the Expiration Date, or (ii) the fifth anniversary of your death or Disability.

(b) TERMINATION WITHOUT CAUSE OR FOR GOOD REASON. Except as otherwise provided in Section 5(d) with respect to certain terminations of employment in connection with a Change in Control, if your employment is terminated by the Company without "CAUSE" (as defined in the Employment Agreement) or by you for "GOOD REASON" (as defined in the Employment Agreement), then (i) any portion of this Option that is not vested and exercisable as of the date of such termination shall continue to become exercisable as of the dates set forth in Section 4, and (ii) the last day on which this Option may be exercised shall be the Expiration Date.

(c) TERMINATION FOR CAUSE OR WITHOUT GOOD REASON. If your employment is terminated by the Company for Cause or by you without Good Reason (including without limitation by reason of your retirement), then (i) any portion of this Option that is not vested and exercisable as of the date

of such termination shall thereupon be forfeited and (ii) the vested portion of this Option shall terminate (A) if your employment is terminated by the Company for Cause, then this Option shall terminate on the date your employment terminates or (B) if your employment is terminated by you without Good Reason (including without limitation by reason of your retirement), then this Option shall terminate on the earlier of (x) the Expiration Date, or (y) the 90th day following the date of your termination of employment.

(d) CERTAIN TERMINATIONS OF EMPLOYMENT IN CONNECTION WITH A CHANGE IN CONTROL. Notwithstanding Section 5(b), if your employment is terminated by the Company without Cause or by you for Good Reason within six months prior to a "CHANGE IN CONTROL" (as defined in the Employment Agreement) or during the 12 month period immediately following such Change in Control, then (i) this Option shall become fully vested and exercisable with respect to all shares subject thereto effective immediately prior to the date of such termination and (ii) the last day on which this Option may be exercised shall be the Expiration Date.

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6. EXERCISE. This Option may be exercised (subject to the restrictions contained in this Agreement) in whole or in part for the number of shares specified (which in all cases must be at least the lesser of two-hundred and fifty (250) or the total number of shares outstanding under this Option) in a verbal or written notice that is delivered to the Company or its designated agent and is accompanied by full payment of the Exercise Price for such number of Option Shares in cash, or by surrendering or attesting to the ownership of shares of Common Stock, or a combination of cash and shares of Common Stock, in an amount or having a combined value equal to the aggregate Exercise Price for such Option Shares. In connection with any payment of the Exercise Price by surrender or attesting to the ownership of shares of Common Stock, proof acceptable to the Company shall be submitted upon request that such previously acquired shares have been owned by you for at least six (6) months prior to the date of exercise. Notwithstanding anything contained in this Agreement to the contrary, this Option shall not provide for the grant of any "RESTORATION OPTIONS" as defined in the Plan.

7. FORFEITURE. Notwithstanding anything contained in this Agreement to the contrary, this Option shall be subject to Section 11 of the Employment Agreement. Accordingly, if you (a) violate any of the covenants set forth in Section 9(a) or 9(b) of the Employment Agreement, or (b) materially violate any of the covenants set forth in Section 9(c), 9(e) or 9(f) of the Employment Agreement, then pursuant to Section 11 of the Employment Agreement (i) any portion of this Option that has not been exercised prior to the date of such breach shall thereupon be forfeited and (ii) you shall be required to pay to the Company the amount of all "RETENTION OPTION GAIN" (as defined in the Employment Agreement). You shall also be required to pay to the Company the amount of all Retention Option Gain upon the occurrence of those certain events described in Section 11(b) of the Employment Agreement.

8. RIGHTS AS A STOCKHOLDER. You will have no right as a stockholder with respect to any Option Shares until and unless ownership of such Option Shares has been transferred to you.

9. OPTION NOT TRANSFERABLE. This Option will not be assignable or transferable by you, other than by a qualified domestic relations order or by will or by the laws of descent and distribution, and will be exercisable during your lifetime only by you (or your legal guardian or personal representative). If this Option remains exercisable after your death, subject to Sections 1, 5 and 6 above, it may be exercised by the personal representative of your estate or by any person who acquires the right to exercise such Option by bequest, inheritance or otherwise by reason of your death.

10. TRANSFERABILITY OF OPTION SHARES. Option Shares generally are freely tradable in the United States. However, you may not offer, sell or otherwise dispose of any Option Shares in a way which would: (a) require the Company to file any registration statement with the Securities and Exchange Commission (or any similar filing under state law or the laws of any other country) or to amend or supplement any such filing or (b) violate or cause the Company to violate the Securities Act of 1933, as amended, the rules and regulations promulgated thereunder, any other state or federal law, or the laws of any

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other country. The Company reserves the right to place restrictions required by law on Common Stock received by you pursuant to this Option.

11. CONFORMITY WITH THE PLAN. This Option is intended to conform in all respects with, and is subject to applicable provisions of, the Plan. Inconsistencies between this Agreement and the Plan shall be resolved in accordance with the terms of the Plan. By your acceptance of this Agreement, you agree to be bound by all of the terms of this Agreement and the Plan.

12. NO RIGHTS TO CONTINUED EMPLOYMENT. Nothing in this Agreement confers any right on you to continue in the employ of the Coach Companies or affects in any way the right of any of the Coach Companies to terminate your employment at any time with or without cause.

13. MISCELLANEOUS.

(a) AMENDMENT OR MODIFICATIONS. The grant of this Option is documented by the minutes of the Committee, which records are the final determinant of the number of shares granted and the conditions of this grant. The Committee may amend or modify this Option in any manner to the extent that the Committee would have had the authority under the Plan initially to grant such Option, provided that no such amendment or modification shall directly or indirectly impair or otherwise adversely affect your rights under this Agreement without your prior written consent. Except as in accordance with the two immediately preceding sentences, this Agreement may be amended, modified or supplemented only by an instrument in writing signed by both parties hereto.

(b) GOVERNING LAW. All matters regarding or affecting the relationship of the Company and its stockholders shall be governed by the General Corporation Law of the State of Maryland. All other matters arising under this Agreement shall be governed by the internal laws of the State of New York, including matters of validity, construction and interpretation. You and the Company agree that all claims in respect of any action or proceeding arising out of or relating to this Agreement shall be heard or determined in any state or federal court sitting in New York, New York and you and the Company agree to submit to the jurisdiction of such courts, to bring all such actions or proceedings in such courts and to waive any defense of inconvenient forum to such actions or proceedings. A final judgment in any action or proceeding so brought shall be conclusive and may be enforced in any manner provided by law. Notwithstanding the foregoing, any matter also covered by, or dependent upon any interpretation under, the Employment Agreement shall be resolved pursuant to the arbitration provisions of Section 20 thereof.

(c) SUCCESSORS AND ASSIGNS. Except as otherwise provided herein, this Agreement will bind and inure to the benefit of the respective successors and permitted assigns and heirs and legal representatives of the parties hereto whether so expressed or not.

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(d) SEVERABILITY. Whenever feasible, each provision of this Agreement will be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be prohibited by or invalid under applicable law, such provision will be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of this Agreement.

[signature page follows]

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In witness whereof, the parties hereto have executed and delivered this agreement.

COACH, INC.

Felice Schulaner
Senior Vice President of Human Resources

Date: August 22, 2005

I ACKNOWLEDGE THAT I HAVE READ AND UNDERSTAND THE TERMS AND CONDITIONS OF THIS AGREEMENT AND OF THE PLAN AND I AGREE TO BE BOUND THERETO.

OPTIONEE:

REED KRAKOFF

SSN: _____

Date: August 22, 2005

August 22, 2005

Mr. Keith Monda
136 West 22nd Street
New York, NY 10011

Re: Employment Agreement Amendment

Dear Keith:

This Letter Agreement confirms the understanding reached between you and Coach, Inc., a Maryland corporation (the "Company"), regarding the terms of your continued employment with the Company. This Letter Agreement constitutes an amendment to that certain Employment Agreement by and between you and the Company dated as of June 1, 2003 (the "Employment Agreement"), which is attached hereto as Exhibit A. Capitalized terms used in this Letter Agreement and not defined herein shall have the meaning given such terms in the Employment Agreement.

1. Employment Agreement Term. You and the Company acknowledge and agree that, notwithstanding anything to the contrary in the Employment Agreement, the Initial Term shall end on July 1, 2011 unless earlier terminated as provided in Section 6 of the Employment Agreement.

2. Annual Base Salary. Effective as of September 1, 2005, your Annual Base Salary shall be payable at a rate of no less than \$750,000 per year, subject to annual increases as approved by the Committee.

3. Annual Bonus. With respect to each Contract Year commencing on and after July 1, 2005, your Maximum Bonus shall be equal to at least 150% of your Annual Base Salary.

4. Stock Options. As of August 22, 2005 (the "Grant Date"), you shall be granted a non-qualified stock option (the "Extension Options") to purchase 532,717 shares of Common Stock, pursuant to the terms and conditions of the Stock Incentive Plan and a written Stock Option Agreement to be entered into by and between you and the Company (the "Extension Stock Option Agreement"), which, except as otherwise provided in this Section 4, shall be substantially identical to the Retention Stock Option Agreement. For purposes of the Employment Agreement (including without limitation Sections 7 and 11 thereof), the Extension Options shall be treated identically to the Retention Options. The Extension Options shall have an exercise price equal to the fair market value per share of Common Stock as of the Grant Date and shall have a term of 10 years. The Extension Options shall become exercisable in three cumulative installments as follows: (a) the first installment shall consist of 25% of the shares of Common Stock covered by the Extension Options and shall become vested and exercisable on the fourth anniversary of the Grant Date; (b) the second installment shall consist of 25% of the shares of Common Stock covered by the Extension Options and shall become vested and exercisable on the fifth anniversary of the Grant Date; and (c) the third installment shall consist of 50% of the shares of Common Stock covered by the Extension Options and shall become exercisable on the sixth anniversary of the Grant Date; provided, that, except as otherwise provided in Section 7 of the Employment Agreement or the Extension Stock Option Agreement, no portion of the Extension Options not then exercisable shall become exercisable following your termination of employment for any reason. (For the avoidance of doubt, if your employment shall terminate by reason of your Disability or death, then Section 7(d) of the Employment Agreement shall apply to the Extension Options.) You and the Company acknowledge and

agree that the Extension Options shall not provide for the grant of any "Restoration Options" as defined in the Stock Incentive Plan.

5. Employment Agreement. You and the Company acknowledge and agree that, except as provided by this Letter Agreement, the Employment Agreement shall remain in full force and effect.

[signature page follows]

Please indicate your acceptance of the terms and provisions of this Letter Agreement by signing both copies of this Letter Agreement and returning one copy to me. The other copy is for your files. By signing below, you acknowledge and agree that you have carefully read this Letter Agreement in its entirety; fully understand and agree to its terms and provisions; and intend and agree that it be final and legally binding on you and the Company. This Letter Agreement shall be governed and construed under the internal laws of the State of New York and may be executed in several counterparts.

Very truly yours,

Felice Schulaner

SVP, Human Resources

Agreed and Accepted:

Keith Monda

EXHIBIT A

[EMPLOYMENT AGREEMENT]

COACH
2000 STOCK INCENTIVE PLAN
EXTENSION OPTION GRANT NOTICE AND AGREEMENT

Keith Monda

Coach, Inc. (the "COMPANY") is pleased to confirm that you have been granted a stock option (the "OPTION"), effective as of August 22, 2005 (the "GRANT DATE"), as provided in this agreement (the "Agreement"). The Option evidenced by this Agreement is the "EXTENSION OPTION" as defined in that certain Employment Agreement entered into by and between you and the Company effective as of June 1, 2003 (as amended as of the Grant Date, the "EMPLOYMENT AGREEMENT").

1. OPTION RIGHT. Your Option is to purchase, on the terms and conditions set forth below, the following number of shares (the "OPTION SHARES") of the Company's Common Stock, par value \$.01 per share (the "COMMON STOCK"), at the exercise price specified below (the "EXERCISE PRICE").

	Number of Option Shares	Exercise Price Per Option Share
	-----	-----
Shares Granted	532,717	\$32.37

2. OPTION. This Option is a non-qualified stock option that is intended to conform in all respects with the Company's 2000 Stock Incentive Plan (the "PLAN"), a copy of which will be supplied to you upon your request, and the provisions of which are incorporated herein by reference. This Option is not intended to qualify as an incentive stock option within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended.

3. EXPIRATION DATE. This Option expires on the tenth (10th) anniversary of the Grant Date (the "EXPIRATION DATE"), subject to earlier expiration upon your death, disability or other termination of employment, as provided in Section 5 below.

4. VESTING. This Option may be exercised only to the extent it has vested. Subject to Section 5 below, if you are continuously employed by the Company or any of its affiliates (collectively, the "COACH COMPANIES") from the Grant Date until (a) August 22, 2009, this Option will vest with respect to 25% of the

Option Shares as of such date, (b) August 22, 2010, this Option will vest with respect to an additional 25% of the Option Shares as of such date, and (c) August 22, 2011, this Option will vest with respect to the remaining 50% of the Option Shares as of such date.

5. TERMINATION OF EMPLOYMENT.

(a) DEATH OR DISABILITY. If you cease active employment with the Company because of your death or "DISABILITY" (as defined in the Employment Agreement), any portion of this Option that is not vested and exercisable as of the date of such termination shall thereupon be forfeited; provided, that in the alternative the Human Resources and Corporate Governance Committee (the "COMMITTEE") of the Company's Board of Directors may, in its sole discretion, cause all or any portion of this Option then held by you to become vested and exercisable effective as of the date of such termination. In the event that your employment terminates due to your death or Disability, the last day on which any vested Options may be exercised shall be the earlier of (i) the Expiration Date, or (ii) the fifth anniversary of your death or Disability.

(b) TERMINATION WITHOUT CAUSE OR FOR GOOD REASON. Except as otherwise provided in Section 5(d) with respect to certain terminations of employment in connection with a Change in Control, if your employment is terminated by the Company without "CAUSE" (as defined in the Employment Agreement) or by you for "GOOD REASON" (as defined in the Employment Agreement), then (i) any portion of this Option that is not vested and exercisable as of the date of such termination shall continue to become exercisable as of the dates set forth in Section 4 and (ii) the last day on which this Option may be exercised shall be the Expiration Date.

(c) TERMINATION FOR CAUSE OR WITHOUT GOOD REASON. If your employment is terminated by the Company for Cause or by you without Good Reason (including without limitation by reason of your retirement), then (i) any portion of this Option that is not vested and exercisable as of the date of such termination shall thereupon be forfeited and (ii) the vested portion of this Option shall terminate (A) if your employment is terminated by the Company for Cause, then this Option shall terminate on the date your employment terminates, (B) if your employment is terminated by you without Good Reason (including without limitation by reason of your retirement) prior to August 22, 2011, then this Option shall terminate on the earlier of (x) the Expiration Date, or (y) the 90th day following the date of your termination of employment, or (C) if your employment is terminated by you without Good Reason (including without limitation by reason of your retirement) on or following August 22, 2011, then this Option shall terminate on the Expiration Date.

(d) CERTAIN TERMINATIONS OF EMPLOYMENT IN CONNECTION WITH A CHANGE IN CONTROL. Notwithstanding Section 5(b), if your employment is terminated by the Company without Cause or by you for Good Reason within six months prior to a "CHANGE IN CONTROL" (as defined in the Employment Agreement) or during the 12 month period immediately following such Change in Control, then (i) this Option shall become fully vested and exercisable with respect to all shares subject thereto effective immediately prior to the date of such

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termination, and (ii) the last day on which this Option may be exercised shall be the Expiration Date.

6. EXERCISE. This Option may be exercised (subject to the restrictions contained in this Agreement) in whole or in part for the number of shares specified (which in all cases must be at least the lesser of two-hundred and fifty (250) or the total number of shares outstanding under this Option) in a verbal or written notice that is delivered to the Company or its designated agent and is accompanied by full payment of the Exercise Price for such number of Option Shares in cash, or by surrendering or attesting to the ownership of shares of Common Stock, or a combination of cash and shares of Common Stock, in an amount or having a combined value equal to the aggregate Exercise Price for such Option Shares. In connection with any payment of the Exercise Price by surrender or attesting to the ownership of shares of Common Stock, proof acceptable to the Company shall be submitted upon request that such previously

acquired shares have been owned by you for at least six (6) months prior to the date of exercise. Notwithstanding anything contained in this Agreement to the contrary, this Option shall not provide for the grant of any "RESTORATION OPTIONS" as defined in the Plan.

7. FORFEITURE. Notwithstanding anything contained in this Agreement to the contrary, this Option shall be subject to Section 11 of the Employment Agreement. Accordingly, if you (a) violate any of the covenants set forth in Section 9(a) or 9(b) of the Employment Agreement, or (b) materially violate any of the covenants set forth in Section 9(c), 9(e) or 9(f) of the Employment Agreement, then pursuant to Section 11 of the Employment Agreement, then (i) any portion of this Option that has not been exercised prior to the date of such breach shall thereupon be forfeited and (ii) you shall be required to pay to the Company the amount of all Retention Option Gain (as defined in the Employment Agreement). You shall also be required to pay to the Company the amount of all Retention Option Gain upon the occurrence of those certain events described in Section 11(b) of the Employment Agreement.

8. RIGHTS AS A STOCKHOLDER. You will have no right as a stockholder with respect to any Option Shares until and unless ownership of such Option Shares has been transferred to you.

9. OPTION NOT TRANSFERABLE. This Option will not be assignable or transferable by you, other than by a qualified domestic relations order or by will or by the laws of descent and distribution, and will be exercisable during your lifetime only by you (or your legal guardian or personal representative). If this Option remains exercisable after your death, subject to Sections 1, 5 and 6 above, it may be exercised by the personal representative of your estate or by any person who acquires the right to exercise such Option by bequest, inheritance or otherwise by reason of your death.

10. TRANSFERABILITY OF OPTION SHARES. Option Shares generally are freely tradable in the United States. However, you may not offer, sell or otherwise dispose of any Option Shares in a way which would: (a) require the Company to file any registration statement with the Securities and Exchange Commission (or any similar filing under state

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law or the laws of any other country) or to amend or supplement any such filing or (b) violate or cause the Company to violate the Securities Act of 1933, as amended, the rules and regulations promulgated thereunder, any other state or federal law, or the laws of any other country. The Company reserves the right to place restrictions required by law on Common Stock received by you pursuant to this Option.

11. CONFORMITY WITH THE PLAN. This Option is intended to conform in all respects with, and is subject to applicable provisions of, the Plan. Inconsistencies between this Agreement and the Plan shall be resolved in accordance with the terms of the Plan. By your acceptance of this Agreement, you agree to be bound by all of the terms of this Agreement and the Plan.

12. NO RIGHTS TO CONTINUED EMPLOYMENT. Nothing in this Agreement confers any right on you to continue in the employ of the Coach Companies or affects in any way the right of any of the Coach Companies to terminate your employment at any time with or without cause.

13. MISCELLANEOUS.

(a) AMENDMENT OR MODIFICATIONS. The grant of this Option is documented by the minutes of the Committee, which records are the final determinant of the number of shares granted and the conditions of this grant. The Committee may amend or modify this Option in any manner to the extent that the Committee would have had the authority under the Plan initially to grant such Option, provided that no such amendment or modification shall directly or indirectly impair or otherwise adversely affect your rights under this Agreement without your prior written consent. Except as in accordance with the two immediately preceding sentences, this Agreement may be amended, modified or supplemented only by an instrument in writing signed by both parties hereto.

(b) GOVERNING LAW. All matters regarding or affecting the relationship of the Company and its stockholders shall be governed by the General Corporation Law of the State of Maryland. All other matters

arising under this Agreement shall be governed by the internal laws of the State of New York, including matters of validity, construction and interpretation. You and the Company agree that all claims in respect of any action or proceeding arising out of or relating to this Agreement shall be heard or determined in any state or federal court sitting in New York, New York and you and the Company agree to submit to the jurisdiction of such courts, to bring all such actions or proceedings in such courts and to waive any defense of inconvenient forum to such actions or proceedings. A final judgment in any action or proceeding so brought shall be conclusive and may be enforced in any manner provided by law. Notwithstanding the foregoing, any matter also covered by, or dependent upon any interpretation under, the Employment Agreement shall be resolved pursuant to the arbitration provisions of Section 20 thereof.

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(c) SUCCESSORS AND ASSIGNS. Except as otherwise provided herein, this Agreement will bind and inure to the benefit of the respective successors and permitted assigns and heirs and legal representatives of the parties hereto whether so expressed or not.

(d) SEVERABILITY. Whenever feasible, each provision of this Agreement will be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be prohibited by or invalid under applicable law, such provision will be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of this Agreement.

[signature page follows]

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In witness whereof, the parties hereto have executed and delivered this agreement.

COACH, INC.

Felice Schulaner
Senior Vice President of Human Resources

Date: August 22, 2005

I ACKNOWLEDGE THAT I HAVE READ AND UNDERSTAND THE TERMS AND CONDITIONS OF THIS AGREEMENT AND OF THE PLAN AND I AGREE TO BE BOUND THERETO.

OPTIONEE:

KEITH MONDA

SSN: 284-42-3048

Date: August 22, 2005

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LIST OF SUBSIDIARIES OF COACH, INC.

1. Coach Services, Inc. (Maryland)
2. Coach Leatherware International, Inc. (Delaware)
3. Coach Stores Puerto Rico, Inc. (Delaware)
4. Coach Japan Holdings, Inc. (Delaware)
5. Coach Japan Investments, Inc. (Delaware)
6. 504-514 West 34th Street Corp. (Maryland)
7. Coach Europe Services S.r.l. (Italy)
8. Coach Stores Canada Inc. (Canada)
9. Coach International Holdings, Inc. (Cayman Islands)
10. Coach International Limited (Hong Kong)
11. Coach Manufacturing Limited (Hong Kong)
12. Coach Japan, Inc. (Japan)

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 333-51706 and 333-82102 on Form S-8 of our reports dated September 9th, 2005 relating to the consolidated financial statements and consolidated financial statement schedule of Coach, Inc., and management's report on the effectiveness of internal control over financial reporting appearing in this Annual Report on Form 10K of Coach, Inc. for the year ended July 2, 2005.

/s/ Deloitte and Touche LLP

New York, New York
September 9th, 2005

I, Lew Frankfort, certify that:

1. I have reviewed this Annual Report on Form 10-K of Coach, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 9, 2005

By: /s/ Lew Frankfort

Name: Lew Frankfort

Title: Chairman and Chief Executive Officer

I, Michael F. Devine III, certify that:

1. I have reviewed this Annual Report on Form 10-K of Coach, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 9, 2005

By: /s/ Michael F. Devine, III

Name: Michael F. Devine, III

Title: Senior Vice President and Chief Financial Officer

EXHIBIT 32.1

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Coach, Inc. (the "Company") hereby certifies, to such officer's knowledge, that:

(i) the accompanying Annual Report on Form 10-K of the Company for the fiscal year ended July 2, 2005 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: September 9, 2005

By: /s/ Lew Frankfort

Name: Lew Frankfort

Title: Chairman and Chief Executive Officer

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Coach, Inc. (the "Company") hereby certifies, to such officer's knowledge, that:

(i) the accompanying Annual Report on Form 10-K of the Company for the fiscal year ended July 2, 2005 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: September 9, 2005

By: /s/ Michael F. Devine, III

Name: Michael F. Devine, III

Title: Senior Vice President and Chief Financial Officer