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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-K**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the Fiscal Year Ended June 29, 2002**

or

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

Commission file number: 1-16153

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**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:**

**Title of Each Class:**

**Name of Each Exchange on which Registered**

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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.

The approximate aggregate market value of the voting and non-voting stock held by non-affiliates of the registrant was approximately \$2,158,000,000 as of August 30, 2002. 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 August 30, 2002, the Registrant had 88,116,511 outstanding shares of common stock, which is the Registrant's only class of common stock.

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COACH, INC.

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Founded in 1941, Coach has grown from a family-run workshop in a Manhattan loft to a premier accessories marketer in the United States. 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 has grown into a niche maker and marketer of traditionally styled, high-quality leather goods with expanding national brand recognition, selling its products through upscale department and specialty stores, its own retail stores and its direct mail catalog. Coach has built upon its national brand awareness, expanded into international sales, particularly in Japan and East Asia, diversified its product offerings beyond leather handbags, further developed its multi-channel distribution strategy and licensed products with the Coach brand name.

**SPECIAL NOTE ON FORWARD-LOOKING INFORMATION**

This document and the documents incorporated by reference in this document contain forward-looking statements that involve risks and uncertainties. We use words such as “believe,” “expect,” “anticipate,” “intend,” “plan,” “foresee,” “likely,” “project,” “estimate,” “will,” “may,” “should,” “future,” “predicts,” “potential,” “continue” and similar expressions to identify these forward-looking statements.

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 of Coach, Inc.”. 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.

**WHERE YOU CAN FIND MORE INFORMATION**

Coach’s quarterly financial results and other important information are available by calling the Investor Relations Department at (212) 629-2618.

Coach maintains a web site at [www.coach.com](http://www.coach.com) where investors and other interested parties may obtain press releases, other information and gain access to periodic reports to the SEC.

## PART I

### Item 1. *Business of Coach, Inc.*

#### OVERVIEW

Coach is a designer, producer and marketer of high-quality, modern American classic accessories. Coach believes that it is one of the best recognized leather goods brands in the U.S. and is enjoying increased recognition in targeted international markets. Net sales were \$719.4 million in the year ended June 29, 2002 ("fiscal 2002"), \$600.5 million in the year ended June 30, 2001 ("fiscal 2001") and \$537.7 million in the year ended July 1, 2000, ("fiscal 2000"). Operating income was \$133.6 million in fiscal 2002, \$101.7 million in fiscal 2001 and \$56.0 million in fiscal 2000. Operating income excluding reorganization costs was \$137.0 million in fiscal 2002, \$106.3 million in fiscal 2001 and \$56.0 million in fiscal 2000. Coach's primary product offerings include handbags, women's and men's accessories, business cases, weekend and travel accessories, leather outerwear, gloves, scarves and personal planning products. Together with its licensing partners, Coach also offers watches, footwear and home and office furniture with the Coach brand name. Coach's products are sold through a number of direct to consumer channels, which at the end of fiscal 2002 included:

- 138 United States retail stores;
- direct mail catalogs;
- on-line store;
- 74 United States factory stores; and
- Two United Kingdom retail stores

Coach's direct to consumer business represented approximately 62% of its total sales in fiscal 2002. Its remaining sales were generated from products sold through a number of indirect channels, which at the end of fiscal 2002 included:

- approximately 1,400 department store and specialty retailer locations in the U.S.;
- 118 international department store, retail store and duty free shop locations in 18 countries;
- 83 retail and department locations operated by Coach Japan, Inc.; and
- corporate sales programs.

Beginning in 1997 Coach embarked on a fundamental transformation of its brand. Coach repositioned its image in a modern, fashionable direction to make it more appealing to consumers. Coach built upon its popular core categories by introducing new products in a broader array of materials and styles to respond to consumers' demands for both fashion and function and it introduced new product categories. In 1999, Coach began renovating its retail stores, select U.S. department store locations and key international locations to create a modern environment to showcase its new product assortments and reinforce a consistent brand position. Over the last four years Coach also has been implementing a flexible, cost-effective manufacturing model in which independent manufacturers supply most of its products which allows Coach to bring its broader range of products to market more rapidly and efficiently.

Coach has developed a number of strengths including:

- an established and growing brand franchise; and, a loyal consumer base reinforced by years of investment in effective marketing communications;
- distinctive product attributes including a reputation for product quality, durability, function, premium leather and fabrics and classic styling;
- comprehensive internal creative direction that defines Coach's image, delivers a consistent message and differentiates it from other brands;

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- a well-developed multi-channel presence allowing Coach to serve its customers wherever they choose to shop; and
- recognition as a desirable resource for both personal and business gift-giving occasions.

Coach believes that these strategic initiatives have succeeded in repositioning it as a modern lifestyle accessories brand. In fiscal 2002 net sales increased 19.8% and operating income increased 31.4% compared to fiscal 2001. In fiscal 2001 net sales increased 11.7% and operating income increased 81.5% compared to fiscal 2000. Excluding the impact of reorganization costs, operating income increased 28.9% in fiscal 2002 compared to fiscal 2001 and 89.7% in fiscal 2001 compared to fiscal 2000.

However, to remain competitive in its industry, Coach must also accurately anticipate consumer trends and tastes.

### **Growth Strategies**

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

**Accelerate New Product Development.** Coach has accelerated the development of new products, styles and product categories to support its image as a broader lifestyle accessories brand through:

- seasonal variations of successful styles in new colors, leathers and fabrics that reflect current fashion trends;
- new collections, product additions and line extensions that add to its existing product portfolio, such as its Coach Hamptons collection of handbags and accessories, which introduced new shapes, fabrics and detailing to Coach's existing handbag and accessories portfolio; and, the Signature lifestyle collection, with a graphic logo design inspired by materials from our archives. This collection features a broad assortment of products including handbags, women's accessories, shoes, hats and outerwear;
- new categories of product offerings, such as electronic accessories and products for the home or the fine jewelry collection;
- continual updates to its core collections, such as a classic briefcase in a lightweight travel twill; and
- licensed products with the Coach brand name, such as watches, footwear and furniture, and Coach's participation in co-marketing ventures with companies such as Lexus, Palm and Motorola.

During fiscal 2002, approximately 65% of Coach's net sales, excluding factory store business, were generated from products introduced during this period, including new product categories and line extensions.

**Modernize Retail Presentation.** Coach has modernized its brand image by remodeling its retail stores to create a distinctive environment to showcase its new product assortments and reinforce a consistent brand position. Coach recently completed its retail renovation program and opened additional flagship locations in Chicago and Japan. Coach expects that:

- approximately 20 international wholesale locations will be converted to, or opened with, the new store design by June 2003 (78 locations were remodeled as of end of fiscal 2002); and
- at least 20 U.S. department store locations will be remodeled or opened in the new store design by June 2003 (43 U.S. department store locations were remodeled as of end of fiscal 2002).

**Increase U.S. Retail Store Openings.** Coach opened 20 new U.S. retail stores in fiscal 2002 and 15 in fiscal 2001. In each of the next two years, Coach plans to expand its network of 138 retail stores by opening at least 20 new stores per year located primarily in high volume markets. 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, as exemplified by the Coach flagship store at 57th Street and Madison Avenue in Manhattan, has an open, loft-like feeling, with crisp white brick walls, ebony-stained wood floors and a timeless, uncluttered look. It generally takes four to six months from the time Coach takes possession of a store to open it.

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**Expand Market Share with Japanese Consumer.** In June 2001, Coach Japan was formed. Coach Japan is a joint venture with Sumitomo Corporation, which manages the Coach business in Japan. Coach owns 50% of Coach Japan and appoints a majority of the Board of Directors. It is accounted for as a consolidated subsidiary. In order to expand its presence in the Japanese market and to exercise greater control over its brand in that country, Coach Japan has acquired the existing distributors of Coach products in Japan.

On July 31, 2001, Coach Japan completed the purchase of 100% of the capital stock of P.D.C. Co. Ltd. ("PDC") from the Mitsukoshi Department Store Group for a total purchase price of \$9.0 million. At the time of acquisition PDC operated 63 retail and department store locations in Japan. This acquisition was accounted for under the purchase method of accounting and as such, the results of the acquired business are included in the consolidated financial statements from August 1, 2001, onward.

On January 1, 2002, Coach Japan completed the buyout of the distribution rights and assets, related to the Coach business, from J. Osawa and Company, Ltd. for \$5.8 million. At the time of the acquisition, J. Osawa operated 13 retail and department store locations in Japan. This acquisition was accounted for under the purchase method of accounting and as such, the results of the acquired business are included in the consolidated financial statements from January 1, 2002, onward.

As of June 29, 2002 there were 85 Coach locations in Japan, including 68 department stores, 14 Coach stores and one flagship location managed by Coach Japan and two airport locations operated by a distributor. Coach Japan plans to open additional locations within existing major retailers, enter new department store relationships and open freestanding retail locations.

**Further Penetrate International Markets.** Coach is increasing its international distribution and targeting international consumers, and Japanese travelers in particular, to take advantage of substantial growth opportunities for Coach. Its current network of international distributors serves markets in Australia, the United Kingdom, the Caribbean, Korea, Hong Kong, Singapore and Japan. Coach has significant opportunities to increase sales through existing and new international distribution channels. Coach believes Japanese consumers represent a major growth opportunity because they spend substantially more on a per capita basis on luxury accessories than U.S. consumers.

**Improve Operational Efficiencies.** Coach has upgraded and reorganized its manufacturing, distribution and information systems over the past five 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 from owned 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 2002, Coach's gross margin increased to 67.2% from 63.6% during fiscal 2001. This improvement was driven by the consolidation of Coach Japan combined with the operating efficiencies previously discussed. Coach intends to continue to increase efficiencies in its sourcing, manufacturing and distribution processes by:

- strengthening the coordination of design, merchandising, product development and manufacturing to streamline product introduction;
- continuing to improve the new product development process and timeline;
- improving time-to-market capabilities and efficiencies;
- integrating computer-assisted design into the product design and development processes;
- establishing product development capabilities to test new materials and new design functionality;
- expanding its organization to improve East Asian independent manufacturing capabilities;
- introducing new business systems that use sales information and demographic data to tailor the mix of product offerings at different retail locations to consumer preferences at such locations;
- shortening product lead times to improve inventory management; and
- continuing implementation of a comprehensive supply chain management strategy.

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**Promote Gift Purchases of its Products.** Coach believes that a substantial amount of its U.S. sales are gift purchases, as evidenced by Coach's higher sales during the holiday season. Coach intends to further promote the Coach brand as an appealing resource for gift-giving occasions by developing new products well-suited for gift selection, such as coin purses, mirrors, notepad holders and card cases in new styles and designs. In addition, Coach's marketing communication efforts, including advertising, catalog mailings and outbound e-mails, are timed to reach consumers before important holidays throughout the year.

For holiday 2001, Coach introduced proprietary packaging designed to further enhance the experience of buying or receiving a gift from Coach.

**Capitalize on Growing Interest in e-Commerce.** In October 1999 Coach launched its on-line store. Coach's website meets growing consumer demand for the flexibility and convenience of shopping over the Internet by offering a selective array of its products. Coach views its website, like its catalogs, as a key communications vehicle for the brand that also promotes store traffic.

### **Coach's Products**

**Handbags.** Coach's original business was the design, manufacture and distribution of fine handbags, which accounted for approximately 56% of its net sales in fiscal 2002. Coach makes quarterly 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, cosmetic cases, key fobs and belts, represented approximately 13% of Coach's net sales in fiscal 2002. Coach recently completed a comprehensive updating in the design of the small leather goods collections to coordinate them with its popular handbag collections. Men's accessories, consisting of belts, leather gift boxes and other small leather goods, represented approximately 6% of Coach's net sales in fiscal 2002.

**Business Cases.** Business cases represented approximately 7% of Coach's net sales in fiscal 2002. We recently expanded this category to include nylon cases and computer bags.

**Weekend and Travel Accessories.** The Coach luggage collection is comprised of cabin bags, duffels, suitcases, garment bags and a comprehensive collection of travel accessories. Luggage and travel accessories represented approximately 3% of Coach's net sales in fiscal 2002.

**Outerwear, Gloves and Scarves.** Primarily a cold weather category, the assortment is approximately 70% women's and contains a fashion assortment in all three components of this category. In total, this category represented approximately 3% of Coach's net sales in fiscal 2002.

**Personal Planning Products.** A complement to Coach's business cases and handbag collections, its personal planning assortment includes folios, planners and desk agendas in a variety of leathers and fabrics. The category represented approximately 2% of Coach's net sales in fiscal 2002.

**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 certain Coach stores and U.S. department stores. Approximately 87% of the business is in women's footwear which coordinates with Coach handbags and employs fine materials including calf and suede.

**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 manufactured in Switzerland and are branded with the Coach name and logo.

**Furniture and Home Furnishings.** Coach furniture was launched in the Spring of 1999 with Baker Knapp & Tubbs, Inc. ("Baker") as the licensee. The furniture collection is comprised of a range of leather and suede sofas, chairs and benches and includes Coach's distinctive ebony wood and leather field chairs and ottomans. The collection is sold through Baker showrooms and select dealers across the U.S. The home

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furnishings collection was developed for Coach retail stores with an assortment of leather frames, mirrors, boxes, trays and pillows.

**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.

**Jewelry.** In November 2001, Coach, in conjunction with Carolee Designs, Inc., launched its first jewelry collection. The collection consists of pure sterling silver and leather combinations, some with a touch of brass. Select cuff bracelets are also offered in a variety of colors of genuine crocodile.

### **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 50 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 and edit, add and delete styles with the objective of profitable sales across channels. Three product category teams, each comprised of design, merchandising/product development and manufacturing 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, such as watches, footwear and 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 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 we exercise final approval for all new licensed 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 and executed internally 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 stimulate sales to consumers in their preferred shopping venue. As part of Coach's direct marketing strategy, it uses its database consisting of approximately seven 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](http://www.coach.com) on-line store provides an opportunity to increase the size of this database to increase on-line and store sales and build brand awareness. Coach's on-line store, like its catalogs and brochures, provides a showcase environment where consumers can browse through a strategic offering of Coach's latest styles and colors.

In the U.S., Coach spent approximately \$17 million, or 2% of net sales in fiscal 2002, for national, regional and local advertising, primarily print and outdoor advertising, in support of its major selling seasons. Coach catalogs and [www.coach.com](http://www.coach.com) also serve as effective brand communications vehicles, driving store traffic as well as direct-to-consumer sales. Coach's co-branding partners, include Lexus, Palm and Motorola. Through their targeted sales and advertising programs they have helped to strengthen Coach's brand cachet. Advertising by the co-branding partners provides important additional exposure of the Coach brand, although the revenues generated from the purchase of Coach products by the co-branding partners are not material to

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the Coach business. In fiscal 2002 Coach licensees spent an additional \$5.5 million as part of an integrated advertising and marketing campaign, in which Coach controls concept, design and execution.

Coach also has a sophisticated consumer and market research capability, which helps us assess consumer attitudes and trends and gauge likelihood of success in the marketplace prior to product 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, e-commerce and direct mail. The direct to consumer business represented approximately 62% of Coach's total net sales in fiscal year 2002.

**Retail Stores.** Coach's retail stores establish, reinforce and capitalize on the image of the Coach brand. Coach operates 138 retail stores in the United States that are located in upscale regional shopping centers and metropolitan areas. It operates eight 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 |                  |                 |
|------------------------------------|-------------------|------------------|-----------------|
|                                    | June 29,<br>2002  | June 30,<br>2001 | July 1,<br>2000 |
| Retail stores                      | 138               | 121              | 106             |
| Increase vs. prior year            | 17                | 15               | 5               |
| Percentage increase vs. prior year | 14.0%             | 14.2%            | 5.0%            |
| Retail square footage              | 301,501           | 251,136          | 209,059         |
| Increase vs. prior year            | 50,365            | 42,077           | 12,565          |
| Percentage increase vs. prior year | 20.1%             | 20.1%            | 6.4%            |
| Average square footage             | 2,185             | 2,076            | 1,972           |

Depending on their size and location, the retail stores present product lines that include handbags, business cases, wallets, footwear, watches, weekend and related accessories. As of June 29, 2002 Coach completed the retail renovation program of its stores that began in fiscal 1999. This modern store design creates a distinctive environment that showcases the 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.

**Factory Stores.** Coach's 74 factory stores serve as an efficient means to sell discontinued and irregular inventory, as well as, manufactured-for-factory-store product, outside the retail channels. These stores operate under the Coach Factory name and are geographically positioned primarily in established centers that are usually between 50 and 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 |                  |                 |
|------------------------------------|-------------------|------------------|-----------------|
|                                    | June 29,<br>2002  | June 30,<br>2001 | July 1,<br>2000 |
| Factory stores                     | 74                | 68               | 63              |
| Increase vs. prior year            | 6                 | 5                | 1               |
| Percentage increase vs. prior year | 8.8%              | 7.9%             | 1.6%            |
| Factory square footage             | 219,507           | 198,924          | 182,510         |
| Increase vs. prior year            | 20,583            | 16,414           | 6,922           |
| Percentage increase vs. prior year | 10.3%             | 9.0%             | 3.9%            |
| Average square footage             | 2,966             | 2,925            | 2,897           |

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Coach's factory store design, visual presentations and customer service levels support and reinforce the brand's image. Prices are generally discounted from 15% to 50% below full retail prices. Through these factory stores, Coach primarily targets value-oriented customers who would not otherwise buy the Coach brand.

**e-Commerce.** Coach views its e-commerce website as a key communications vehicle for the brand, which also promotes store traffic. Like Coach catalogs and brochures, the on-line store provides a showcase environment where consumers can browse through a selected offering of the latest styles and colors.

**Direct Mail.** Coach mailed its first Coach catalog in 1980. In fiscal 2002, it mailed at least one Coach catalog to approximately 2 million strategically selected households, primarily from its database. While direct mail sales comprise a small portion of Coach's net sales, Coach views its catalogs as a key communications vehicle for the brand, which also promotes store traffic. As an integral component of its 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. 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 customers, both domestic and international, to ensure a clear and consistent product presentation. As part of Coach's business transformation, selected shop-within-shop locations in major department stores are being renovated to achieve the same modern look and feel as the Coach retail stores. At the end of fiscal 2002, 130 international locations and 43 U.S. department stores were renovated to reflect the new modern design. The indirect channel represented approximately 38% of total net sales in fiscal 2002.

**Coach Japan, Inc.** In order to expand its presence in the Japanese market and to exercise greater control over its brand in that country, Coach formed Coach Japan. This entity is a joint venture with Sumitomo Corporation and manages the Coach business in Japan. This channel represented approximately 12% of total net sales in fiscal 2002. On July 31, 2001 Coach Japan purchased PDC, Coach's largest distributor in Japan and on January 1, 2002 Coach Japan completed the buyout of the distribution rights and assets related to the Coach business from J. Osawa. Coach Japan operates one flagship store, which offers the broadest assortment of Coach products, in the Ginza shopping district of Tokyo. The following table shows the number of Coach Japan locations and their total and average square footage:

|                                    | Fiscal Year Ended |                     |                    |
|------------------------------------|-------------------|---------------------|--------------------|
|                                    | June 29,<br>2002  | June 30,<br>2001(1) | July 1,<br>2000(1) |
| Total locations                    | 83                | 76                  | 70                 |
| Increase vs. prior year            | 7                 | 6                   | —                  |
| Percentage increase vs. prior year | 9.2%              | 8.6%                | —                  |
| Total square footage               | 76,975            | 63,371              | 56,142             |
| Increase vs. prior year            | 13,604            | 7,229               | —                  |
| Percentage increase vs. prior year | 21.5%             | 12.9%               | —                  |
| Average square footage             | 927               | 834                 | 802                |

(1) Fiscal 2001 and 2000 represent locations operated by PDC and J. Osawa prior to their acquisition by Coach Japan.

**U.S. Wholesale.** Coach's products are currently sold in the U.S. at approximately 1,400 wholesale locations. This channel represented approximately 12% of total sales in fiscal 2002. Recognizing the continued importance of U.S. department and specialty stores as a distribution channel for premier accessories, Coach is strengthening its longstanding relationships with its key customers through its products and styles and Coach's renovation program. This channel offers access to Coach customers who prefer shopping at department and specialty stores or who live in geographic areas that are not large enough to support a Coach retail store.

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Coach's more significant U.S. wholesale customers include Federated (including Macy's, Bloomingdale's, Rich's/ Lazarus, Burdine's, and Bon Marche), May Co. (including Lord & Taylor, Foley's, Hecht's, Kaufman's, Robinson's/ May, Famous Barr, Filene's and Meier & Frank), Marshall Fields, Dillard's, Saks Inc. and Nordstrom.

**International Wholesale.** Coach's international business, which represented approximately 8% of total sales in fiscal 2002, is generated through wholesale distributors and authorized retailers. Coach has developed relationships with a select group of distributors who market Coach products through specialty retailers, department stores, travel shopping locations, and freestanding Coach stores in 18 countries. Coach's current network of international distributors serves markets such as Australia, the United Kingdom, the Caribbean, Korea, Hong Kong and Singapore. Coach has created image enhancing environments in these locations to increase brand appeal and stimulate growth. Within the international arena, the primary focus is the Japanese consumer. Coach targets this consumer in Japan and in areas with significant levels of Japanese tourism. The importance of Japanese consumers is illustrated by a comparison of consumption levels: per capita spending on handbags in Japan is substantially greater than in the U.S. Coach's more significant international wholesale customers include Dickson Concepts, Inc., Duty Free Shops and Unisia.

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 |                  |                 |
|--|-------------------|------------------|-----------------|
|  | June 29,<br>2002  | June 30,<br>2001 | July 1,<br>2000 |
| International freestanding stores        | 12                | 6                | 10              |
| International department store locations | 71                | 69               | 68              |
| Other international locations            | 35                | 28               | 26              |

On July 1, 2002 Coach signed an agreement with Case London Ltd. ("Case") for the exclusive distribution of Coach products in the United Kingdom and Ireland. Over the next three years, Case, a privately held British retailer and distributor of fine accessories and luggage, plans to open up to 25 Coach locations in the United Kingdom. Case will develop a multi channel distribution strategy consistent with the successful Coach model in the United States and Japan. In addition, Case assumed the responsibility of operating the existing Coach store on Sloane Street and the Coach shop in Harrods in London.

**Business to Business.** As part of the indirect channel of distribution, Coach sells some of its products in selected military locations and through corporate 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 June 29, 2002 are as follows:

| Category         | Licensing Partner | Introduction Date | Territory       | License Expiration Date |
|------------------|-------------------|-------------------|-----------------|-------------------------|
| Watches          | Movado            | Spring '98        | U.S. and Japan  | 2006                    |
| Footwear         | Jimlar            | Spring '99        | U.S             | 2008                    |
| Furniture        | Baker             | Spring '99        | U.S. and Canada | 2008                    |
| 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, furniture through Baker's own showrooms, and watches in selected jewelry stores. These venues provide additional, yet controlled, exposure of the Coach brand. Coach's licensing partners pay Coach royalties on their sales of Coach branded products. However, such royalties currently comprise less than 1% of Coach's revenues and are not material to the Coach business. The licensing agreements generally give Coach the right to terminate the license if specified sales targets are not achieved.

## **Manufacturing**

Coach has refined its production capabilities in coordination with the repositioning of its brand. By shifting its production from owned domestic facilities to independent manufacturers in lower-cost markets, it can support a broader mix of product types, materials and a seasonal influx of new, more fashion-oriented styles. During fiscal year 2002, approximately 65% of Coach's net sales, excluding factory store business, were generated from products introduced within the fiscal year. At the same time, we help manage total inventory and limit our exposure to excess and obsolete inventory by designating a large number of the new styles as "limited editions" that are planned to be discontinued and replaced with fresh new products.

Coach has developed a flexible 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. We monitor compliance with the quality control standards through on-site quality inspections at all independent manufacturing facilities. One of Coach's keys to success lies in the rigorous selection of raw materials. Coach has long-standing relationships with purveyors of fine leathers and hardware. As it has moved its production to external sources, Coach still requires that these same raw materials are used in all of its products, wherever they are made.

Approximately 95% of Coach's fiscal year 2002 non-licensed product requirements were supplied by independent manufacturers, measured as a percentage of total units produced. Coach buys independently manufactured products from a variety of countries including China, Costa Rica, Mexico, India, Italy, Spain, Hungary and Turkey. It operates a European sourcing and product development organization based in Florence, Italy that works closely with the New York-based 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 20% of Coach's total requirements. 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.

As part of the strategy to shift production to independent manufacturers in lower-cost markets, Coach ceased operations at its remaining facility, located in Lares, Puerto Rico, in April 2002. In fiscal year 2002, this 66,000 square foot facility contributed approximately 5% of production.

## **Distribution**

In July 1999, Coach consolidated its worldwide warehousing, distribution and repair functions into one location in Jacksonville, Florida. This highly automated, 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 allows us to more accurately process and pack orders, track shipments, manage inventory and generally provide better service to its customers. Coach's products are primarily shipped via Federal Express and common carriers to Coach retail stores and wholesale customers and via Federal Express direct to consumers.

The average order processing time is 2 to 3 days. During Coach's peak season in the second quarter of fiscal 2002, Coach shipped approximately 96% of all orders complete.

## **Management Information Systems**

The foundation of Coach's information systems is its Enterprise Resource Planning system. Implemented in 1997, this fully integrated system supports all aspects of finance and accounting, procurement, inventory control, sales and store replenishment, resulting in increased efficiencies, improved inventory control and a better understanding of consumer demand. The system functions as a central repository for all of Coach's transactional information, resulting in increased efficiencies and greater inventory control. This system is fully scalable to accommodate rapid growth.

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Complementing its Enterprise Resource Planning system are several other newly-implemented 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 Coach's catalog and Internet businesses are supported by Coach's direct sales 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. 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 owns and maintains worldwide registrations for trademarks in all relevant classes of products in each of the countries in which Coach products are sold. Its 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 June 29, 2002, Coach employed approximately 2,900 people, approximately 50 of which were covered by collective bargaining agreements. Of the total, approximately 1,600 are engaged in retail selling and administration positions, approximately 500 are engaged in manufacturing, sourcing or distribution functions and approximately 400 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 a majority 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.

### **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 will 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 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. Some of Coach's competitors have achieved significant recognition for their brand names or have substantially greater financial, distribution, marketing and other resources than the Company.

***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, such as the economic downturn in Asia during 1997, may adversely affect Coach's sales.

***Coach's business is subject to foreign exchange risk***

Coach sells products to its international wholesale customers (including Coach Japan), 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.

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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. 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. Currently in accordance with GAAP, these contracts are fair valued (i.e. marked-to-market) at the end of each reporting period. 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. These 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 have made significant contributions to its growth and success. Coach does not have employment agreements with any of its key executives or design personnel. 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 experienced, and expects to continue to experience, substantial seasonal fluctuations in its sales and operating results. Over the past two fiscal years approximately 35% of Coach's annual sales and over 50% of its operating income were recognized in the second fiscal quarter, which includes the holiday months of November and December.

***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, 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 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 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.

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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 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 you 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 and Maryland law 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 more of the outstanding common stock. We are currently aware of one institutional shareholder whose common stock holdings exceed the 10% threshold established by the rights plan. This holder has been given permission to increase its ownership in the company to a maximum of 15%, subject to certain exceptions, before triggering the provision of the rights plan.

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

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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 June 29, 2002, all of which are leased. The leases expire at various times through 2015, subject to renewal options.

| <u>Location</u>                     | <u>Use</u>                        | <u>Approximately<br/>Square Footage</u> |
|-------------------------------------|-----------------------------------|---|
| Jacksonville, Florida               | Distribution and customer service | 560,000                                 |
| 516 West 34th Street, New York      | Corporate                         | 160,000                                 |
| Carlstadt, New Jersey               | Corporate and product development | 93,000                                  |
| Florence, Italy                     | Product development               | 16,000                                  |
| Tokyo, Japan                        | Coach Japan, corporate            | 7,000                                   |
| Shenzhen, Peoples Republic of China | Quality control                   | 1,600                                   |

Coach also occupies 138 retail and 74 factory leased retail stores located in the United States and two retail locations in the United Kingdom as of June 29, 2002. Indirectly, through Coach Japan, Coach operates 83 retail and department store locations in Japan. Coach considers these properties to be in good condition generally 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. In the ordinary course of business, Coach is involved in the policing of its intellectual property rights. As part of its policing program, 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 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 the Coach business, cash flows, results of operations or financial position.

**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 June 29, 2002:

| Name                  | Age | Position(s)(1)  |
|-----------------------|-----|---|
| Lew Frankfort         | 56  | Chairman, Chief Executive Officer and Director                              |
| Keith Monda           | 56  | President, Chief Operating Officer and Director                             |
| David DeMattei        | 46  | President, North American Retail and Wholesale Divisions                    |
| Reed Krakoff          | 38  | President, Executive Creative Director                                      |
| Mike Devine           | 43  | Senior Vice President, Chief Financial Officer and Chief Accounting Officer |
| Carole Sadler         | 43  | Senior Vice President, General Counsel and Secretary                        |
| Felice Schulaner      | 42  | Senior Vice President, Human Resources                                      |
| Joseph Ellis(2)(3)    | 60  | Director  |
| Sally Frame Kasaks(3) | 58  | Director  |
| Gary Loveman          | 42  | Director  |
| Irene Miller(2)(3)    | 50  | Director  |
| Michael Murphy(2)(3)  | 65  | 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 compensation and employee benefits committee.

**Lew Frankfort** has been involved with the Coach business in excess of 20 years. He has served as Chairman and Chief Executive Officer of Coach since November 1995. He has 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 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.

**Keith Monda** was appointed President of Coach in May 2002 after serving as Executive Vice President and Chief Operating Officer of Coach from June 1998. 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,

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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. Mr. Monda holds Bachelor of Science and Master of Arts degrees from Ohio State University.

**David DeMattei** joined Coach as President, Retail Division in July 1998 and was named President, North American Retail and Wholesale Divisions in March 2002. From June 1995 to April 1998, Mr. DeMattei served as Retail President of J. Crew, and from January 1994 to January 1995 he served as Chief Financial Officer of the Nature Company, a division of CML Group. From January 1993 to January 1994, he served as President of Banana Republic Retail Stores. From January 1983 through January 1993, Mr. DeMattei held various positions at Gap, Inc., including Chief Financial Officer. Mr. DeMattei holds a Bachelor of Science degree in Business Administration from the University of San Francisco.

**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.

**Mike Devine** has served as Senior Vice President and Chief Financial 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 on September 12, 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 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 The New York State Nature Conservancy and Waterworks, Inc. He is a member of the Steering Committee of the Center for Environmental Research and Conservation of Columbia University, a Northeast trustee of CARE and a

trustee for 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 and 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 White House, Inc., Tuesday Morning, Inc., The Children's Place, Inc. and Learning Curve International, Inc. She holds a Bachelor of Arts degree from The American University.

**Gary Loveman** was elected to Coach's Board of Directors in February 2002. Mr. Loveman has served as President of Harrah's Entertainment, Inc. since April 2001 and Chief Operating Officer of Harrah's since May 1998. Effective January 1, 2003, Mr. Loveman will assume the role of Chief Executive Officer of Harrah's. 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 1994 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 Ventas, Inc. and JCC Holding Company. He holds a Bachelor of Arts degree in Economics from Wesleyan University and a Ph.D. in Economics from the Massachusetts Institute of Technology.

**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 and 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, serving as Principal in her last position. Ms. Miller also serves as a director on the Boards of Barnes & Noble, Inc., Oakley, Inc., Inditex, S.A. and The Body Shop International PLC. Ms. Miller holds a Master of Science degree from Cornell University and a Bachelor of Science degree from the University of Toronto.

**Michael Murphy** was elected to Coach's Board of Directors on September 12, 2000. From 1994 to 1997, Mr. Murphy served as Vice Chairman and Chief Administrative Officer of Sara Lee. 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 Bassett Furniture Industries, Inc., Civic Federation, Big Shoulders Fund, Chicago Cultural Center Foundation, GATX Corporation, Payless Shoe Source, 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 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 (in thousands except for per share data)**

The selected historical financial data presented below as of and for each of the fiscal years in the five-year period ended June 29, 2002 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 |                  |                 |                 |                  |
|--|-------------------|------------------|-----------------|-----------------|------------------|
|  | June 29,<br>2002  | June 30,<br>2001 | July 1,<br>2000 | July 3,<br>1999 | June 27,<br>1998 |
| <b>Consolidated Statements of Income:(1)</b>                   |                   |                  |                 |                 |                  |
| Net sales(2)   | \$719,403         | \$600,491        | \$537,694       | \$500,944       | \$513,915        |
| Cost of sales  | 236,041           | 218,507          | 220,085         | 226,190         | 235,512          |
| Gross profit   | 483,362           | 381,984          | 317,609         | 274,754         | 278,403          |
| Selling, general and administrative expenses                   | 346,354           | 275,727          | 261,592         | 248,171         | 253,390          |
| Reorganization costs(3)  | 3,373             | 4,569            | —               | 7,108           | —                |
| Operating income   | 133,635           | 101,688          | 56,017          | 19,475          | 25,013           |
| Interest expense, net  | 299               | 2,258            | 387             | 414             | 236              |
| Income before provision for income taxes and minority interest | 133,336           | 99,430           | 55,630          | 19,061          | 24,777           |
| Provision for income taxes                                     | 47,325            | 35,400           | 17,027          | 2,346           | 4,180            |
| Minority interest, net of tax                                  | 184               | —                | —               | —               | (66)             |
| Net income   | \$ 85,827         | \$ 64,030        | \$ 38,603       | \$ 16,715       | \$ 20,663        |
| Net income per share   |                   |                  |                 |                 |                  |
| Basic  | \$ 0.97           | \$ 0.78          | \$ 0.55         | \$ 0.24         | \$ 0.29          |
| Diluted  | \$ 0.94           | \$ 0.76          | \$ 0.55         | \$ 0.24         | \$ 0.29          |
| Shares used in computing net income per share(4):              |                   |                  |                 |                 |                  |
| Basic  | 88,048            | 81,860           | 70,052          | 70,052          | 70,052           |
| Diluted  | 90,952            | 84,312           | 70,052          | 70,052          | 70,052           |
| <b>Consolidated Percentage of Net Sales Data:</b>              |                   |                  |                 |                 |                  |
| Gross margin   | 67.2%             | 63.6%            | 59.1%           | 54.8%           | 54.2%            |
| Selling, general and administrative expenses                   | 48.1%             | 45.9%            | 48.7%           | 49.5%           | 49.3%            |
| Operating income   | 18.6%             | 16.9%            | 10.4%           | 3.9%            | 4.9%             |
| Net income   | 11.9%             | 10.7%            | 7.2%            | 3.3%            | 4.0%             |

|  | Fiscal Year Ended |                  |                 |                 |                  |
|--|-------------------|------------------|-----------------|-----------------|------------------|
|  | June 29,<br>2002  | June 30,<br>2001 | July 1,<br>2000 | July 3,<br>1999 | June 27,<br>1998 |
| <b>Consolidated Balance Sheet Data:</b>                                      |                   |                  |                 |                 |                  |
| Working capital  | \$128,160         | \$ 47,119        | \$ 54,089       | \$ 51,685       | \$ 95,554        |
| Total assets   | 440,571           | 258,711          | 296,653         | 282,088         | 257,710          |
| Inventory  | 136,404           | 105,162          | 102,097         | 101,395         | 132,400          |
| Receivable from Sara Lee   | —                 | —                | 63,783          | 54,150          | —                |
| Payable to Sara Lee  | —                 | —                | —               | —               | 11,088           |
| Revolving credit facility  | 34,169            | 7,700            | —               | —               | —                |
| Long-term debt   | 3,615             | 3,690            | 3,775           | 3,810           | 3,845            |
| Stockholders' equity   | \$260,356         | \$148,314        | \$212,808       | \$203,162       | \$186,859        |
| <b>Supplemental Information:</b>   |                   |                  |                 |                 |                  |
| Operating income   | \$133,635         | \$101,688        | \$ 56,017       | \$ 19,475       | \$ 25,013        |
| Add back: reorganization costs(3)  | 3,373             | 4,569            | —               | 7,108           | —                |
| Operating income excluding reorganization costs                              | \$137,008         | \$106,257        | \$ 56,017       | \$ 26,583       | \$ 25,013        |
| Net income   | \$ 85,827         | \$ 64,030        | \$ 38,603       | \$ 16,715       | \$ 20,663        |
| Add back: reorganization costs(3)  | 3,373             | 4,569            | —               | 7,108           | —                |
| Tax effect of reorganization costs   | (1,197)           | (1,627)          | —               | (2,488)         | —                |
| Net income excluding reorganization costs                                    | \$ 88,003         | \$ 66,972        | \$ 38,603       | \$ 21,335       | \$ 20,663        |
| Operating income excluding reorganization costs as a percentage of net sales | 19.0%             | 17.7%            | 10.4%           | 5.3%            | 4.9%             |
| Net income excluding reorganization costs as a percentage of net sales       | 12.2%             | 11.2%            | 7.2%            | 4.3%            | 4.0%             |

Operating income excluding reorganization costs and net income excluding reorganization costs are financial indicators utilized by management to measure operating performance. These measures should not be construed as an alternative to, or better indicator of, operating earnings as determined in accordance with generally accepted accounting principles.

- (1) Coach's fiscal year ends on the Saturday closest to June 30. Fiscal year 1999 was a 53-week year, while fiscal years 1998, 2000, 2001 and 2002 were 52-week years.
- (2) Net sales for all prior periods have been adjusted for the reclassification of rebates and allowances, from selling, general and administrative expenses in accordance with EITF 00-25. The effect of the adoption resulted in the reclassification of \$15,588, \$11,224, \$6,837 and \$8,305 from selling, general and administrative expenses to a reduction in net sales for fiscal 2001, 2000, 1999 and 1998.
- (3) During fiscal 1999, Coach committed to and completed a reorganization plan involving the closure of its Carlstadt, New Jersey, warehouse and distribution center, the closure of its Italian manufacturing operation, and the reorganization of its Medley, Florida, manufacturing facility. During fiscal 2001, Coach committed to and completed a reorganization plan involving the complete closure of its Medley, Florida manufacturing operation. These actions, intended to reduce costs, resulted in the transfer of production to lower cost third-party manufacturers and the consolidation of all of its distribution functions at the Jacksonville, Florida, distribution center. During fiscal 2002, Coach committed to and completed a reorganization plan involving the complete closure of its Lares, Puerto Rico, manufacturing operation. These actions were intended to reduce costs and resulted in the transfer of production to lower cost third-party manufacturers.
- (4) The two-for-one stock split in July 2002 has 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.*

**Overview**

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

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

Coach generates revenue by selling its products directly to consumers and indirectly through wholesale customers and by licensing its brand name to select manufacturers. Direct-to-consumer sales consist of sales of Coach products through its 138 Company-operated U.S. retail stores, 74 Company-operated U.S. factory stores, its direct mail catalogs and its e-commerce website. Indirect sales consist of sales of Coach products to approximately 1,400 department store and specialty retailer locations in the United States, 118 international department store, retail store, factory store and duty-free shop locations in 18 countries and 83 retail and department store locations managed by its joint venture Coach Japan, Inc. Coach generates additional wholesale sales through business-to-business programs, in which companies purchase Coach products to use as gifts or incentive rewards. Licensing revenues consist of royalties paid to Coach under licensing arrangements with select partners for the sale of Coach branded watches, footwear and furniture.

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

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

As part of the transformation of Coach's business, Coach ceased production at the Medley, Florida, manufacturing facility in October 2000. This reorganization involved the termination of 362 manufacturing, warehousing and management employees at the Medley facility. These actions reduced costs by the resulting transfer of production to lower cost third-party manufacturers.

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

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

**Results of Operations**

The following is a discussion of the results of operations for fiscal 2002 compared to fiscal 2001, and fiscal 2001 compared to fiscal 2000 along with a discussion of the changes in financial condition during fiscal 2002.

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

Net sales by business segment for fiscal 2002 compared to fiscal 2001 and fiscal 2000 are as follows:

|                 | Fiscal Year Ended     |                  |                 |                  |              | Percentage of Total Net Sales |                  |                 |
|-----------------|-----------------------|------------------|-----------------|------------------|--------------|-------------------------------|------------------|-----------------|
|                 | June 29,<br>2002      | June 30,<br>2001 | July 1,<br>2000 | Rate of Increase |              | June 29,<br>2002              | June 30,<br>2001 | July 1,<br>2000 |
|                 | (dollars in millions) |                  |                 | ('02 v. '01)     | ('01 v. '00) |                               |                  |                 |
| Direct          | \$ 447.1              | \$ 391.8         | \$352.0         | 14.1%            | 11.3%        | 62.1%                         | 65.2%            | 65.5%           |
| Indirect        | 272.3                 | 208.7            | 185.7           | 30.5             | 12.4         | 37.9                          | 34.8             | 34.5            |
| Total net sales | \$ 719.4              | \$ 600.5         | \$537.7         | 19.8%            | 11.7%        | 100.0%                        | 100.0%           | 100.0%          |

Consolidated statements of income for fiscal 2002 compared to fiscal 2001 and fiscal 2000 are as follows:

|  | Fiscal Year Ended                                    |                |               |                |              |                |
|--|--|----------------|---------------|----------------|--------------|----------------|
|  | June 29, 2002  |                | June 30, 2001 |                | July 1, 2000 |                |
|  | \$   | % of net sales | \$            | % of net sales | \$           | % of net sales |
|  | (dollars in millions, except for earnings per share) |                |               |                |              |                |
| Net sales  | \$716.5  | 99.6%          | \$598.3       | 99.6%          | \$535.9      | 99.7%          |
| Licensing revenue  | 2.9  | 0.4            | 2.2           | 0.4            | 1.8          | 0.3            |
| Total net sales  | 719.4  | 100.0          | 600.5         | 100.0          | 537.7        | 100.0          |
| Cost of sales  | 236.0  | 32.8           | 218.5         | 36.4           | 220.1        | 40.9           |
| Gross profit   | 483.4  | 67.2           | 382.0         | 63.6           | 317.6        | 59.1           |
| Selling, general and administrative expenses                   | 346.4  | 48.1           | 275.7         | 45.9           | 261.6        | 48.7           |
| Reorganization costs   | 3.4  | 0.5            | 4.6           | 0.8            | —            | 0.0            |
| Operating income   | 133.6  | 18.6           | 101.7         | 16.9           | 56.0         | 10.4           |
| Interest expense, net  | 0.3  | 0.1            | 2.3           | 0.4            | 0.4          | 0.1            |
| Income before provision for income taxes and minority interest | 133.3  | 18.5           | 99.4          | 16.5           | 55.6         | 10.3           |
| Provision for income taxes                                     | 47.3   | 6.6            | 35.4          | 5.8            | 17.0         | 3.1            |
| Minority interest, net of tax                                  | 0.2  | 0.0            | —             | 0.0            | —            | 0.0            |
| Net income   | \$ 85.8  | 11.9%          | \$ 64.0       | 10.7%          | \$ 38.6      | 7.2%           |

|  | Fiscal Year Ended |                  |                 |
|--|-------------------|------------------|-----------------|
|  | June 29,<br>2002  | June 30,<br>2001 | July 1,<br>2000 |
| Net income per share:                        |                   |                  |                 |
| Basic  | \$0.97(1)         | \$0.78(3)        | \$0.55          |
| Diluted                                      | \$0.94(2)         | \$0.76(4)        | \$0.55          |
| Weighted-average number of common shares(5): |                   |                  |                 |
| Basic  | 88.0              | 81.9             | 70.1            |
| Diluted                                      | 91.0              | 84.3             | 70.1            |

- (1) \$1.00 per share after adding back the impact of the reorganization charge, net of tax.
- (2) \$0.97 per share after adding back the impact of the reorganization charge, net of tax.
- (3) \$0.82 per share after adding back the impact of the reorganization charge, net of tax.
- (4) \$0.79 per share after adding back the impact of the reorganization charge, net of tax.
- (5) The two-for-one stock split in July 2002 has been retroactively applied to all periods.

**Fiscal 2002 Compared to Fiscal 2001**

*Net Sales*

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

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

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

*Gross Profit*

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

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

|             | Q1    | Q2    | 1st Half    | Q3    | Q4    | 2nd Half | Total Year |
|-------------|-------|-------|-------------|-------|-------|----------|------------|
|             |       |       | (unaudited) |       |       |          |            |
| Fiscal 2002 | 64.1% | 68.6% | 66.8%       | 68.8% | 66.6% | 67.6%    | 67.2%      |
| Fiscal 2001 | 62.3% | 64.9% | 63.9%       | 64.0% | 62.6% | 63.3%    | 63.6%      |

### *Selling, General and Administrative Expenses*

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

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

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

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

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

### *Reorganization Costs*

In the third fiscal quarter of 2002, management of Coach committed to and announced a plan to cease production at the Lares, Puerto Rico, manufacturing facility in March 2002. This reorganization involved the termination of 394 manufacturing, warehousing and management employees at the Lares facility. These actions were intended to reduce costs by the resulting transfer of production to lower cost third-party manufacturers. Coach expects to achieve costs savings of \$3.9 million in fiscal 2003 and \$5.2 million in ongoing savings from these actions, to be realized in the form of lower cost of goods. Coach recorded a reorganization cost of \$4.5 million in the third quarter of fiscal 2002. In the fourth quarter of fiscal 2002, this charge was reduced to \$3.4 million. This was primarily due to the complete disposition of the fixed assets, in which proceeds exceeded original estimates by management. This reorganization cost includes \$2.2 million for worker separation costs, \$0.7 million for lease termination costs and \$0.5 million for the write-down of long-lived assets to net realizable value. By June 29, 2002, production ceased at the Lares facility and disposition of the fixed assets and the termination of all employees had been completed.

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### *Operating Income*

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

### *Interest Expense, Net*

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

### *Income Taxes*

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

### *Minority Interest*

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

### *Net Income*

Net income increased 34.0% to \$85.8 million from \$64.0 million in fiscal 2001. This increase was the result of increased operating income. Excluding the impact of both fiscal 2002 and fiscal 2001 reorganization costs, net of related tax effect, net income increased 31.4% to \$88.0 million, or 12.2% of net sales, in fiscal 2002 from \$67.0 million, or 11.2% of net sales, in fiscal 2001.

### *Earnings Per Share*

Diluted net income per share was \$0.94 in fiscal 2002 and \$0.76 in fiscal 2001, which includes the effect of the two-for-one stock split in July 2002. Diluted net income per share excluding the impact of the reorganization costs, net of related tax effect, was \$0.97 in fiscal 2002 and \$0.79 in fiscal 2001.

## ***Fiscal 2001 Compared to Fiscal 2000***

### *Net Sales*

Net sales increased by 11.7% to \$600.5 million in fiscal 2001 from \$537.7 million in fiscal 2000. These results reflect increased volume in both the direct-to-consumer and indirect channels.

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

**Indirect.** Net sales attributable to United States and international wholesale shipments increased 12.4% to \$208.7 million in fiscal 2001 from \$185.7 million in fiscal 2000. The increase was primarily due to strong gains in the international wholesale channel, highlighted by continued double-digit increases in comparable location sales to Japanese consumers worldwide and increased demand for new products. Licensing revenue increased 23.5% to \$2.2 million in fiscal 2001 from \$1.8 million in fiscal 2000 due primarily to expanded distribution of licensed footwear product.

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### *Gross Profit*

Gross profit increased 20.3% to \$382.0 million in fiscal 2001 from \$317.6 million in fiscal 2000. Gross margin increased approximately 450 basis points to 63.6% in fiscal 2001 from 59.1% in fiscal 2000. This improvement was driven by a shift in product mix, reflecting the continued diversification into non-leather fabrications with new and successful mixed-material collections. In addition, gross margin benefited from the continuing impact of sourcing cost reductions as well as channel mix, as the international channel continued to expand as a percentage of sales.

### *Selling, General and Administrative Expenses*

Selling, general and administrative expenses increased 5.4% to \$275.7 million in fiscal 2001 from \$261.6 million in fiscal 2000. Selling, general and administrative expenses decreased to 45.9% as a percentage of net sales versus 48.7% in fiscal 2000.

Selling expenses increased by 12.9% to \$162.7 million, or 27.1% of net sales, in fiscal 2001 from \$144.2 million, or 26.8% of net sales, in fiscal 2000. The dollar increase in these expenses was primarily due to \$16.3 million of operating costs associated with new retail and factory stores; increased variable costs for comparable store sales; store remodels; costs to support the additional stores; and store sales promotions to enhance sales. The remaining selling expense increase was caused primarily by volume-related costs in our indirect sales channels.

Advertising, marketing, and design expenses increased by 4.0% to \$52.2 million, or 8.7% of net sales, in fiscal 2001 from \$50.2 million, or 9.3% of net sales, in fiscal 2000. The dollar increase in these expenses was primarily due to increased staffing expenses of \$1.0 million and increased advertising expenses of \$0.6 million.

Distribution and customer service expenses increased slightly to \$25.8 million, or 4.3% of net sales, in fiscal 2001 from \$25.3 million, or 4.7% of net sales, in fiscal 2000. The dollar increase in these expenses was due to higher sales volumes, partially offset by efficiency gains at our distribution and customer service facility.

Administrative expenses decreased to \$35.0 million, or 5.8% of net sales, in fiscal 2001 from \$41.9 million, or 7.8% of net sales, in fiscal 2000. The decrease in these expenses was due to lower fringe benefit costs and lower performance based compensation expenses, partially offset by higher occupancy costs associated with the lease renewal of our New York City corporate headquarters location and incremental expenses incurred to support new corporate governance activities relating to Coach becoming publicly owned.

### *Reorganization Costs*

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

### *Operating Income*

Operating income increased 81.5% to \$101.7 million from \$56.0 million in fiscal 2000. This increase resulted from higher sales and improved gross margins, partially offset by an increase in selling, general and administrative expenses. Before the impact of reorganization costs, operating income increased 89.7% to \$106.3 million, or 17.7% of net sales, in fiscal 2001 from \$56.0 million, or 10.4% of net sales, in fiscal 2000.

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### *Interest Expense, Net*

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

### *Income Taxes*

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

### *Net Income*

Net income increased 65.9% to \$64.0 million from \$38.6 million in fiscal 2000. This increase was the result of increased operating income partially offset by a higher provision for income taxes and increased interest expense. Before the impact of reorganization costs, net of related tax effect, net income increased 73.5% to \$67.0 million, or 11.2% of net sales, in fiscal 2001 from \$38.6 million, or 7.2% of net sales, in fiscal 2000.

### *Earnings Per Share*

Diluted net income per share was \$0.76 in fiscal 2001. This reflects a weighted-average of the shares outstanding before and after the public offering of common stock in October 2000 and the effect of the two-for-one stock split in July 2002. Fiscal 2000 diluted net income per share was \$0.55 since only the shares owned by Sara Lee are used in the calculation.

## **FINANCIAL CONDITION**

### ***Liquidity and Capital Resources***

Net cash provided from operating and investing activities was \$52.0 million for fiscal 2002. Net cash provided from operating and investing activities was \$93.3 million in fiscal 2001, a period not fully comparable since it represented Coach as a subsidiary of Sara Lee through April 5, 2001. Fiscal 2001 benefited by a decrease in Receivables from Sara Lee. Excluding the impact of the decrease in Receivables from Sara Lee, net cash provided from operating and investing activities would have been \$61.8 million in fiscal 2001. The year-on-year decrease was the result of increased working capital requirements for the joint venture in Japan, its acquisition of P.D.C. Co. Ltd. and its buyout of distribution rights and assets from J. Osawa, partially offset by higher earnings during the year.

Capital expenditures amounted to \$42.8 million in fiscal 2002, compared with \$31.9 million in fiscal 2001 and in both periods related primarily to new and renovated retail and factory stores. Coach's future capital expenditures will depend on the timing and rate of expansion of our businesses, new store openings, store renovations, international expansion opportunities and management information systems initiatives.

Net cash provided from financing activities was \$38.3 million for fiscal 2002 as compared with a use of cash of \$89.7 million in fiscal 2001. The year-to-year increase resulted from proceeds received from its joint venture partner and net proceeds from the exercise of stock options, offset by the repurchase of common stock. During fiscal 2001 Coach repaid long-term debt that was assumed as part of the equity restructuring related to the initial public offering completed in October 2000.

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

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bears interest calculated, at Coach's option, at either a rate of LIBOR plus a margin or the prime rate announced by Fleet.

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

The initial LIBOR margin under the facility was 125 basis points. For the year ended June 29, 2002, the LIBOR margin was 100 basis points reflecting an improvement in our fixed-charge coverage ratio. Under this revolving credit facility, Coach pays a commitment fee of 20 to 35 basis points based on any unused amounts. The initial commitment fee was 30 basis points. For the year ended June 29, 2002, the commitment fee was 25 basis points.

During fiscal 2002 the peak borrowings under the Fleet facility were \$46.9 million. In fiscal 2001 the peak borrowings under the Sara Lee credit facility were \$37.7 million. As of June 29, 2002, the borrowings under the Fleet facility were fully repaid from operating cash flow. The facility remains available for seasonal working capital requirements or general corporate purpose.

In order to provide funding for working capital, the acquisition of distributors and general corporate purposes, Coach Japan has entered into credit facilities with several Japanese financial institutions. These facilities allow a maximum borrowing of 6.7 billion yen or approximately \$56 million at June 29, 2002. Interest is based on the Tokyo Interbank rate plus a margin of up to 50 basis points.

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

During fiscal 2002 the peak borrowings under the Japanese credit facilities were \$35.4 million. As of June 29, 2002, borrowings under the Japanese revolving credit facility agreements were \$34.2 million.

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

During fiscal 2002, Coach repurchased 0.9 million shares at an average cost of \$11.45 per share, which were financed out of operating cash flows and borrowings under the credit facility, which were repaid during fiscal 2002.

During August 2002, Coach repurchased 1.9 million shares at an average cost of \$25.92 per share. The stock repurchases of approximately \$50 million were financed out of cash on hand and operating cash flows. As of August 30, 2002, Coach had expended approximately \$60 million of the \$80 million authorized to date under the stock repurchase program.

Coach opened 20 new U.S. retail stores in fiscal 2002. As of June 29, 2002 we completed our store renovation program, which began in fiscal 1999. We expect that fiscal 2003 capital expenditures for new retail stores will be approximately \$20 million and that capital expenditures for retail, factory and department store renovations will be approximately \$15 million. We intend to finance these investments from internally generated cash flows or by using funds from our revolving credit facility.

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 2002, Coach purchased approximately \$253 million of inventory, which was funded by operating cash flow and by borrowings under its revolving credit facility.

Management believes that cash flow from operations and availability under the revolving credit facilities will provide adequate funds for the foreseeable working capital needs, planned capital expenditures and the

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

Currently, Sara Lee is a guarantor or a party to many of Coach's leases. Coach 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 the letter of credit until the annual minimum rental payments under the relevant leases are less than \$2.0 million. 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. The initial letter of credit had a face amount of \$20.6 million, and we expect this amount to decrease annually as Coach's guaranteed obligations are reduced. As of June 2002 the letter of credit was reduced to \$19.8 million. We expect that it will be required to maintain the letter of credit for at least 10 years.

The following represents the scheduled maturities of Coach's long-term contractual obligations as June 29, 2002.

|  | Payment Due by Period |              |              |                  | Total   |
|--|-----------------------|--------------|--------------|------------------|---------|
|  | Less than<br>1 year   | 1-3<br>Years | 4-5<br>Years | After 5<br>Years |         |
|  | (amounts in millions) |              |              |                  |         |
| Operating leases                             | \$ 38.8               | \$109.0      | \$61.6       | \$116.8          | \$326.2 |
| Revolving credit facility                    | 34.2                  | —            | —            | —                | 34.2    |
| Long-term debt including the current portion | 0.1                   | 0.3          | 0.4          | 2.9              | 3.7     |
| Total  | \$ 73.1               | \$109.3      | \$62.0       | \$119.7          | \$364.1 |

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

**Long-Term Debt**

Coach is party to an Industrial Revenue Bond related to its Jacksonville facility. This loan has a remaining balance of \$3.7 million and bears interest at 8.77%. Principal and interest payments are made semi-annually, with the final payment due in 2014.

**Tax Rate**

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

**Seasonality**

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

**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

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is inherently an imprecise activity and as such requires the use of judgement. 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 judgements 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. Coach's more significant policies where alternative methods are available include accounting for stock options and inventories. For more information on Coach's accounting policies please refer to the Notes to Consolidated Financial Statements. Other critical accounting policies are as follows:

### ***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.

### ***Valuation of Long-Lived Assets***

Long-lived assets, other than intangible assets and goodwill, primarily include property and equipment. Long-lived assets being retained for use by Coach are periodically reviewed for impairment by comparing the carrying value of the assets with their estimated future undiscounted cash flows. If it is determined that an impairment loss has occurred, the loss would be recognized during the period. The impairment loss would be calculated as the difference between asset carrying values and the present value of estimated net cash flows or comparable market values, giving consideration to recent operating performance. Prior to the adoption of Statement of Financial Accounting Standards ("SFAS") No. 142 ("SFAS 142") (discussed in New Accounting Standards) we included intangible assets and goodwill as a component of the long-lived asset categories reviewed for impairment as discussed above. Subsequent to the adoption of SFAS 142, indefinite lived intangible assets and goodwill were reviewed for impairment in accordance with the new accounting standards.

Long-lived assets that are to be disposed of, are reported at the lower of carrying value or fair value less cost to sell. Reductions in carrying value are recognized in the period in which management commits to a plan to dispose of the assets. However, our estimates project cash flows several years into the future and could be affected by variable factors such as inflation, real estate markets and economic conditions.

### ***Revenue Recognition***

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

### ***New Accounting Standards***

In April 2001, the Emerging Issues Task Force ("EITF") of the Financial Accounting Standards Board ("FASB") reached a final consensus on Issue 00-25 "Accounting for Consideration from a Vendor to a Retailer in Connection with the Purchase or Promotion of the Vendor's Products." In November 2001, EITF 00-25, was codified in EITF 01-09. This issue addresses the recognition, measurement and income statement classification of consideration provided to distributors or retailers. Previously, Coach had recorded these activities within selling, general and administrative expenses. Coach adopted EITF 00-25 in the first

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quarter of fiscal 2002. In connection with this adoption, prior period amounts have been reclassified to conform with the current year's presentation. The effect of the adoption resulted in a reclassification from selling, general and administrative expense to a reduction in net sales of \$15.6 million for fiscal 2001 and \$11.2 million for fiscal 2000.

In July 2001, the FASB issued SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). SFAS 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method. As such all business combinations initiated after June 30, 2001 are now accounted for using the purchase method. The adoption of SFAS 141 did not have any effect on our consolidated financial statements. Under SFAS 142, goodwill and intangible assets with indefinite lives, such as our trademarks, are no longer amortized but are reviewed annually (or more frequently if impairment indicators arise) for impairment. Separable intangible assets that are not deemed to have indefinite lives will continue to be amortized over their useful lives (but with no maximum life). Coach adopted this pronouncement in the first quarter of fiscal 2002 resulting in no goodwill or trademark amortization expense in fiscal 2002. Goodwill and trademark amortization of \$0.9 million was recorded in fiscal 2001 and fiscal 2000. The transitional impairment tests were completed and did not result in an impairment charge.

In November 2001, the EITF reached consensus on Issue 01-10, "Accounting for the Impact of the Terrorist Attacks of September 11, 2001". Related to their discussion of this topic, the EITF also reached consensus on Issue 01-13, "Income Statement Display of Business Interruption Insurance Recoveries". These issues primarily relate to supplemental disclosure of the impact of the terrorist attacks and the recognition of business interruption insurance recoveries. Refer to Note 18, "Terrorist Attacks", of the consolidated financial statements, for a discussion of the relevant impact on the Coach business and financial statements.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations" ("SFAS 143"). SFAS 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. SFAS 143 is effective for the first quarter in the fiscal year ending June 28, 2003. Coach does not expect the adoption of this statement to have a material impact on its consolidated results of operations or financial position.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"). SFAS 144 addresses financial accounting and reporting for the impairment of long-lived assets and for long-lived assets to be disposed of. SFAS 144 supersedes FASB Statement No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of. However, SFAS 144 retains the fundamental provisions of Statement 121 for (a) recognition and measurement of the impairment of long-lived assets to be held and used and (b) measurement of long-lived assets to be disposed of by sale. SFAS 144 is effective for the first quarter in the fiscal year ending June 28, 2003. Coach is currently evaluating the impact, if any, of adopting this statement on its consolidated results of operations or financial position.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections" ("SFAS 145"). SFAS 145 rescinds the provisions of SFAS No. 4 that require companies to classify certain gains and losses from debt extinguishments as extraordinary items, eliminates the provisions of SFAS No. 44 regarding transition to the Motor Carrier Act of 1980 and amends the provisions of SFAS No. 13 to require that certain lease modifications be treated as sale-leaseback transactions. The provisions of SFAS 145 related to classification of debt extinguishments are effective for fiscal years beginning after May 15, 2002. Gains and losses from extinguishment of debt will be classified as extraordinary items only if they meet the criteria in APB Opinion No. 30; otherwise such costs will be classified within income from operations. The provisions of SFAS 145 related to lease modification are effective for transactions occurring after May 15, 2002. It is not expected that

the adoption of this statement will have a material impact on Coach's consolidated financial position or results of operations.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS 146"). SFAS 146 addresses financial accounting and reporting costs associated with exit or disposal activities and nullifies EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." It applies to costs associated with an exit activity that does not involve an entity newly acquired in a business combination or with a disposal activity covered by SFAS 144. A liability for a cost associated with an exit or disposal activity shall be recognized and measured initially at its fair value in the period in which the liability is incurred. SFAS 146 is effective for exit or disposal activities that are initiated after December 31, 2002. We do not expect the adoption of this statement to have a material impact on Coach's consolidated results of operations or financial position.

#### **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 90% of Coach's fiscal 2002 non-licensed product needs were purchased from independent manufacturers in countries other than the United States. These countries include China, Costa Rica, Italy, India, Spain, Turkey, Thailand, Taiwan, Korea, Hungary, Singapore, Great Britain and the Dominican Republic. Additionally, sales are made through international channels to third party distributors. Substantially all purchases and sales involving international parties 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. Coach, through Coach Japan, enters into certain foreign currency derivative instruments that economically hedge certain of its risks but have not been designated for hedge accounting. These transactions are in accordance with Company risk management policies. Coach does not enter into derivative transactions for speculative or trading purposes. During fiscal 2002, Coach Japan entered into forward foreign currency contracts for its U.S. dollar-denominated inventory purchases. The foreign currency forward contracts have durations no greater than 12 months. At June 29, 2002, open foreign currency forward contracts with a notional amount of \$33.2 million were fair valued (i.e., marked to market) and resulted in a pre-tax non cash charge to earnings of \$3.3 million, included as a component of selling, general and administrative expenses, with a corresponding liability recorded in accrued expenses. There were no foreign currency forward contracts as of June 30, 2001.

##### ***Interest Rate***

Coach faces minimal interest rate risk exposure in relation to its outstanding debt of \$37.9 million at June 29, 2002. Of this amount \$34.2 million, under revolving credit facilities, is subject to interest rate fluctuations. A hypothetical 1% change in interest rate applied to the fair value of debt would not have 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 38 of this report.

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

Coach engaged Deloitte & Touche LLP as its independent accountants as of May 2, 2002, as reported on the Current Report on Form 8-K filed with the Securities and Exchange Commission on May 8, 2002.

**PART III**

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

The information set forth in the Proxy Statement for the 2002 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 2002 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**

(a) Security ownership of management set forth in the Proxy Statement for the 2002 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 2002 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.

**PART IV**

**Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K**

(a) Financial Statements and Financial Statement Schedules See the "Index to Financial Statements" which is located on page 38 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 20, 2002.

| <b>Signature</b>           | <b>Title</b>   |
|----------------------------|--|
| /s/ LEW FRANKFORT          | Chairman, Chief Executive Officer and Director   |
| Lew Frankfort              |  |
| /s/ KEITH MONDA            | President, Chief Operating Officer and Director  |
| Keith Monda                |  |
| /s/ MICHAEL F. DEVINE, III | Senior Vice President and Chief Financial Officer (as principal financial officer and principal accounting officer of Coach) |
| Michael F. Devine, III     |  |
| /s/ JOSEPH ELLIS           | Director   |
| Joseph Ellis               |  |
| /s/ SALLY FRAME KASAKS     | Director   |
| Sally Frame Kasaks         |  |
| /s/ GARY LOVEMAN           | Director   |
| Gary Loveman               |  |
| /s/ IRENE MILLER           | Director   |
| Irene Miller               |  |
| /s/ MICHAEL MURPHY         | Director   |
| Michael Murphy             |  |

**CERTIFICATIONS**

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 annual 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 annual report; and
3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report.

Date: September 20, 2002

By: /s/ LEW FRANKFORT

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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 annual 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 annual report; and
3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report.

Date: September 20, 2002

By: /s/ MICHAEL F. DEVINE, III

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Name: Michael F. Devine, III

Title: Senior Vice President and Chief Financial Officer

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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 June 29, 2002 (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 20, 2002

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 June 29, 2002 (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 20, 2002

By: /s/ MICHAEL F. DEVINE, III

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Name: Michael F. Devine, III

Title: Senior Vice President and Chief Financial Officer

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**  
**FORM 10-K**  
**FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 29, 2002**  
**COACH, INC.**  
**New York, New York 10001**  
**INDEX TO FINANCIAL STATEMENTS**

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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.

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheet of Coach, Inc. and subsidiaries (the "Company") as of June 29, 2002 and the related consolidated statements of income, stockholders' equity and cash flows for the year then ended. Our audit also included the financial statement schedule for the year ended June 29, 2002, listed in the Index at Item 14. These financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audit. The Company's financial statements and financial statement schedules for the years ended June 30, 2001 and July 1, 2000, before the revisions described in Note 2 to the financial statements, were audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on those financial statements in their report dated July 26, 2001 (except with respect to the matter discussed in Note 16, as to which the date is July 31, 2001. Such information is included as a component of Note 12 for the year ended June 29, 2002).

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of June 29, 2002 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, such financial statement schedule for the year ended June 29, 2002, 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.

As discussed above, the financial statements of the Company as of June 30, 2001 and July 1, 2000, and for the years then ended were audited by other auditors who have ceased operations. We audited the adjustments described in Note 2 that were applied to revise the financial statements for the years ended June 30, 2001 and July 1, 2000 to give retroactive effect to the change in the method of accounting for consideration provided to distributors or retailers to conform to Emerging Issues Task Force of the Financial Accounting Standards Board Issue 00-25, as codified by Issue 01-09 and the two-for-one split of the Company's common stock. In our opinion, such adjustments are appropriate and have been properly applied. However, we were not engaged to audit, review, or apply any procedures to the 2001 and 2000 financial statements of the Company other than with respect to such adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2001 and 2000 financial statements taken as a whole.

/s/ Deloitte & Touche LLP

New York, New York

July 29, 2002 (August 30,  
2002 as to Note 22)

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

**REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS**

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

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

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

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

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule listed in the index to financial statements is presented for purposes of complying with the Securities and Exchange Commission's rules and is not a required part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ Arthur Andersen LLP

New York, New York

July 26, 2001 (except  
with respect to the  
matter discussed in  
Note 16, as to which the  
date is July 31, 2001)

## COACH, INC.

## CONSOLIDATED BALANCE SHEETS

|  | June 29,<br>2002 | June 30,<br>2001 |
|--|------------------|------------------|
| (amounts in thousands<br>except share data)  |                  |                  |
| <b>ASSETS</b>  |                  |                  |
| Cash and cash equivalents  | \$ 93,962        | \$ 3,691         |
| Trade accounts receivable, less allowances of \$4,176 and \$6,288,<br>respectively   | 30,925           | 20,608           |
| Inventories  | 136,404          | 105,162          |
| Deferred income taxes  | 14,123           | 13,921           |
| Prepaid expenses and other current assets  | 12,174           | 8,185            |
| Total current assets   | 287,588          | 151,567          |
| Goodwill, net  | 13,006           | 4,924            |
| Intangibles, net   | 9,389            | 9,389            |
| Other noncurrent assets  | 14,968           | 1,382            |
| Property and equipment, net  | 90,589           | 72,388           |
| Deferred income taxes  | 25,031           | 19,061           |
| Total assets   | \$440,571        | \$258,711        |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                  |                  |
| Accounts payable   | \$ 25,819        | \$ 14,313        |
| Accrued liabilities  | 99,365           | 82,390           |
| Revolving credit facility  | 34,169           | 7,700            |
| Current portion of long-term debt  | 75               | 45               |
| Total current liabilities  | 159,428          | 104,448          |
| Long-term debt   | 3,615            | 3,690            |
| Other liabilities  | 2,625            | 2,259            |
| Minority interest  | 14,547           | —                |
| Total liabilities  | 180,215          | 110,397          |
| Commitments and contingencies (Note 7)   |                  |                  |
| Stockholders' equity   |                  |                  |
| Preferred stock: (authorized 25,000,000 shares; \$0.01 par value) none<br>issued   | —                | —                |
| Common stock: (authorized 250,000,000 shares; \$0.01 par value) issued<br>and outstanding — 89,453,722 and 87,371,984 shares, respectively | 895              | 874              |
| Capital in excess of par value   | 155,403          | 125,277          |
| Retained earnings  | 105,509          | 22,650           |
| Accumulated other comprehensive income (loss)  | 215              | (487)            |
| Unearned compensation  | (1,666)          | —                |
| Total stockholders' equity   | 260,356          | 148,314          |
| Total liabilities and stockholders' equity   | \$440,571        | \$258,711        |

See accompanying Notes to the Consolidated Financial Statements.

## COACH, INC.

## CONSOLIDATED STATEMENTS OF INCOME

|  | Fiscal Year Ended                             |                  |                 |
|--|---|------------------|-----------------|
|  | June 29,<br>2002                              | June 30,<br>2001 | July 1,<br>2000 |
|  | (amounts in thousands, except per share data) |                  |                 |
| Net sales  | \$ 719,403                                    | \$ 600,491       | \$ 537,694      |
| Cost of sales  | 236,041                                       | 218,507          | 220,085         |
| Gross profit   | 483,362                                       | 381,984          | 317,609         |
| Selling, general and administrative expenses                   | 346,354                                       | 275,727          | 261,592         |
| Reorganization costs   | 3,373   | 4,569            | —               |
| Operating income   | 133,635                                       | 101,688          | 56,017          |
| Interest income  | (825)   | (305)            | (33)            |
| Interest expense   | 1,124   | 2,563            | 420             |
| Income before provision for income taxes and minority interest | 133,336                                       | 99,430           | 55,630          |
| Provision for income taxes                                     | 47,325  | 35,400           | 17,027          |
| Minority interest, net of tax                                  | 184   | —                | —               |
| Net income   | \$ 85,827                                     | \$ 64,030        | \$ 38,603       |
| Net income per share   |   |                  |                 |
| Basic  | \$ 0.97                                       | \$ 0.78          | \$ 0.55         |
| Diluted  | \$ 0.94                                       | \$ 0.76          | \$ 0.55         |
| Shares used in computing net income per share                  |   |                  |                 |
| Basic  | 88,048  | 81,860           | 70,052          |
| Diluted  | 90,952  | 84,312           | 70,052          |

See accompanying Notes to the Consolidated Financial Statements.

COACH, INC.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

|  | Total<br>Stockholders'<br>Equity | Preferred<br>Stockholders'<br>Equity | Common<br>Stockholders'<br>Equity | Capital in<br>Excess<br>of Par | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income (loss) | Unearned<br>Compensation | Comprehensive<br>Income (loss) | Shares of<br>Common<br>Stock |
|--|----------------------------------|--------------------------------------|-----------------------------------|--------------------------------|----------------------|--|--------------------------|--------------------------------|------------------------------|
| (amounts in thousands)                           |                                  |                                      |                                   |                                |                      |  |                          |                                |                              |
| Balances at July 3,<br>1999                      | \$ 203,162                       | \$ —                                 | \$ 700                            | \$ —                           | \$ 203,266           | \$ (804)   | \$ —                     |                                | 70,052                       |
| Net income                                       | 38,603                           | —                                    | —                                 | —                              | 38,603               | —  | —                        | \$ 38,603                      |                              |
| Equity distribution                              | (29,466)                         | —                                    | —                                 | —                              | (29,466)             | —  | —                        | —                              |                              |
| Translation<br>adjustments                       | 152                              | —                                    | —                                 | —                              | —                    | 152  | —                        | 152                            |                              |
| Minimum pension<br>liability                     | 357                              | —                                    | —                                 | —                              | —                    | 357  | —                        | 357                            |                              |
| Comprehensive<br>income                          |                                  |                                      |                                   |                                |                      |  |                          | \$ 39,112                      |                              |
| Balances at July 1,<br>2000                      | \$ 212,808                       | \$ —                                 | \$ 700                            | \$ —                           | \$ 212,403           | \$ (295)   | \$ —                     |                                | 70,052                       |
| Net income                                       | 64,030                           | —                                    | —                                 | —                              | 64,030               | —  | —                        | \$ 64,030                      |                              |
| Capitalization of<br>receivable from<br>Sara Lee | (63,783)                         | —                                    | —                                 | —                              | (63,783)             | —  | —                        | —                              |                              |
| Assumption of<br>long-term debt                  | (190,000)                        | —                                    | —                                 | —                              | (190,000)            | —  | —                        | —                              |                              |
| Issuance of<br>common stock,<br>net              | 122,000                          | —                                    | 170                               | 121,830                        | —                    | —  | —                        | —                              | 16,974                       |
| Exercise of stock<br>options                     | 2,046                            | —                                    | 4                                 | 2,042                          | —                    | —  | —                        | —                              | 346                          |
| Tax benefit from<br>exercise of stock<br>options | 1,405                            | —                                    | —                                 | 1,405                          | —                    | —  | —                        | —                              |                              |
| Translation<br>adjustments                       | 338                              | —                                    | —                                 | —                              | —                    | 338  | —                        | 338                            |                              |
| Minimum pension<br>liability                     | (530)                            | —                                    | —                                 | —                              | —                    | (530)  | —                        | (530)                          |                              |
| Comprehensive<br>income                          |                                  |                                      |                                   |                                |                      |  |                          | \$ 63,838                      |                              |
| Balances at June 30,<br>2001                     | \$ 148,314                       | \$ —                                 | \$ 874                            | \$ 125,277                     | \$ 22,650            | \$ (487)   | \$ —                     |                                | 87,372                       |
| Net income                                       | 85,827                           | —                                    | —                                 | —                              | 85,827               | —  | —                        | \$ 85,827                      |                              |
| Exercise of stock<br>options                     | 20,802                           | —                                    | 29                                | 20,773                         | —                    | —  | —                        | —                              | 2,942                        |
| Tax benefit from<br>exercise of stock<br>options | 13,793                           | —                                    | —                                 | 13,793                         | —                    | —  | —                        | —                              |                              |
| Repurchase of<br>common stock                    | (9,848)                          | —                                    | (9)                               | (6,871)                        | (2,968)              | —  | —                        | —                              | (860)                        |
| Grant of restricted<br>stock awards              | —                                | —                                    | 1                                 | 2,431                          | —                    | —  | (2,432)                  | —                              | —                            |
| Amortization of<br>restricted stock<br>awards    | 766                              | —                                    | —                                 | —                              | —                    | —  | 766                      | —                              |                              |
| Translation<br>adjustments                       | 396                              | —                                    | —                                 | —                              | —                    | 396  | —                        | 396                            |                              |
| Minimum pension<br>liability                     | 306                              | —                                    | —                                 | —                              | —                    | 306  | —                        | 306                            |                              |
| Comprehensive<br>income                          |                                  |                                      |                                   |                                |                      |  |                          | \$ 86,529                      |                              |
| Balances at June 29,<br>2002                     | \$ 260,356                       | \$ —                                 | \$ 895                            | \$ 155,403                     | \$ 105,509           | \$ 215   | \$ (1,666)               |                                | 89,454                       |

See accompanying Notes to the Consolidated Financial Statements.

COACH, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

|  | Fiscal Year Ended      |                  |                 |
|--|------------------------|------------------|-----------------|
|  | June 29,<br>2002       | June 30,<br>2001 | July 1,<br>2000 |
|  | (amounts in thousands) |                  |                 |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>              |                        |                  |                 |
| Net income   | \$ 85,827              | \$ 64,030        | \$ 38,603       |
| Adjustments for non cash charges included in net income: |                        |                  |                 |
| Depreciation and amortization                            | 25,494                 | 24,131           | 22,628          |
| Reorganization costs                                     | 3,373                  | 4,569            | —               |
| Tax benefit from exercise of stock options               | 13,793                 | 1,405            | —               |
| (Increase) decrease in deferred taxes                    | (4,969)                | (5,797)          | 2,661           |
| Other non cash credits, net                              | 1,666                  | (192)            | (1,688)         |
| Changes in current assets and liabilities:               |                        |                  |                 |
| Increase in trade accounts receivable                    | (5,855)                | (5,041)          | (3,751)         |
| Decrease in receivable from Sara Lee                     | —                      | 31,437           | 22,442          |
| Increase in inventories                                  | (16,638)               | (3,065)          | (725)           |
| Increase in other assets and liabilities                 | (12,843)               | (357)            | (90)            |
| Increase (decrease) in accounts payable                  | 8,671                  | 6,447            | (6,279)         |
| Increase in accrued liabilities                          | 9,418                  | 6,762            | 11,154          |
| Net cash from operating activities                       | 107,937                | 124,329          | 84,955          |
| <b>CASH FLOWS USED IN INVESTMENT ACTIVITIES</b>          |                        |                  |                 |
| Purchases of property and equipment                      | (42,764)               | (31,868)         | (26,060)        |
| Acquisitions of distributors, net of cash acquired       | (14,805)               | —                | —               |
| Proceeds from dispositions of property and equipment     | 1,592                  | 799              | 2,695           |
| Net cash used in investment activities                   | (55,977)               | (31,069)         | (23,365)        |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>              |                        |                  |                 |
| Partner contribution to joint venture                    | 14,363                 | —                | —               |
| Issuance of common stock, net                            | —                      | 122,000          | —               |
| Repurchase of common stock                               | (9,848)                | —                | —               |
| Repayment of long-term debt                              | (45)                   | (190,040)        | (35)            |
| Borrowings from Sara Lee                                 | —                      | 451,534          | 541,047         |
| Repayments to Sara Lee                                   | —                      | (482,971)        | (573,122)       |
| Equity distribution                                      | —                      | —                | (29,466)        |
| Borrowings on Revolving Credit Facility                  | 200,006                | 68,300           | —               |
| Repayments of Revolving Credit Facility                  | (186,967)              | (60,600)         | —               |
| Proceeds from exercise of stock options                  | 20,802                 | 2,046            | —               |
| Net cash from (used in) financing activities             | 38,311                 | (89,731)         | (61,576)        |
| Increase in cash and equivalents                         | 90,271                 | 3,529            | 14              |
| Cash and equivalents at beginning of period              | 3,691                  | 162              | 148             |
| Cash and equivalents at end of period                    | \$ 93,962              | \$ 3,691         | \$ 162          |
| Cash paid for income taxes (1)                           | \$ 33,263              | \$ 35,664        | \$ —            |
| Cash paid for interest                                   | \$ 786                 | \$ 2,349         | \$ 361          |

(1) In fiscal 2000 the Company was a division of Sara Lee and tax payments were included in the Sara Lee receivable account.

See accompanying Notes to the Consolidated Financial Statements.

**COACH, INC.**

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

**1. Basis of Presentation and Organization**

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

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

Coach designs, produces and markets high-quality, modern American classic accessories. Coach products are manufactured primarily by third-party suppliers. Coach markets products via Company operated retail stores and factory stores, direct mail catalogs, an e-commerce website, and via selected upscale department and specialty retailer locations and international department, retail and duty-free shop locations.

The consolidated financial statements of Coach reflect the historical results of operations and cash flows of the Coach leather goods and accessories business of Sara Lee during each respective period until the Separation Date. Coach was operated as a division of Sara Lee in the United States and as a subsidiary in foreign countries until April 5, 2001. The historical financial statements have been prepared using Sara Lee's historical basis in the assets and liabilities and the results of Coach's business. The financial information included herein may not reflect the consolidated financial position, operating results, changes in stockholders' equity and cash flows of Coach in the future, or what they would have been had Coach been a separate, stand-alone entity during Sara Lee's ownership. On the Separation Date, Coach began operating as a separate legal entity.

In June 2001, Coach and Sumitomo Corporation ("Sumitomo") commenced a joint venture to form Coach Japan, Inc. ("CJI"). Coach has a 50% interest in the joint venture and is deemed to have control; therefore the financial statements of the joint venture have been consolidated with the Company.

**2. Significant Accounting Policies**

***Fiscal year***

The Company's fiscal year ends on the Saturday closest to June 30. Unless otherwise stated, references to years in the financial statements relate to fiscal years. The fiscal years ended June 29, 2002, June 30, 2001 and July 1, 2000 were all 52-week periods.

***Use of Estimates***

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

***Principles of Consolidation***

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

COACH, INC.

Notes to Consolidated Financial Statements — (Continued)

(dollars and shares in thousands, except per share data)

***Cash and Cash Equivalents***

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

***Concentration of Credit Risk***

Financial instruments which potentially expose Coach to concentration of credit risk, consist primarily of cash investments and accounts receivable. The Company places its cash investments with high-credit quality financial institutions and currently invests primarily in bank money market funds placed with major banks and financial institutions. Accounts receivable is generally diversified due to the number of entities comprising Coach's customer base and their dispersion across many geographical regions. The Company's allowance for bad debts and returns was \$4,176 at June 29, 2002 and \$6,288 at June 30, 2001. The Company believes no significant concentration of credit risk exists with respect to these cash investments and accounts receivable.

***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. Inventories recorded at LIFO were \$525 lower than if they were valued at FIFO at the end of fiscal 2002. Inventories valued under LIFO amount to \$27,555 in fiscal 2002. There were no inventories recorded at LIFO at the end of fiscal 2001. Inventory costs include material, conversion costs, freight and duties.

***Property and Equipment***

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

***Goodwill and Other Intangible Assets***

As discussed in "Recent Accounting Pronouncements," the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142") effective in the first quarter of fiscal 2002. Under this new standard, goodwill and indefinite life intangible assets are no longer amortized but are subject to annual impairment tests. Other intangible assets with finite lives will continue to be amortized on a straight-line basis over the periods of expected benefit. The transitional impairment tests were completed and did not result in an impairment charge.

***Impairment of Long-Lived Assets***

Long-lived assets, other than intangible assets and goodwill, primarily include property and equipment. Long-lived assets being retained for use by the Company are periodically reviewed for impairment by comparing the carrying value of the assets with their estimated future undiscounted cash flows. If it is determined that an impairment loss has occurred, the loss would be recognized during the period. The impairment loss would be calculated as the difference between asset carrying values and the present value of estimated net cash flows or comparable market values, giving consideration to recent operating performance. Prior to the adoption of SFAS 142 (discussed in Recent Accounting Pronouncements), the Company included intangible assets and goodwill as a component of the long-lived asset categories reviewed for impairment as discussed above. Subsequent to the adoption of SFAS 142, indefinite lived intangible assets and goodwill were reviewed for impairment in accordance with the new accounting standards.

COACH, INC.

Notes to Consolidated Financial Statements — (Continued)

(dollars and shares in thousands, except per share data)

Long-lived assets that are to be disposed of, are reported at the lower of carrying value or fair value less cost to sell. Reductions in carrying value are recognized in the period in which management commits to a plan to dispose of the assets. See Note 8 for long-lived asset write-downs recorded in connection with the Company's fiscal 2002 and fiscal 2001 reorganization plans.

**Minority Interest in Subsidiary**

Minority interest in the statements of income represents Sumitomo's share of the income in CJI. The minority interest in the consolidated balance sheets reflects the original investment by Sumitomo in that consolidated subsidiary, along with their proportional share of the cumulative income of that subsidiary.

**Revenue Recognition**

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

**Advertising**

Advertising costs, which include media and production, totaled \$17,279 for fiscal year 2002, \$16,445 for fiscal year 2001 and \$15,764 for fiscal year 2000, 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 \$10,694 for fiscal year 2002, \$10,087 for fiscal year 2001 and \$9,670 for fiscal year 2000, and are included in selling, general and administrative expenses.

**Income Taxes**

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

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

**Stock-Based Compensation**

SFAS No. 123, "Accounting for Stock Based Compensation" ("SFAS 123") establishes a fair value-based method of accounting for stock-based employee compensations plans; however, it also allows an entity to continue to measure compensation expense for those plans using the intrinsic value based method of accounting prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"). Under the fair value method, compensation cost is measured at the grant date based on the value of the award and is recognized over the service period, which is usually the vesting period. Under the intrinsic value-based method, compensation expense is the excess, if any, of the quoted market price of the stock at the grant date or other measurement date over the amount an employee must pay to acquire the stock. Coach has elected to account for its stock-based employee compensation plans under

COACH, INC.

Notes to Consolidated Financial Statements — (Continued)

(dollars and shares in thousands, except per share data)

APB 25 with pro forma disclosures of net earnings and earnings per share, as if the fair value-based method of accounting defined in SFAS 123 had been applied.

***Fair Value of Financial Instruments***

The fair value of the revolving credit facility at June 29, 2002 and June 30, 2001 approximated its carrying value due to its floating interest rates. The Company has evaluated its industrial revenue bond and believes, based on the interest rate, related term and maturity, that the fair value of such instrument approximates its carrying amount. As of June 29, 2002 and June 30, 2001, the carrying values of cash and cash equivalents, trade accounts receivable, accounts payable, and accrued liabilities approximated their values due to the short-term maturities of these accounts.

Coach, through CJI, enters into foreign currency forward contracts that economically hedge certain U.S. dollar denominated inventory risk, but have not been designated for hedge accounting. The fair value of these contracts are recognized currently in earnings. The fair value of the foreign currency derivative is based on its market value as determined by an independent party. However, considerable judgement 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. Gains and losses from foreign currency transactions were not significant for fiscal 2002, 2001 and 2000.

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

***Recent Accounting Pronouncements***

In April 2001, the Emerging Issues Task Force ("EITF") of the Financial Accounting Standards Board ("FASB") reached a final consensus on Issue 00-25, "Accounting for Consideration from a Vendor to a Retailer in Connection with the Purchase or Promotion of the Vendor's Products." In November 2001, EITF 00-25 was codified in EITF 01-09. This issue addresses the recognition, measurement and income statement classification of consideration provided to distributors or retailers. Previously, the Company had recorded these activities within selling, general and administrative expenses. The Company adopted EITF 00-25 in the first quarter of fiscal 2002. In connection with this adoption, prior period amounts have been reclassified to conform with the current year's presentation. The effect of the adoption resulted in a

**COACH, INC.**

**Notes to Consolidated Financial Statements — (Continued)**

**(dollars and shares in thousands, except per share data)**

reclassification from selling, general and administrative expense to a reduction in net sales of \$15,588 for fiscal 2001 and \$11,224 for fiscal 2000.

In July 2001, the FASB issued SFAS No. 141, "Business Combinations" ("SFAS 141") and No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). SFAS 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method. Under SFAS 142, goodwill and intangible assets with indefinite lives, such as the Company's trademarks, are no longer amortized but are reviewed annually (or more frequently if impairment indicators arise) for impairment. As described further in Note 14, separable intangible assets that are not deemed to have indefinite lives will continue to be amortized over their useful lives (but with no maximum life). The Company adopted this statement in the first quarter of fiscal 2002, resulting in no goodwill or trademark amortization expense in fiscal 2002. Accumulated amortization of goodwill and indefinite life intangible assets was \$10,503 at June 29, 2002 and June 30, 2001.

In November 2001, the EITF reached consensus on Issue 01-10, "Accounting for the Impact of the Terrorist Attacks of September 11, 2001." Related to their discussion of this topic, the EITF also reached consensus on Issue 01-13, "Income Statement Display of Business Interruption Insurance Recoveries." These issues primarily relate to supplemental disclosure of the impact of the terrorist attacks and the recognition of business interruption insurance recoveries. Refer to Note 18, "Terrorist Attacks," for discussion of the relevant impact on the Coach business and financial statements.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." ("SFAS 143"). SFAS 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. SFAS 143 is effective for the first quarter in the fiscal year ending June 28, 2003. The Company does not expect the adoption of this pronouncement to have a material impact on its consolidated results of operations or financial position.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment for Disposal of Long-Lived Assets" ("SFAS 144"). This Statement addresses financial accounting and reporting for the impairment of long-lived assets and for long-lived assets to be disposed of. SFAS 144 supersedes FASB Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of." However, SFAS 144 retains the fundamental provisions of Statement No. 121 for (a) recognition and measurement of the impairment of long-lived assets to be held and used and (b) measurement of long-lived assets to be disposed of by sale. SFAS 144 is effective for the first quarter in the fiscal year ending June 28, 2003. The Company is currently evaluating the impact of adopting this pronouncement on its consolidated results of operations.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections" ("SFAS 145"). SFAS 145 rescinds the provisions of SFAS No. 4 that require companies to classify certain gains and losses from debt extinguishments as extraordinary items, eliminates the provisions of SFAS No. 44 regarding transition to the Motor Carrier Act of 1980 and amends the provisions of SFAS No. 13 to require that certain lease modifications be treated as sale-leaseback transactions. The provisions of SFAS 145 related to classification of debt extinguishments are effective for fiscal years beginning after May 15, 2002. Gains and losses from extinguishment of debt will be classified as extraordinary items only if they meet the criteria in APB Opinion No. 30; otherwise such costs will be classified within income from operations. The provisions of SFAS 145 related to lease modification are effective for transactions occurring after May 15, 2002. It is not expected that the adoption of this Statement will have a material impact on Coach's consolidated financial position or results of operations.

## COACH, INC.

## Notes to Consolidated Financial Statements — (Continued)

(dollars and shares in thousands, except per share data)

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS 146"). SFAS 146 addresses financial accounting and reporting costs associated with exit or disposal activities and nullifies EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)". It applies to costs associated with an exit activity that does not involve an entity newly acquired in a business combination or with a disposal activity covered by SFAS 144. A liability for a cost associated with an exit or disposal activity shall be recognized and measured initially at its fair value in the period in which the liability is incurred. SFAS 146 is effective for exit or disposal activities that are initiated after December 31, 2002. The Company does not expect the adoption of this Statement to have a material impact on Coach's consolidated results of operations or financial position.

**3. Balance Sheet Components**

The components of certain balance sheet accounts are as follows:

|   | June 29, 2002     | June 30, 2001     |
|---|-------------------|-------------------|
| <b>Inventory</b>  |                   |                   |
| Finished goods  | \$ 136,187        | \$ 104,326        |
| Work in process   | 9                 | 257               |
| Materials and supplies                                  | 208               | 579               |
| Total inventory   | <u>\$ 136,404</u> | <u>\$ 105,162</u> |
| <b>Property and Equipment</b>                           |                   |                   |
| Machinery and equipment                                 | \$ 9,069          | \$ 9,849          |
| Furniture and fixtures                                  | 82,279            | 74,452            |
| Leasehold improvements                                  | 123,279           | 108,077           |
| Construction in progress                                | 22,933            | 10,069            |
| Less: accumulated depreciation                          | (146,971)         | (130,059)         |
| Total property and equipment, net                       | <u>\$ 90,589</u>  | <u>\$ 72,388</u>  |
| <b>Accrued Liabilities</b>                              |                   |                   |
| Income and other taxes                                  | \$ 13,016         | \$ 9,968          |
| Payroll and benefits                                    | 34,251            | 34,139            |
| Rent, utilities, insurance, interest and administrative | 15,238            | 14,244            |
| Accrued operating expenses                              | 36,860            | 24,039            |
| Total accrued liabilities                               | <u>\$ 99,365</u>  | <u>\$ 82,390</u>  |

**COACH, INC.**

**Notes to Consolidated Financial Statements — (Continued)**

(dollars and shares in thousands, except per share data)

**4. Income Taxes**

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

|  | Fiscal Year Ended |         |               |         |              |         |
|--|-------------------|---------|---------------|---------|--------------|---------|
|  | June 29, 2002     |         | June 30, 2001 |         | July 1, 2000 |         |
|  | Amount            | Percent | Amount        | Percent | Amount       | Percent |
| Income (loss) before provision for income taxes and minority interest: |                   |         |               |         |              |         |
| United States  | \$125,273         | 94.0%   | \$92,163      | 92.7%   | \$43,527     | 78.2%   |
| Puerto Rico  | 7,831             | 5.9     | 7,847         | 7.9     | 13,000       | 23.4    |
| Foreign  | 232               | 0.1     | (580)         | (0.6)   | (897)        | (1.6)   |
| Total income before provision for income taxes and minority interest:  | \$133,336         | 100.0%  | \$99,430      | 100.0%  | \$55,630     | 100.0%  |
| Tax expense at U.S. statutory rate:                                    | \$ 46,668         | 35.0%   | \$34,801      | 35.0%   | \$19,471     | 35.0%   |
| State taxes, net of federal benefit                                    | 3,894             | 2.9     | 3,512         | 3.5     | 1,888        | 3.4     |
| Difference between U.S. and Puerto Rican tax rates                     | (1,411)           | (1.1)   | (2,353)       | (2.4)   | (3,965)      | (7.1)   |
| Nondeductible amortization   | —                 | 0.0     | 103           | 0.1     | 315          | 0.6     |
| Other, net   | (1,826)           | (1.3)   | (663)         | (0.6)   | (682)        | (1.3)   |
| Taxes at effective worldwide rates                                     | \$ 47,325         | 35.5%   | \$35,400      | 35.6%   | \$17,027     | 30.6%   |

Current and deferred tax provisions (benefits) were:

|  | Fiscal Year Ended |           |               |           |              |          |
|--|-------------------|-----------|---------------|-----------|--------------|----------|
|  | June 29, 2002     |           | June 30, 2001 |           | July 1, 2000 |          |
|  | Current           | Deferred  | Current       | Deferred  | Current      | Deferred |
| Federal  | \$41,497          | \$ 245    | \$34,686      | \$(4,821) | \$10,876     | \$2,317  |
| Puerto Rico  | 50                | 12        | 267           | 86        | 585          | —        |
| Foreign  | 5,089             | (5,559)   | —             | (221)     | —            | —        |
| State  | 5,658             | 333       | 6,244         | (841)     | 2,905        | 344      |
| Total current and deferred tax provisions (benefits) | \$52,294          | \$(4,969) | \$41,197      | \$(5,797) | \$14,366     | \$2,661  |

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

|  | Fiscal Year Ended |               |              |
|--|-------------------|---------------|--------------|
|  | June 29, 2002     | June 30, 2001 | July 1, 2000 |
| Deferred tax provisions (benefits)       |                   |               |              |
| Depreciation                             | \$ (261)          | \$(2,909)     | \$ —         |
| Employee benefits                        | 5,346             | (314)         | 1,843        |
| Advertising accruals                     | —                 | (240)         | —            |
| Non-deductible reserves                  | (65)              | 113           | 1,076        |
| Other, net                               | (9,989)           | (2,447)       | (258)        |
| Total deferred tax (benefits) provisions | \$(4,969)         | \$(5,797)     | \$2,661      |



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

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

|                                     | June 29,<br>2002 | June 30,<br>2001 | July 1,<br>2000 |
|-------------------------------------|------------------|------------------|-----------------|
| Deferred tax assets                 |                  |                  |                 |
| Reserves not deductible until paid  | \$ 3,351         | \$ 3,224         | \$ 7,432        |
| Pension and other employee benefits | 4,165            | 9,510            | 2,727           |
| Property, plant and equipment       | 10,549           | 10,288           | 12,979          |
| Other                               | 21,089           | 9,960            | 4,047           |
| Total deferred tax assets           | <u>\$39,154</u>  | <u>\$32,982</u>  | <u>\$27,185</u> |

**5. Debt*****Revolving Credit Facilities***

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

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

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

To provide funding for working capital for operations and general corporate purposes, on February 27, 2001, Coach, certain lenders and Fleet National Bank, as primary lender and administrative agent, entered into a \$100,000 senior unsecured three-year revolving credit facility (the "Fleet facility"). This facility expires on February 27, 2004.

The initial LIBOR margin under the Fleet facility was 125 basis points. For the year ended June 29, 2002, the LIBOR margin was 100 basis points reflecting an improvement in our fixed-charge coverage ratio. Under this revolving credit facility, Coach pays a commitment fee of 20 to 35 basis points based on any unused amounts. The initial commitment fee was 30 basis points. For the year ended June 29, 2002, the commitment fee was 25 basis points. This credit facility may be prepaid without penalty or premium.

During fiscal 2002 the peak borrowings under the Fleet facility were \$46,850. In fiscal 2001 the peak borrowings under the Sara Lee and Fleet revolving credit facility were \$37,667 and \$31,000, respectively. As of June 29, 2002, the borrowings under the Fleet facility were fully repaid from operating cash flow. This facility remains available for seasonal working capital requirements or general corporate purposes.

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

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

**COACH, INC.**

**Notes to Consolidated Financial Statements — (Continued)**

**(dollars and shares in thousands, except per share data)**

In order to provide funding for working capital, the acquisition of distributors and general corporate purposes, CJI has entered into credit facilities with several Japanese financial institutions. These facilities allow a maximum borrowing of 6,700,000 yen or approximately \$56,000 at June 29, 2002. 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. CJI has been in compliance with all covenants since their inception. Coach, Inc. is not a guarantor on any of these facilities.

During fiscal 2002 the peak borrowings under the Japanese credit facilities were \$35,426. As of June 29, 2002, the outstanding borrowings under the Japanese facilities were \$34,169.

**Long-Term Debt**

Coach is party to an Industrial Revenue Bond related to its Jacksonville facility. This loan has a remaining balance of \$3,690 and bears interest at 8.77%. Principal and interest payments are made semi-annually, with the final payment due in 2014.

Future principal payments under the industrial revenue bond are as follows:

| Fiscal Year        | Amount         |
|--------------------|----------------|
| 2003               | \$ 75          |
| 2004               | 80             |
| 2005               | 115            |
| 2006               | 150            |
| 2007               | 170            |
| Subsequent to 2007 | 3,100          |
| <b>Total</b>       | <b>\$3,690</b> |

**6. Leases**

Coach leases certain office, distribution, retail and manufacturing facilities. The lease agreements, which expire at various dates through 2016, are subject, in some cases, to renewal options and provide for the payment of taxes, insurance and maintenance. Certain leases contain escalation clauses resulting from the pass-through of increases in operating costs, property taxes and the effect on costs from changes in consumer price indices. Certain rentals are also contingent upon factors such as sales. Rent-free periods and other incentives granted under certain leases and scheduled rent increases are charged to rent expense on a straight-line basis over the related terms of such leases. Contingent rentals are recognized when the achievement of the target, which triggers the related payment, are considered probable. Rent expense for the Company's operating leases consisted of the following:

|                           | Fiscal Year Ended |                  |                 |
|---------------------------|-------------------|------------------|-----------------|
|                           | June 29,<br>2002  | June 30,<br>2001 | July 1,<br>2000 |
| Minimum rentals           | \$36,965          | \$28,929         | \$25,495        |
| Contingent rentals        | 3,292             | 2,902            | 2,869           |
| <b>Total rent expense</b> | <b>\$40,257</b>   | <b>\$31,831</b>  | <b>\$28,364</b> |

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

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

| Fiscal Year                          | Amount           |
|--------------------------------------|------------------|
| 2003                                 | \$ 38,765        |
| 2004                                 | 37,536           |
| 2005                                 | 36,358           |
| 2006                                 | 35,063           |
| 2007                                 | 32,263           |
| Subsequent to 2007                   | 146,168          |
| Total minimum future rental payments | <u>\$326,153</u> |

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

**7. Commitments and Contingencies**

Currently, Sara Lee is a guarantor or a party to many of Coach's leases. The Company has obtained a letter of credit for the benefit of Sara Lee in an amount approximately equal to the annual minimum rental payments under leases transferred to the Company by Sara Lee but for which Sara Lee retains contingent liability. The Company is required to maintain the letter of credit until the annual minimum rental payments under the relevant leases are less than \$2,000. The Company has agreed to make efforts to remove Sara Lee from all its existing leases and Sara Lee is not a guarantor or a party to any new or renewed leases. The initial letter of credit had a face amount of \$20,600, and the Company expects this amount to decrease annually as its guaranteed obligations are reduced. As of June 29, 2002, the letter of credit was reduced to \$19,820. The Company expects that it will be required to maintain the letter of credit for at least 10 years.

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

**8. Reorganization Costs**

On January 23, 2002, management of Coach announced a plan to cease production at the Lares, Puerto Rico, manufacturing facility. This reorganization involved the termination of 394 manufacturing, warehousing and management employees at the Lares, Puerto Rico, facility. These actions will reduce costs by the resulting transfer of production to lower cost third-party manufacturers. Coach recorded reorganization costs of \$4,467 in the third quarter. In the fourth quarter this charge was reduced to \$3,373. This was due primarily to the complete disposition of the fixed assets, resulting in the receipt of proceeds greater than originally estimated. The reorganization costs include \$2,229 for worker separation costs, \$659 for lease termination costs and \$485 for the write down of long-lived assets to net realizable value.

COACH, INC.

Notes to Consolidated Financial Statements — (Continued)

(dollars and shares in thousands, except per share data)

The composition of the reorganization reserve, included in accrued liabilities, is set forth in the following table. By June 29, 2002, production ceased at the Lares facility and disposition of the fixed assets and the termination of the 394 employees had been completed.

|                                    | Reorganization<br>Reserves | Write-down of<br>Long-lived<br>Assets to Net<br>Realizable Value | Cash<br>Payments | Reorganization<br>Reserves as of<br>June 29, 2002 |
|------------------------------------|----------------------------|--|------------------|---|
| Workers' separation costs          | \$ 2,229                   | \$ —   | \$(2,073)        | \$ 156  |
| Lease termination costs            | 659                        | —  | (616)            | 43  |
| Losses on disposal of fixed assets | 485                        | (485)  | —                | —   |
| Total reorganization reserve       | <u>\$ 3,373</u>            | <u>\$ (485)</u>  | <u>\$(2,689)</u> | <u>\$ 199</u>                                     |

Coach anticipates that the remaining workers' separation and lease termination costs will be settled during the first half of fiscal 2003.

In the first quarter of fiscal 2001, management of Coach committed to and announced a plan to cease production at the Medley, Florida, manufacturing facility in October 2000. This reorganization involved the termination of 362 manufacturing, warehousing and management employees at that facility. These actions reduced costs by the resulting transfer of production to lower cost third-party manufacturers. Coach recorded a reorganization cost of \$4,950 in the first quarter of fiscal year 2001. In the third quarter of fiscal year 2001, this charge was reduced to \$4,569, as a result of the complete disposition of the fixed assets at proceeds greater than originally estimated by management. The reorganization costs included \$3,103 for worker separation costs, \$832 for lease termination costs and \$634 for the write-down of long-lived assets to net realizable value. By the end of fiscal 2001, production ceased at the Medley facility and disposition of the fixed assets and the termination of the 362 employees had been completed.

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

|                                    | Reorganization<br>Reserves | Write-down of<br>Long-lived<br>Assets to Net<br>Realizable Value | Cash<br>Payments | Reorganization<br>Reserves as of<br>June 30, 2001 |
|------------------------------------|----------------------------|--|------------------|---|
| Workers' separation costs          | \$ 3,103                   | \$ —   | \$(3,103)        | \$ —  |
| Lease termination costs            | 832                        | —  | (832)            | —   |
| Losses on disposal of fixed assets | 634                        | (634)  | —                | —   |
| Total reorganization reserve       | <u>\$ 4,569</u>            | <u>\$ (634)</u>  | <u>\$(3,935)</u> | <u>\$ —</u>                                       |

**9. Stock-Based Compensation**

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

Under Coach's stock option plans, an active employee can receive a replacement stock option equal to the number of shares surrendered upon a stock-for-stock exercise. The exercise price of the replacement option was 100% of the market value at the date of exercise of the original option and will remain exercisable for the

**COACH, INC.**

**Notes to Consolidated Financial Statements — (Continued)**

**(dollars and shares in thousands, except per share data)**

remaining term of the original option. Replacement stock options generally vest six months from the grant date.

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

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

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

|  | Number of<br>Coach<br>Outstanding<br>Options | Weighted-<br>Average<br>Exercise<br>Price | Exercisable<br>Shares | Weighted-<br>Average<br>Exercise<br>Price |
|--|--|---|-----------------------|---|
| Outstanding at July 1, 2000            | —  | \$ —                                      | —                     | \$ —                                      |
| Granted at the initial public offering | 6,412  | 8.00                                      |                       |   |
| Sara Lee options converted             | 2,408  | 12.06                                     |                       |   |
| Granted                                | 1,344  | 14.17                                     |                       |   |
| Exercised                              | (482)  | 9.06                                      |                       |   |
| Canceled/expired                       | (238)  | 8.83                                      |                       |   |
| Outstanding at June 30, 2001           | 9,444  | 9.91                                      | 1,751                 | 12.06                                     |
| Granted                                | 4,452  | 19.26                                     |                       |   |
| Exercised                              | (3,558)                                      | 10.17                                     |                       |   |
| Canceled/expired                       | (328)  | 10.07                                     |                       |   |
| Outstanding at June 29, 2002           | 10,010                                       | \$ 13.97                                  | 1,592                 | \$ 13.63                                  |

The following table summarizes information about stock options under the Coach option plans at June 29, 2002.

| Range of<br>Exercise Prices | Options Outstanding                       |  |  | Options Exercisable                       |  |
|-----------------------------|---|--|--|---|--|
|                             | Number<br>Outstanding at<br>June 29, 2002 | Weighted-<br>Average<br>Remaining<br>Contractual<br>Life (Years) | Weighted-<br>Average<br>Exercise Price | Number<br>Exercisable at<br>June 29, 2002 | Weighted-<br>Average<br>Exercise Price |
| \$ 8.00 – 10.00             | 3,818                                     | 7.55   | \$ 8.01                                | 297                                       | \$ 8.12                                |
| \$10.01 – 12.50             | 743                                       | 7.30   | 11.55                                  | 287                                       | 11.77                                  |
| \$12.51 – 17.50             | 1,641                                     | 6.59   | 15.55                                  | 991                                       | 15.69                                  |
| \$17.51 – 29.88             | 3,808                                     | 8.36   | 19.73                                  | 17  | 21.13                                  |
|                             | 10,010                                    | 7.68   | \$ 13.97                               | 1,592                                     | \$ 13.63                               |

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

|                         | Fiscal Year Ended |                  |
|-------------------------|-------------------|------------------|
|                         | June 29,<br>2002  | June 30,<br>2001 |
| Expected lives (years)  | 1.6               | 3.0              |
| Risk-free interest rate | 3.3%              | 6.0%             |
| Expected volatility     | 48.3%             | 49.0%            |
| Dividend yield          | —%                | —%               |

COACH, INC.

Notes to Consolidated Financial Statements — (Continued)

(dollars and shares in thousands, except per share data)

The weighted-average fair values of individual options granted were \$4.81 during fiscal 2002 and \$3.34 during fiscal 2001.

**Employee Stock Purchase Plan.** During fiscal 2002, Coach established the employee stock purchase plan and received stockholder approval of this program. Under this plan, full-time Coach employees are permitted to purchase a limited number of Coach common shares at 85% of market value. Under this plan, Coach sold 26 shares to Coach employees in fiscal year 2002. Pro forma compensation expense is calculated for the fair value of employees purchase rights using the Black-Scholes model. Underlying assumptions are an expected life of .4 years, risk free interest of 1.9%, expected volatility of 35.6% and dividend yield of 0%. The weighted-average fair value of the purchase rights granted during fiscal 2002 was \$5.88.

**Stock Unit Awards.** Restricted stock unit awards of Coach common stock have been granted to employees as retention awards. The value of retention awards is determined based upon the fair value of Coach stock at the grant date.

Stock awards are generally restricted and subject to forfeiture until the retention period is completed. The retention period is generally three years. As of June 29, 2002, retention awards of 140 shares are outstanding, including the 76 shares that were converted from a Sara Lee program at the time of the initial public offering. This value is initially recorded as unearned compensation and is charged to earnings over the retention period. The expense related to these awards was \$235 for fiscal 2002 and \$315 for fiscal 2001.

**Sara Lee Stock-Based Plans.** Prior to the completion of the exchange offer in April 2001, Coach employees participated in stock-based compensation plans of Sara Lee. Sara Lee maintained various stock option, employee stock purchase and stock award plans.

**Stock Options.** The exercise price of each stock option equaled 100% of the market price of Sara Lee's stock on the date of grant and generally had a maximum term of 10 years. Options generally vested ratably over three years. Under certain stock option plans, an active employee could receive a Sara Lee replacement stock option equal to the number of shares surrendered upon a stock-for-stock exercise. The exercise price of the replacement option was 100% of the market value at the date of exercise of the original option and remained exercisable for the remaining term of the original option. Replacement stock options generally vest six months from the grant date.

COACH, INC.

Notes to Consolidated Financial Statements — (Continued)

(dollars and shares in thousands, except per share data)

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

|                              | Number of<br>Sara Lee<br>Outstanding<br>Options | Weighted-<br>Average<br>Exercise<br>Price | Exercisable<br>Shares | Weighted-<br>Average<br>Exercise<br>Price |
|------------------------------|---|---|-----------------------|---|
| Outstanding at July 3, 1999  | 1,518   | \$ 22.63                                  | 603                   | \$ 23.02                                  |
| Granted                      | 563   | 22.69                                     |                       |   |
| Exercised                    | (167)   | 24.01                                     |                       |   |
| Canceled/expired             | (216)   | 21.89                                     |                       |   |
| Transfers                    | 111   | 19.26                                     |                       |   |
| Outstanding at July 1, 2000  | 1,809   | 23.06                                     | 935                   | 23.44                                     |
| Converted                    | (1,204)   | 24.11                                     |                       |   |
| Granted                      | 6   | 19.87                                     |                       |   |
| Exercised                    | (67)  | 17.70                                     |                       |   |
| Canceled/expired             | (240)   | 22.21                                     |                       |   |
| Outstanding at June 30, 2001 | 304   | 20.21                                     | 298                   | 20.13                                     |
| Exercised                    | (7)   | 20.14                                     |                       |   |
| Canceled/expired             | (213)   | 20.32                                     |                       |   |
| Outstanding at June 29, 2002 | 84  | \$ 19.93                                  | 83                    | \$ 19.89                                  |

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

|                         | Fiscal Year Ended |                 |
|-------------------------|-------------------|-----------------|
|                         | June 30,<br>2001  | July 1,<br>2000 |
| Expected lives (years)  | 3.0               | 4.0             |
| Risk-free interest rate | 5.4%              | 5.9%            |
| Expected volatility     | 33.6%             | 27.0%           |
| Dividend yield          | 2.8%              | 2.6%            |

The weighted-average fair values of individual options granted were \$4.65 during fiscal 2001 and \$4.96 during fiscal 2000.

**Employee Stock Purchase Plan.** Sara Lee maintained an employee stock purchase plan that permitted full-time Coach employees to purchase a limited number of Sara Lee common shares at 85% of market value. Under the plan, Sara Lee sold to Coach employees 57 shares in fiscal year 2001 and 100 shares in fiscal year 2000. Pro forma compensation expense is calculated for the fair value of the employees' purchase rights using the Black-Scholes model. Assumptions include an expected life of a quarter of a year and weighted-average risk-free interest rates of 5.4% in fiscal years 2001 and 2000. Other underlying assumptions are consistent with those used for the Sara Lee stock option plans described above.

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

COACH, INC.

Notes to Consolidated Financial Statements — (Continued)

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All stock unit awards are restricted and subject to forfeiture and entitle the participant to dividends that are escrowed until the participant receives the shares. The expense related to these awards was \$728 for fiscal 2001 and \$963 for fiscal 2000.

**Pro forma SFAS 123 Disclosure.** Under APB 25, no compensation cost is recognized for stock options and replacement stock options under the stock-based compensation plans and shares purchased under the employee stock purchase plan. Had compensation cost for the grants for stock-based compensation been determined consistent with SFAS 123, net income and net income per share, basic and diluted, for fiscal years 2002, 2001 and 2000 would have been as follows:

|                       | Fiscal Year Ended |                  |                 |
|-----------------------|-------------------|------------------|-----------------|
|                       | June 29,<br>2002  | June 30,<br>2001 | July 1,<br>2000 |
| Net income            | \$75,600          | \$58,884         | \$36,051        |
| Net income per share: |                   |                  |                 |
| Basic                 | \$ 0.86           | \$ 0.72          | \$ 0.52         |
| Diluted               | \$ 0.83           | \$ 0.70          | \$ 0.52         |

**Deferred Compensation.** Under the Coach, Inc. Executive Deferred Compensation Plan, executive officers and employees at or above the director level may elect to defer all or a portion of their annual bonus or annual base salary into the plan. Under the Coach, Inc. Deferred Compensation Plan for Non-Employee Directors, Coach's outside directors may similarly defer their director's fees. Amounts deferred under these plans may, at the participants' election, be either represented by deferred stock units, which represent the right to receive shares of Coach common stock on the distribution date elected by the participant, or placed in an interest-bearing account to be paid on such distribution date. The amounts accrued under these plans were \$2,051 at June 29, 2002 and \$2,007 at June 30, 2001; these amounts are reflected in other noncurrent liabilities in the consolidated balance sheets.

The following table summarizes share and exercise price information about Coach's equity compensation plans as of June 29, 2002.

| Plan Category  | Number of securities to be issued upon exercise of outstanding options, warrants or rights | Weighted-average exercise price of outstanding options, warrants and rights | Number of securities remaining available for future issuance under equity compensation plans |
|--|--|---|--|
| Equity compensation plans approved by security holders     | 10,150   | \$ 13.78  | 6,830  |
| Equity compensation plans not approved by security holders | 209  | \$ 19.40  | 811  |

**10. Retirement Plans**

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

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

Employees who met certain eligibility requirements and were not part of a collective bargaining arrangement participate in defined benefit pension plans sponsored by Sara Lee through June 30, 2001. These defined benefit pension plans include employees from a number of domestic Sara Lee business units. The

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

annual cost of the Sara Lee defined benefit plans is allocated to all of the participating businesses based upon a specific actuarial computation. All obligations pursuant to these plans are obligations of Sara Lee.

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

|   | Fiscal Year Ended |                  |                 |
|---|-------------------|------------------|-----------------|
|   | June 29,<br>2002  | June 30,<br>2001 | July 1,<br>2000 |
| Coach, Inc. Savings and Profit Sharing Plan               | \$3,926           | \$ —             | \$ —            |
| Coach Leatherware Company, Inc. Supplemental Pension Plan | 71                | 110              | 173             |
| Participation in Sara Lee sponsored defined benefit plans | —                 | 3,542            | 2,154           |
| <b>Total expense</b>                                      | <b>\$3,997</b>    | <b>\$3,652</b>   | <b>\$2,327</b>  |

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

|   | Fiscal Year Ended |                  |                 |
|---|-------------------|------------------|-----------------|
|   | June 29,<br>2002  | June 30,<br>2001 | July 1,<br>2000 |
| Components of defined benefit net periodic pension costs (benefit): |                   |                  |                 |
| Service cost  | \$ 15             | \$ 183           | \$ 192          |
| Interest cost   | 350               | 337              | 314             |
| Expected return on assets   | (381)             | (415)            | (359)           |
| Amortization of:  |                   |                  |                 |
| Net initial asset   | —                 | (48)             | (50)            |
| Prior service cost  | 1                 | 29               | 29              |
| Net actuarial loss  | 86                | 24               | 47              |
| <b>Net periodic pension cost</b>                                    | <b>\$ 71</b>      | <b>\$ 110</b>    | <b>\$ 173</b>   |

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

|  | Fiscal Year Ended |                  |                 |
|--|-------------------|------------------|-----------------|
|  | June 29,<br>2002  | June 30,<br>2001 | July 1,<br>2000 |
| Projected benefit obligation:            |                   |                  |                 |
| Beginning of year                        | \$5,515           | \$5,289          | \$5,109         |
| Service cost                             | 15                | 183              | 192             |
| Interest cost                            | 350               | 337              | 314             |
| Benefits paid                            | (187)             | (177)            | (148)           |
| Actuarial (gain)                         | (279)             | (117)            | (178)           |
| <b>Benefit obligation at end of year</b> | <b>\$5,414</b>    | <b>\$5,515</b>   | <b>\$5,289</b>  |

COACH, INC.

Notes to Consolidated Financial Statements — (Continued)

(dollars and shares in thousands, except per share data)

|  | Fiscal Year Ended |                  |                 |
|--|-------------------|------------------|-----------------|
|  | June 29,<br>2002  | June 30,<br>2001 | July 1,<br>2000 |
| Fair value of plan assets:               |                   |                  |                 |
| Beginning of year                        | \$4,605           | \$4,990          | \$4,306         |
| Actual return (loss) on plan assets      | 322               | (208)            | 541             |
| Employer contributions                   | —                 | —                | 291             |
| Benefits paid                            | (187)             | (177)            | (148)           |
| Fair value of plan assets at end of year | \$4,740           | \$4,605          | \$4,990         |

|  | Fiscal Year Ended |                  |                 |
|--|-------------------|------------------|-----------------|
|  | June 29,<br>2002  | June 30,<br>2001 | July 1,<br>2000 |
| Funded status  | \$ (675)          | \$ (909)         | \$(299)         |
| Unrecognized:  |                   |                  |                 |
| Prior service cost                                     | 1                 | 1                | 205             |
| Net actuarial loss                                     | 850               | 1,156            | 674             |
| Net initial asset                                      | —                 | —                | (48)            |
| Prepaid benefit cost recognized                        | \$ 176            | \$ 248           | \$ 532          |
| Amounts recognized on the consolidated balance sheets: |                   |                  |                 |
| Other noncurrent assets                                | \$ 1              | \$ 1             | \$ 205          |
| Noncurrent benefit liability                           | (675)             | (909)            | (299)           |
| Accumulated other comprehensive income                 | 850               | 1,156            | 626             |
| Prepaid benefit cost recognized                        | \$ 176            | \$ 248           | \$ 532          |

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

The assumptions used at the respective year-ends were:

|   | Fiscal Year Ended |                  |                 |
|---|-------------------|------------------|-----------------|
|   | June 29,<br>2002  | June 30,<br>2001 | July 1,<br>2000 |
| Discount rate                           | 7.00%             | 6.50%            | 6.50%           |
| Long-term rate of return on plan assets | 8.25%             | 8.50%            | 8.25%           |
| Rate of compensation increase           | 5.50%             | 5.50%            | 5.50%           |

**11. Segment Information**

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

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

| Fiscal 2002   | Direct-to-Consumer | Indirect  | Corporate Unallocated | Total     |
|---|--------------------|-----------|-----------------------|-----------|
| Net sales   | \$447,062          | \$272,341 | \$ —                  | \$719,403 |
| Operating income  | 135,831            | 106,720   | (108,916)             | 133,635   |
| Interest income   | —                  | —         | 825                   | 825       |
| Interest expense  | —                  | —         | 1,124                 | 1,124     |
| Income (loss) before provision for income taxes and minority interest | 135,831            | 106,720   | (109,215)             | 133,336   |
| Provision for income taxes  | —                  | —         | 47,325                | 47,325    |
| Minority interest, net of tax   | —                  | —         | 184                   | 184       |
| Depreciation and amortization   | 16,192             | 1,986     | 7,316                 | 25,494    |
| Total assets  | 146,907            | 107,248   | 186,416               | 440,571   |
| Additions to long-lived assets  | 28,461             | 21,162    | 7,398                 | 57,021    |
| Fiscal 2001   | Direct-to-Consumer | Indirect  | Corporate Unallocated | Total     |
| Net sales   | \$391,776          | \$208,715 | \$ —                  | \$600,491 |
| Operating income  | 120,330            | 89,516    | (108,158)             | 101,688   |
| Interest income   | —                  | —         | 305                   | 305       |
| Interest expense  | —                  | —         | 2,563                 | 2,563     |
| Income (loss) before provision for income taxes and minority interest | 120,330            | 89,516    | (110,416)             | 99,430    |
| Provision for income taxes  | —                  | —         | 35,400                | 35,400    |
| Minority interest, net of tax   | —                  | —         | —                     | —         |
| Depreciation and amortization   | 14,600             | 1,525     | 8,006                 | 24,131    |
| Total assets  | 135,760            | 60,374    | 62,577                | 258,711   |
| Additions to long-lived assets  | 24,823             | 2,568     | 4,477                 | 31,868    |
| Fiscal 2000   | Direct-to-Consumer | Indirect  | Corporate Unallocated | Total     |
| Net sales   | \$352,006          | \$185,688 | \$ —                  | \$537,694 |
| Operating income  | 103,161            | 68,011    | (115,155)             | 56,017    |
| Interest income   | —                  | —         | 33                    | 33        |
| Interest expense  | —                  | —         | 420                   | 420       |
| Income (loss) before provision for income taxes and minority interest | 103,161            | 68,011    | (115,542)             | 55,630    |
| Provision for income taxes  | —                  | —         | 17,027                | 17,027    |
| Minority interest, net of tax   | —                  | —         | —                     | —         |
| Depreciation and amortization   | 10,952             | 1,585     | 10,091                | 22,628    |
| Total assets  | 122,029            | 51,953    | 122,671               | 296,653   |
| Additions to long-lived assets  | 18,930             | 1,202     | 5,928                 | 26,060    |

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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 |               |              |
|--|-------------------|---------------|--------------|
|  | June 29, 2002     | June 30, 2001 | July 1, 2000 |
| Manufacturing variances                | \$ 2,180          | \$ (170)      | \$ (10,230)  |
| Advertising, marketing and design      | (44,526)          | (44,837)      | (40,336)     |
| Administration and information systems | (38,512)          | (35,011)      | (41,928)     |
| Distribution and customer service      | (24,685)          | (23,571)      | (22,661)     |
| Reorganization costs                   | (3,373)           | (4,569)       | —            |
| Total corporate unallocated            | \$ (108,916)      | \$ (108,158)  | \$ (115,155) |

**Geographic Area Information**

As of June 29, 2002, Coach operated 138 retail stores and 74 factory stores in the United States, two retail locations in the United Kingdom, and operated four manufacturing, distribution, product development and quality control locations in the United States, Italy and China. Geographic revenue information is based on the location of the end customer. Geographic long-lived asset information is based on the physical location of the assets at the end of each period. Indirectly, through CJI, Coach operates 83 retail and department store locations in Japan.

|                    | United States | Japan    | Other International(1) | Total     |
|--------------------|---------------|----------|------------------------|-----------|
| <b>Fiscal 2002</b> |               |          |                        |           |
| Net sales          | \$ 590,237    | \$95,702 | \$ 33,464              | \$719,403 |
| Long-lived assets  | 106,600       | 20,647   | 705                    | 127,952   |
| <b>Fiscal 2001</b> |               |          |                        |           |
| Net sales          | \$ 528,585    | \$40,861 | \$ 31,045              | \$600,491 |
| Long-lived assets  | 87,217        | 489      | 377                    | 88,083    |
| <b>Fiscal 2000</b> |               |          |                        |           |
| Net sales          | \$ 486,506    | \$28,383 | \$ 22,805              | \$537,694 |
| Long-lived assets  | 80,382        | —        | 611                    | 80,993    |

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

**12. Coach Japan, Inc. and the Acquisition of Distributors**

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

On July 31, 2001, CJI completed the purchase of 100% of the capital stock of P.D.C. Co. Ltd. ("PDC") from the Mitsukoshi Department Store Group ("Mitsukoshi") for a total purchase price of \$9,018.

COACH, INC.

Notes to Consolidated Financial Statements — (Continued)

(dollars and shares in thousands, except per share data)

Mitsukoshi established PDC in 1991 to expand Coach distribution to select department stores throughout Japan. At the time of acquisition PDC operated 63 retail and department store locations in Japan. The strength of the going concern and the established locations supported a premium above the fair value of the individual assets. The fair value of assets acquired was \$22,351 and liabilities assumed were \$20,732. Excess purchase price over fair market value is reported as goodwill. Results of the acquired business are included in the consolidated financial statements from August 1, 2001, onward. Unaudited pro forma information related to this acquisition are not included, as the impact of this transaction is not material to the consolidated results of the Company.

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

There are currently a total of 85 Coach locations in Japan, including 68 department stores and 15 retail stores managed by CJI and two airport locations operated by a distributor. CJI plans to open additional locations within existing major retailers, enter new department store relationships and open freestanding retail locations.

**13. Derivative Instruments and Hedging Activities**

Effective July 2, 2000, the Company adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). SFAS 133, as amended and interpreted, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. All derivatives, whether designated in hedging relationships or not, are required to be recorded on the balance sheet at fair value. If the derivative is designated as a fair value hedge, the changes in fair value of the hedged item are recorded in the statements of operations in the period incurred. If the derivative is designated as a cash flow hedge, effective changes in the fair value of the derivative are recorded in other comprehensive income and are recognized in the statement of operations when the hedged items affects earnings. Ineffective portions of changes in the fair value of cash flow hedges are recognized in earnings immediately. The cumulative effect of adoption of SFAS 133 was not material to the financial position or the results of operations of the Company.

Substantially, all purchases and sales involving international parties are denominated in U.S. dollars and, therefore, are not hedged using any derivative instruments. The Company had not used foreign exchange instruments prior to the formation of CJI.

The Company is exposed to market risk from foreign currency exchange rate fluctuations with respect to CJI. The Company, through CJI, enters into certain foreign currency derivative instruments that economically hedge certain of its risks but have not been designated for hedge accounting. These transactions are in accordance with Company risk management policies. The Company does not enter into derivative transactions for speculative or trading purposes. During fiscal 2002, CJI entered into foreign currency forward contracts for its U.S. dollar-denominated inventory purchases. In assessing the fair value of these contracts, the Company has utilized independent valuations. However, some judgement is required in developing estimates of fair values. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the

COACH, INC.

Notes to Consolidated Financial Statements — (Continued)

(dollars and shares in thousands, except per share data)

Company could settle in a current market exchange. The use of different market assumptions or methodologies could effect the estimated fair value.

The foreign currency contracts entered into by the Company have durations no greater than 12 months. At June 29, 2002, open foreign currency forward contracts with a notional amount of \$33,150 were fair valued (i.e., marked to market) and resulted in a pretax non cash charge to earnings of \$3,252, included as a component of selling, general and administrative expenses, with a corresponding liability included in accrued liabilities. There were no foreign currency forward contracts entered into by the Company as of June 30, 2001.

**14. Goodwill and Intangible Assets**

The Company adopted SFAS 142 in the first quarter of fiscal 2002, resulting in no goodwill or trademark amortization expense in fiscal 2002. Under the new standard, goodwill and indefinite life intangible assets, such as the Company's trademarks, are no longer amortized but are subject to annual impairment tests. In accordance with SFAS 142, prior period amounts were not restated. Coach recorded goodwill and trademark amortization expense of \$900 in fiscal 2001 and \$899 in fiscal 2000. If the guidance of the statement had been applied retroactively, prior year results would have been different than previously reported. A reconciliation of net income as reported to adjusted net income for the exclusion of goodwill and trademark amortization, net of tax, is as follows:

|  | Fiscal Year Ended |                 |
|--|-------------------|-----------------|
|  | June 30,<br>2001  | July 1,<br>2000 |
| Net income as reported                         | \$64,030          | \$38,603        |
| Add back: amortization expense, net of tax     | 664               | 696             |
| Adjusted net income                            | <u>\$64,694</u>   | <u>\$39,299</u> |
| Net income per share as reported:              |                   |                 |
| Basic  | <u>\$ 0.78</u>    | <u>\$ 0.55</u>  |
| Diluted  | <u>\$ 0.76</u>    | <u>\$ 0.55</u>  |
| Adjusted net income per share:                 |                   |                 |
| Basic  | <u>\$ 0.79</u>    | <u>\$ 0.56</u>  |
| Diluted  | <u>\$ 0.77</u>    | <u>\$ 0.56</u>  |
| Shares used in computing net income per share: |                   |                 |
| Basic  | <u>81,860</u>     | <u>70,052</u>   |
| Diluted  | <u>84,312</u>     | <u>70,052</u>   |

The net carrying value of goodwill and other intangible assets as of June 29, 2002 and June 30, 2001 is comprised of the following:

|                                   | June 29, 2002    | June 30, 2001    |
|-----------------------------------|------------------|------------------|
| Goodwill                          | \$ 13,006        | \$ 4,924         |
| Indefinite life intangible assets | 9,389            | 9,389            |
| Total                             | <u>\$ 22,395</u> | <u>\$ 14,313</u> |

**COACH, INC.**

**Notes to Consolidated Financial Statements — (Continued)**

**(dollars and shares in thousands, except per share data)**

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

|                          | Direct-to-<br>Consumer | Indirect | Corporate<br>Unallocated | Total    |
|--------------------------|------------------------|----------|--------------------------|----------|
| Balance at July 1, 2000  | \$ —                   | \$ —     | \$ 5,219                 | \$ 5,219 |
| Amortization             | —                      | —        | (238)                    | (238)    |
| Foreign exchange impact  | —                      | —        | (57)                     | (57)     |
|                          | —                      | —        | —                        | —        |
| Balance at June 30, 2001 | —                      | —        | 4,924                    | 4,924    |
| PDC acquisition          | —                      | 7,399    | —                        | 7,399    |
| J. Osawa acquisition     | —                      | 421      | —                        | 421      |
| Foreign exchange impact  | —                      | 262      | —                        | 262      |
|                          | —                      | —        | —                        | —        |
| Balance at June 29, 2002 | \$ —                   | \$8,082  | \$ 4,924                 | \$13,006 |

**15. Earnings Per Share**

Prior to October 2, 2000, Coach operated as a division of Sara Lee and did not have any shares outstanding. The initial capitalization of Coach, Inc. was two shares. On October 2, 2000, a stock dividend was declared resulting in 70,052 shares held by Sara Lee. The number of shares outstanding has been restated to reflect the effect of this stock dividend for all periods presented prior to October 2, 2000. During October 2000, the initial public offering of the Company's common stock was accomplished resulting in the issuance of an additional 16,974 shares. Following the offering, 87,026 shares were outstanding. Dilutive securities include share equivalents held in employee benefit programs and the impact of stock option programs.

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

|  | Fiscal Year Ended |                  |                 |
|--|-------------------|------------------|-----------------|
|  | June 29,<br>2002  | June 30,<br>2001 | July 1,<br>2000 |
| Total basic shares   | 88,048            | 81,860           | 70,052          |
| Dilutive securities Employee benefit and stock award plans | 342               | 244              | —               |
| Stock option programs                                      | 2,562             | 2,208            | —               |
|  | —                 | —                | —               |
| Total diluted shares                                       | 90,952            | 84,312           | 70,052          |

Diluted net income per share was \$0.94 in fiscal 2002. This reflects a weighted-average of the shares outstanding during fiscal 2002. Comparable diluted net income per share for fiscal 2001 was \$0.76. This reflects a weighted-average of the shares outstanding before and after the initial public offering of stock in October 2000. Fiscal 2000 diluted net income per share was \$0.55 since only the shares owned by Sara Lee are used in the calculation. The effect of the two-for-one stock split was retroactively applied to all periods presented.

**16. Relationship with Sara Lee**

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

The Company was charged with allocations of corporate expenses in the amounts of \$31,437 for fiscal 20001 and \$22,442 for fiscal 2000, which were included as components of selling, general and administrative expenses. These charges consisted of expenses for business insurance, medical insurance, employee benefit

**COACH, INC.**

**Notes to Consolidated Financial Statements — (Continued)**

**(dollars and shares in thousands, except per share data)**

plan amounts, income, employment and other tax amounts and allocations from Sara Lee for certain centralized administration costs for treasury, real estate, accounting, auditing, tax, risk management, human resources and benefits administration. As of the Separation Date there are no further transactions of this nature.

**17. Shareholder Rights Plan**

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

Subject to limited exceptions, these rights may be exercised if a person or group intentionally acquires 10% or more of the Company’s common stock or announces a tender offer for 10% or more of the common stock on terms not approved by the Coach Board of Directors. In this event, each right would entitle the holder of each share of Coach’s common stock to buy one additional common share of the Company at an exercise price far below the then-current market price. Subject to certain exceptions, Coach’s Board of Directors will be entitled to redeem the rights at \$0.001 per right at any time before the close of business on the tenth day following either the public announcement that, or the date on which a majority of Coach’s Board of Directors becomes aware that, a person has acquired 10% or more of the outstanding common stock. The Company is currently aware of one institutional shareholders whose common stock holdings exceed the 10% threshold established by the rights plan. This holder has been given permission to increase its ownership in the Company to a maximum of 15%, subject to certain exceptions, before triggering the provision of the rights plan.

**18. Terrorist Attacks**

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

Preliminary losses relating to the Company’s business interruption coverage have been filed with the insurers. Coach has held discussions with its insurance carriers and expects to fully recover these losses. In the third and fourth quarters of fiscal 2002 Coach received preliminary payments and recorded a gain of \$1,413, of which \$1,002 was received in the fourth quarter, under the Company’s business interruption coverage. This amount was included as a reduction of selling, general and administrative expenses.

**19. Stock Repurchase Program**

On September 17, 2001, the Coach Board of Directors authorized the establishment of a common stock repurchase program. Under this program, up to \$80,000 may be utilized to repurchase common stock through September 2004. Purchases of Coach stock may be made from time to time, subject to market conditions and at prevailing market prices, through open market purchases. Repurchased shares will become authorized but unissued shares and may be issued in the future for general corporate and other uses. The Company may terminate or limit the stock repurchase program at any time. During fiscal 2002, the Company repurchased 860 shares at an average cost of \$11.45 per share.

**20. Related-Party Transaction**

On July 26, 2001, Coach made a loan to Reed Krakoff, its President, Executive Creative Director, in the principal amount of \$2,000. The loan bears interest at a rate of 5.12% per annum, compounded annually. This loan amount and the applicable accrued interest is recorded as a component of other non current assets in the accompanying balance sheet. Repayments of \$400 principal must be made on or before each of July 26, 2003, 2004, 2005; the remaining \$800 of principal, together with all accrued interest under the loan, must be paid on

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

or before July 26, 2006. Mr. Krakoff may repay these amounts at any time. As collateral for the loan, Mr. Krakoff pledged to Coach his options to purchase 300 shares of Coach common stock at a price of \$8.00 per share, including the shares of stock and any cash or other property he receives upon exercise of or in exchange for those options. Mr. Krakoff would be obligated to repay the loan in full immediately following certain events of default, including his failure to make payments under the loan as scheduled, his bankruptcy or the termination of his employment with Coach for any reason.

**21. Subsequent Event — Case London Ltd.**

On July 1, 2002 Coach signed an agreement with Case London Ltd. ("Case") for the exclusive distribution of Coach products in the United Kingdom and Ireland. In addition, Case assumed the responsibility of operating the existing Coach store on Sloane Street and the Coach shop in Harrods in London.

**22. Subsequent Event — Stock Repurchase**

During August 2002, the Company repurchased 1,929 shares of common stock at an average cost of \$25.92 per share. The stock repurchases of approximately \$50,000 were financed out of cash on hand and operating cash flows. As of August 30, 2002, Coach had expended approximately \$60,000 of the \$80,000 authorized to date under the stock repurchase program.

**23. Quarterly Financial Data (Unaudited)**

|                             | First<br>Quarter | Second<br>Quarter | Third<br>Quarter | Fourth<br>Quarter |
|-----------------------------|------------------|-------------------|------------------|-------------------|
| <b>Fiscal 2002</b>          |                  |                   |                  |                   |
| Net sales                   | 150,702          | 235,750           | 161,571          | 171,380           |
| Gross profit                | 96,571           | 161,618           | 111,106          | 114,067           |
| Net income                  | 12,538           | 44,166            | 11,817           | 17,306            |
| Earnings per common shares: |                  |                   |                  |                   |
| Basic                       | \$ 0.14          | \$ 0.51           | \$ 0.13          | \$ 0.19           |
| Diluted                     | \$ 0.14          | \$ 0.49           | \$ 0.13          | \$ 0.19           |
| <b>Fiscal 2001</b>          |                  |                   |                  |                   |
| Net sales                   | 131,495          | 211,028           | 125,714          | 132,254           |
| Gross profit                | 81,931           | 136,882           | 80,442           | 82,729            |
| Net income                  | 7,591            | 39,204            | 7,993            | 9,242             |
| Earnings per common shares: |                  |                   |                  |                   |
| Basic                       | \$ 0.11          | \$ 0.45           | \$ 0.09          | \$ 0.11           |
| Diluted                     | \$ 0.11          | \$ 0.44           | \$ 0.09          | \$ 0.10           |
| <b>Fiscal 2000</b>          |                  |                   |                  |                   |
| Net sales                   | 115,775          | 191,728           | 112,166          | 118,025           |
| Gross profit                | 61,048           | 118,087           | 67,331           | 71,143            |
| Net income                  | 2,049            | 28,262            | 3,034            | 5,258             |
| Earnings per common shares: |                  |                   |                  |                   |
| Basic                       | \$ 0.03          | \$ 0.40           | \$ 0.04          | \$ 0.08           |
| Diluted                     | \$ 0.03          | \$ 0.40           | \$ 0.04          | \$ 0.08           |

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". Prior to the October 4, 2000 initial public offering, there was no public trading market for any of our securities. 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 2002 |         |
|----------------------------------|------------------------|---------|
|                                  | High                   | Low     |
| Quarter ended September 29, 2001 | \$21.10                | \$10.95 |
| December 29, 2001                | 19.32                  | 11.42   |
| March 30, 2002                   | 26.28                  | 18.98   |
| June 29, 2002                    | 29.94                  | 23.93   |
| Closing price at June 28, 2002   | \$27.45                |         |

  

|                                  | Fiscal Year Ended 2001 |       |
|----------------------------------|------------------------|-------|
|                                  | High                   | Low   |
| Quarter ended September 30, 2000 | \$ —                   | \$ —  |
| December 30, 2000                | 14.38                  | 8.00  |
| March 31, 2001                   | 18.00                  | 11.22 |
| June 30, 2001                    | 19.25                  | 11.80 |
| Closing price at June 29, 2001   | \$19.03                |       |

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 does not anticipate paying regular cash dividends in its common stock. The Fleet facility prohibits Coach from paying dividends while the credit facility is in place, with certain exceptions. Any future determination to pay cash dividends will be at the discretion of Coach's Board of Directors and will be dependent upon Coach's financial condition, operating results, capital requirements and such other factors as the Board of Directors deems relevant.

## COACH, INC.

## Schedule II — Valuation and Qualifying Accounts

For the Fiscal Years Ended June 29, 2002, June 30, 2001 and July 1, 2000

|                         | Balance at<br>Beginning<br>of Year | Provision<br>Charged<br>to Costs<br>and<br>Expenses | Write-offs/<br>Allowances<br>Taken | Balance<br>at End of<br>Year |
|-------------------------|------------------------------------|---|------------------------------------|------------------------------|
| (amounts in thousands)  |                                    |   |                                    |                              |
| <b>Fiscal 2002</b>      |                                    |   |                                    |                              |
| Allowance for bad debts | \$ 776                             | \$ 674  | \$ (115)                           | \$1,335                      |
| Allowance for returns   | 5,512                              | 268   | (2,939)(1)                         | 2,841                        |
| Total                   | \$ 6,288                           | \$ 942  | \$ (3,054)                         | \$4,176                      |
| <b>Fiscal 2001</b>      |                                    |   |                                    |                              |
| Allowance for bad debts | \$ 535                             | \$ 355  | \$ (114)                           | \$ 776                       |
| Allowance for returns   | 5,396                              | 3,048   | (2,932)                            | 5,512                        |
| Total                   | \$ 5,931                           | \$ 3,403  | \$ (3,046)                         | \$6,288                      |
| <b>Fiscal 2000</b>      |                                    |   |                                    |                              |
| Allowance for bad debts | \$ 894                             | \$ (172)  | \$ (187)                           | \$ 535                       |
| Allowance for returns   | 5,225                              | 13,760  | (13,589)                           | 5,396                        |
| Total                   | \$ 6,119                           | \$13,588  | \$(13,776)                         | \$5,931                      |

(1) Includes a reclassification to accrued liabilities of \$2,412 related to consumer returns where there is not an outstanding receivable.

**COACH, INC.**

**EXHIBITS TO FORM 10-K**

**For the Fiscal Year Ended June 29, 2002**

**Commission File No. 1-16153**

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

| <b>Exhibit No.</b> | <b>Description</b>   |
|--------------------|--|
| 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.   |
| 4.1                | Rights Agreement, dated as of May 3, 2001, between Coach, Inc. and Mellon Investor Services LLC, which is incorporated herein by reference from Exhibit 4 to Coach's Current Report on Form 8-K filed on May 9, 2001.                    |
| 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 herein by reference from Exhibit 10.18 to Coach's Registration Statement on Form S-4 (Registration No. 333-54402)        |
| 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 Appendix A to the Registrant's Definitive Proxy Statement for the 2001 Annual Meeting of Stockholders, filed on October 4, 2001                           |
| 10.11              | Coach, Inc. Executive Deferred Compensation Plan   |

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| <b>Exhibit No.</b> | <b>Description</b>   |
|--------------------|--|
| 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 Appendix B to the Registrant's Definitive Proxy Statement for the 2001 Annual Meeting of Stockholders, filed on October 4, 2001   |
| 10.14              | Coach, Inc. Non-Qualified Deferred Compensation Plan for Outside Directors   |
| 10.15              | Coach, Inc. 2001 Employee Stock Purchase Plan  |
| 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              | Secured Loan Agreement dated July 26, 2001 between Coach and Reed Krakoff, which is incorporated by reference herein from Exhibit 10.17 to Coach's Form 10-K for the fiscal year ended June 30, 2001, filed with the Commission on September 21, 2001                    |
| 10.19              | Pledge, Assignment and Security Agreement dated July 26, 2001 between Coach and Reed Krakoff, which is incorporated by reference herein from Exhibit 10.18 to Coach's Form 10-K for the fiscal year ended June 30, 2001, filed with the Commission on September 21, 2001 |
| 21.1               | List of Subsidiaries of Coach  |
| 23.1               | Consent of Deloitte & Touche LLP   |

(b) Reports on Form 8-K

Current Report on Form 8-K, filed with the Commission on May 8, 2002.

COACH, INC.

ARTICLES OF AMENDMENT

Coach, Inc., a Maryland corporation (the "Corporation"), hereby certifies to the State Department of Assessments and Taxation of Maryland that:

FIRST: The charter of the Corporation (the "Charter") as currently in effect is hereby amended by deleting therefrom in its entirety existing Section 6.1 of Article VI, and inserting in lieu thereof, the following new Section 6.1 of Article VI:

Section 6.1 Authorized Shares. The Corporation has authority to issue 250,000,000 shares of Common Stock, \$.01 par value per share ("Common Stock"), and 25,000,000 shares of Preferred Stock, \$.01 par value per share ("Preferred Stock"). The aggregate par value of all authorized shares of stock having par value is \$2,750,000. If shares of one class of stock are classified or reclassified into shares of another class of stock pursuant to this Article VI, the number of authorized shares of the former class shall be automatically decreased and the number of shares of the latter class shall be automatically increased, in each case by the number of shares so classified or reclassified, so that the aggregate number of shares of stock of all classes that the Corporation has authority to issue shall not be more than the total number of shares of stock set forth in the first sentence of this paragraph. The Board of Directors, without any action by the stockholders of the Corporation, may 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 the Corporation has authority to issue.

SECOND: The foregoing amendment to the Charter of the Corporation was duly approved by the Board of Directors of the Corporation, all in accordance with applicable sections of the Maryland General Corporation Law and the Charter and Bylaws of the Corporation. No approval by the stockholders of the Corporation is required by the Maryland General Corporation Law or the Charter and Bylaws of the Corporation.

THIRD: The total number of shares of stock which the Corporation had authority to issue immediately prior to this amendment was 150,000,000 shares, of which 125,000,000 shares were shares of Common Stock and 25,000,000 were shares of Preferred Stock. The aggregate par value of all shares of stock having par value was \$1,250,000.

FOURTH: The total number of shares of stock which the Corporation has authority to issue pursuant to the foregoing amendment is 275,000,000 shares, of which 250,000,000 shares are shares of Common Stock and 25,000,000 shares are shares of Preferred Stock. The aggregate par value of all authorized shares of stock having par value is \$2,750,000.

FIFTH: The undersigned Chief Executive Officer of the Corporation acknowledges these Articles of Amendment to be the corporate act of the Corporation and, as to all matters or facts required to be verified under oath, the undersigned Chief Executive Officer acknowledges that to the best of his knowledge, information and belief, these matters and facts are true in all material respects and that this statement is made under the penalties of perjury.

IN WITNESS WHEREOF, the Corporation has caused these Articles of Amendment to be executed under seal in its name and on its behalf by its Chief Executive Officer, and attested to by its Secretary, on this third day of May, 2002.

COACH, INC.

By: /s/ Lew Frankfort (SEAL)

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Lew Frankfort  
Chief Executive Officer

Attest:

By: /s/ Carole P. Sadler  
-----  
Carole P. Sadler  
Secretary

COACH, INC.  
EXECUTIVE DEFERRED COMPENSATION PLAN  
(Amended and Restated as of May 2, 2002)

ARTICLE I  
INTRODUCTION

1.1 The Plan and Its Effective Date. The Coach, Inc. Executive Deferred Compensation Plan was originally established as of June 1, 2000 (the "Effective Date"). In furtherance of the purposes of said plan and in order to amend said plan in certain respects, the plan has been amended and restated in its entirety, effective as of May 2, 2002. Such amendment and restatement constitutes a complete amendment, restatement and continuation of the Coach, Inc. Executive Deferred Compensation Plan (as amended and restated, the "Plan").

1.2 Purpose. The Plan is established by Coach, Inc., a Maryland corporation (the "Company"), to enable Eligible Employees (as defined in Section 2.1) to defer future compensation from the Company or an Employer (as defined in Section 6) and to permit such employees to elect to transfer all amounts deferred and not yet paid under the Sara Lee Corporation Executive Deferred Compensation Plan (the "Prior Plan") to the Plan. To the extent that an Eligible Employee elects a transfer of all amounts deferred and not yet paid under the Prior Plan to the Plan, the provisions of the Plan amend and supercede the provisions of the Prior Plan; provided, that elections and beneficiary designations made by such Eligible Employee under the Prior Plan shall remain in effect under the Plan, except as specifically provided in subsection 2.2(i) below. The Plan is intended to be a top-hat plan described in Section 201(2) of the Employee Retirement Income Security Act of 1974 ("ERISA").

1.3 Administration. The Plan shall be administered by the Company's Board of Directors (the "Board") or such committee or subcommittee of the Board to whom the Board may delegate its authority to administer the Plan (the Board, or such committee or subcommittee shall be referred to herein as the "Administrator"). Unless otherwise determined by the Board, the Administrator shall be the Compensation and Employee Benefits Committee of the Board. The Administrator shall have the powers set forth in the Plan and the power to interpret its provisions. Any decisions of the Administrator shall be final and binding on all persons with regard to the Plan. The Administrator may delegate its authority hereunder to any officer or officers of the Company as it may deem appropriate.

1.4 Plan Year. The Plan shall be administered on the basis of the calendar year (the "Plan Year"). The first Plan Year shall be a short Plan Year beginning on the Effective Date and ending on the next following December 31st.

ARTICLE II  
PARTICIPATION AND DEFERRAL ELECTIONS

2.1 Eligibility and Participation. Subject to the conditions and limitations of the Plan, all officers and other key employees of the Company designated by the Administrator shall be eligible to participate in the Plan ("Eligible Employees"). Any Eligible Employee who makes a Deferral Election as described in Section 2.2 below shall become a participant in the

Plan ("Participant") and shall remain a Participant until the entire balance of his Deferral Account (defined in Section 3.1 below) is distributed to him.

2.2 Rules for Deferral Elections. Any Eligible Employee may make irrevocable elections to defer receipt of the amounts described in Section 2.3 below (each such election shall be referred to as a "Deferral Election" and the amount deferred pursuant to such an election the "Deferral") for a Plan Year in accordance with the rules set forth below.

(a) An Eligible Employee shall be eligible to make a Deferral Election only if he is an active, regular, full-time employee of an Employer on the date such election is made.

(b) For each Plan Year, an Eligible Employee may make no more than one Deferral Election for the Eligible Employee's Annual Bonus and such

number of Deferral Elections with respect to the Eligible Employee's Annual Base Salary as the Administrator may prescribe.

(c) Subject to the following, all Deferral Elections must be made in such manner as the Administrator may prescribe and must be received by the Administrator or its delegate no later than the date specified by the Administrator:

(i) In no event will the date specified by the Administrator with respect to an Eligible Employee's Annual Bonus be later than: (A) for the first Plan Year, the thirtieth (30th) day following the Effective Date, (B) for each Plan Year thereafter (other than the Plan Year in which an individual first becomes an Eligible Employee), the end of the Plan Year preceding the Plan Year in which the Annual Bonus is anticipated to be paid, or (C) for the Plan Year in which an individual first becomes an Eligible Employee, the thirtieth (30th) day following the date such individual first becomes an Eligible Employee.

(ii) Any Deferral Election with respect to an Eligible Employee's Annual Base Salary shall only apply to that portion of the Eligible Employee's Annual Base Salary remaining to be earned for service during the Plan Year after the date the Deferral Election is made.

(d) As part of each Deferral Election, the Eligible Employee must specify the date on which the Deferral will be paid (the "Distribution Date"). The Distribution Dates specified in an Eligible Employee's Deferral Elections may, but need not necessarily, be the same for all Deferrals. Except as provided in subsection (f) and Section 4.12 below, each Distribution Date is irrevocable and shall apply only to that portion of the Participant's Deferral Account which is attributable to the Deferral.

(e) The Distribution Date selected by an Eligible Employee shall not be earlier than the January 1 immediately following the first anniversary of the date on which the Deferral Election is made.

(f) A Participant may make an irrevocable election to extend a Distribution Date (a "Re-Deferral Election"); provided, that no Re-Deferral Election shall be effective unless (i) the Administrator receives the election prior to the December 1 of the Plan Year preceding the Plan Year in which the Distribution Date to be changed occurs, and (ii) the new Distribution Date is not earlier than the January 1 immediately following the first anniversary of the date the

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Re-Deferral Election is made. All Re-Deferral Elections must be made in such manner and pursuant to such rules as the Administrator may prescribe.

(g) As part of each Deferral Election, an Eligible Employee must elect the manner in which the Deferral will be paid beginning on the selected Distribution Date. The Deferral may be paid in a single lump sum or in substantially equal annual installments over a period not exceeding ten (10) years as provided under Section 4.1. Except as provided in Section 4.1, an Eligible Employee's election as to the manner of payment shall be irrevocable. If the Participant elects an installment method of payment the Distribution Date must be as of January 1.

(h) A Deferral Election shall be irrevocable; provided, that if the Administrator determines that a Participant has an Unforeseeable Financial Emergency (as defined in Section 4.7), then the Participant's Deferral Elections then in effect shall be revoked with respect to all amounts not previously deferred.

(i) Any Eligible Employee who was a participant in the Prior Plan on the Effective Date may elect to transfer his or her Prior Plan Deferral Account to the Plan at such time and in accordance with such rules as may be established by the Administrator. Amounts transferred under this subsection shall be subject to the Deferral Election and any beneficiary designation made under the Prior Plan and shall be treated as a separate Deferral for all purposes of this Plan.

2.3 Amounts Deferred. An Eligible Employee may make a Deferral Election to defer receipt of the following amounts:

(a) All or any portion of the Eligible Employee's annual bonus for a year due under an annual bonus plan or any other short-term incentive plan of the Company or an Employer (an "Annual Bonus").

(b) All or any portion of the Eligible Employee's Annual Base Salary. "Annual Base Salary" shall mean the regular rate of compensation to be paid to the Eligible Employee for services rendered during the Plan Year excluding severance or termination payments, commissions, foreign service payments, payments for consulting services and such other unusual or extraordinary payments as the Administrator may determine.

(c) Such other bonuses and incentive payments (including without limitation the award or vesting of any Restricted Stock Units or similar awards) under any plan or arrangement established by the Company or an Employer as the Administrator may designate as compensation eligible for deferral under this Plan in such increments and subject to such limitations and restrictions as the Administrator may establish.

### ARTICLE III DEFERRAL ACCOUNTS

3.1 Deferral Accounts. All amounts deferred pursuant to a Participant's Deferral Elections under the Plan shall be allocated to a bookkeeping account in the name of the Participant ("Deferral Account") and the Administrator shall maintain a separate subaccount under a Participant's Deferral Account for each Deferral. Deferrals shall be credited to the

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Deferral Account as of the Deferral Crediting Date coinciding with or next following the date on which, in the absence of a Deferral Election, the Participant would otherwise have received the Deferral. A "Deferral Crediting Date" shall mean (1) in the case of deferrals of annual or other periodic bonus payments, the business day on which such bonus payments are made, and (2) in the case of deferrals of all other types of payments, the business day coinciding with or next following the 15th day of each calendar month and the business day coinciding with or next following the last day of each calendar month.

#### 3.2 Investment of Deferral Account.

(a) Pre-Initial Public Offering. Prior to the date of the Company's initial public offering (the "IPO Date"), interest will be credited to the Participant's Deferral Account as of (i) each business day coinciding with or next following the last day of each month and (ii) the business day immediately preceding the IPO Date. The rate of interest to be credited shall be equal to 7.5 percent, compounded annually.

(b) Post-Initial Public Offering. On and after the IPO Date, the Participant must make an investment election at the time of each Deferral Election. The investment election must be made in writing on such forms and pursuant to such rules as the Administrator may prescribe, subject to paragraph 3.3, and shall designate the portion of the Deferral which is to be treated as invested in each investment alternative. The two investment alternatives shall be as follows:

(i) Stock Equivalent Account. Under the Stock Equivalent Account, the Participant's Deferral Account shall be invested in "Deferred Stock Units" under which each Deferred Stock Unit represents the right to receive one share of Coach, Inc. common stock, par value \$0.01 per share ("Common Stock"), on the Distribution Date (subject to Sections 4.1, 4.11 and 4.12 below). The number of Coach, Inc. Deferred Stock Units to be credited to the Participant's Deferral Account and appropriate subaccounts on each Deferral Crediting Date shall be determined by dividing the Deferral to be "invested" on that date by the average of the high and low quotes of a share of Common Stock on the applicable day on the New York Stock Exchange Composite Transaction Tape ("Market Value"). Fractional Deferred Stock Units will be computed to two decimal places. On any Common Stock dividend record date, an amount equal to the number of Deferred Stock Units held as of such dividend record date multiplied by the dividend paid on Common Stock on the applicable dividend payment date shall either (A) be credited to the Participant's Deferral Account and appropriate subaccount as of the March 31st, June 30th, September 30th or December 31st coincident with or next following the dividend payment date and "invested" in additional Deferred Stock Units as though such dividend credits were a Deferral or (B) at the election of the Participant at such time and in

accordance with such rules as established by the Administrator, be paid in cash to the Participant as of the March 31st, June 30th, September 30th or December 31st coincident with or next following the dividend payment date. In the event of any stock dividend, stock split, combination or exchange of securities, merger, consolidation, recapitalization, spin-off or other distribution (other than normal cash dividends) of any or all of the assets of the Company to stockholders, or any other similar change or event effected without receipt of consideration, such proportionate adjustments, if any, as the Administrator in its discretion may deem appropriate to reflect such change or event shall be made with respect to the number of Deferred Stock Units credited to a Participant's Deferral Account. Subject to Sections 4.1 and 4.11, the number of shares of Common Stock to be paid to a Participant on a Distribution Date shall be equal to the number of

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Deferred Stock Units accumulated in the Deferral Account on such date divided by the total of the payments to be made. Deferred Stock Units shall not have voting rights.

(ii) Interest Account. Under the Interest Account, interest will be credited to the Participant's Deferral Account as of the business day coinciding with or next following each June 30 and December 31 (a "Valuation Date") and on the date the final payment of a Deferral is to be made based on the balance in the Participant's Deferral Account "invested" in the Interest Account on the Valuation Date or such final payment date. The rate of interest to be credited for a Plan Year will be set at the beginning of each Plan Year based upon the U.S. Prime Rate in effect as of such date as reported in the Wall Street Journal or such other source as may be designated by the Administrator. If installment payments are elected, the amount to be paid to the Participant on a Distribution Date shall be determined as follows: the amount of the principal payment of each installment shall be determined by dividing the current principal balance by the number of remaining installment payments and the amount of the interest payment shall be determined by dividing the current interest balance by the number of remaining installment payments. All payments from the Interest Account shall be made in cash.

3.3 Investment Elections and Changes. A Participant's investment election shall be subject to the following rules:

(a) If the Participant fails to make an investment election with respect to a Deferral, the Deferral shall be deemed to be invested in the Interest Account.

(b) All investments in the Stock Equivalent Account shall be irrevocable, except as otherwise provided in Section 4.12.

(c) A Participant may elect to transfer amounts invested in the Interest Account to the Stock Equivalent Account as of any Valuation Date by filing an investment change election with the Administrator prior to the Valuation Date the change is to become effective. The amount elected to be transferred to the Stock Equivalent Account shall be treated as invested in Deferred Stock Units as of the Valuation Date and the number of Deferred Stock Units to be credited to the Participant's Deferral Account and appropriate subaccounts as of the Valuation Date shall be determined by dividing the amount to be transferred by the Market Value on such Valuation Date.

(d) Until invested as of the Deferral Crediting Date in either the Interest Account or Stock Equivalent Account, a Participant's Deferral shall be credited with interest in such amount, if any, as the Administrator may determine.

3.4 Vesting. A Participant shall be fully vested at all times in the balance of his Deferral Account.

#### ARTICLE IV PAYMENT OF BENEFITS

4.1 Time and Method of Payment. Payment of a Participant's Deferral shall be made in a single lump sum or shall commence in installments as elected by the Participant in the Deferral Election. A Participant may make a one-time election after the original Deferral Election to change the method of payment elected by the Participant; provided, that such election

shall not be effective unless the election to change the method of payment is received by the Administrator prior to the December 1 of the Plan Year preceding the Plan Year in which the Distribution Date specified in the original Deferral Election occurs. If a Participant's Deferral Account is payable in a single lump sum, the payment shall be made as soon as practicable following the Distribution Date but not later than thirty (30) days following the Distribution Date. If a Participant's Deferral is payable in installment payments, then the Participant's Deferral shall be paid in annual installments of substantially equal shares over the period as elected by the Participant in the Deferral Election commencing as soon as practicable following the Distribution Date but not later than thirty (30) days following the Distribution Date.

4.2 Payment Upon Total Disability. In the event a Participant becomes totally disabled before all amounts credited to his Deferral Account have been paid, payment of the Participant's Deferral Account shall be made or shall commence in the method of payment elected by the disabled Participant; provided, that the disabled Participant requests payment in writing within one-hundred eighty (180) days of becoming disabled. If such a request is not made, the disabled Participant's Deferrals will be paid pursuant to the Deferral Elections and the normal provisions of the Plan. A Participant will be considered to be totally disabled for purposes of the Plan if the Participant is determined to be totally disabled under the Company's disability plan applicable to the Participant.

4.3 Payment Upon Retirement or Other Termination of Employment. In the event the Participant retires or otherwise terminates employment with the Company for any reason before the entire balance in the Participant's Deferral Account has been paid, the Participant's Deferral Account shall continue to be maintained for the benefit of the Participant and Deferrals shall be paid pursuant to the Deferral Elections and the normal provisions of the Plan; provided, that a Participant's Deferral Election may provide for the immediate payment of the Participant's Deferral Account upon his retirement or other termination of employment.

4.4 Payment Upon Death of a Participant. In the event a Participant dies before all amounts credited to his Deferral Account have been paid, payment of the Participant's Deferral Account shall be made or shall commence in the method of payment elected by the Participant's Beneficiary (as defined in Section 4.5) or the Executor/Executrix of the Participant's estate; provided, that the request is made in writing within one-hundred eighty (180) days of the Participant's death. If such a request is not made, the deceased Participant's Deferrals will be paid pursuant to the Deferral Elections and the normal provisions of the Plan.

4.5 Beneficiary. Each Participant shall designate one or more individuals or entities (collectively, the "Beneficiary") to receive the balance of the Participant's Deferral Account in the event of the Participant's death prior to the payment of his entire Deferral Account. To be effective, any Beneficiary designation shall be filed in writing with the Administrator. A Participant may revoke an existing Beneficiary designation by filing another written Beneficiary designation with the Administrator. The latest Beneficiary designation received by the Administrator shall be controlling. If no Beneficiary is named by a Participant or if he survives all of his named Beneficiaries, the Deferral Account shall be paid in the following order of precedence:

(a) the Participant's spouse;

(b) the Participant's children (including adopted children),  
per stirpes; or

(c) the Participant's estate.

4.6 Form of Payment. The payment of a portion of a Deferral deemed to be invested in the Investment Account shall be made in cash. The distribution of that portion of a Deferral deemed to be invested in the Stock Equivalent Account shall be distributed in whole shares of Common Stock with fractional shares credited to federal income taxes withheld.

4.7 Unforeseeable Financial Emergency. If the Administrator or its designee determines that a Participant has incurred an Unforeseeable Financial Emergency (as defined below), the Participant may withdraw in cash and/or stock the portion of the balance of his Deferral Account needed to satisfy the Unforeseeable Financial Emergency, to the extent that the Unforeseeable Financial Emergency may not be relieved through reimbursement or compensation by insurance or otherwise or by liquidation of the Participant's assets, to the extent the liquidation of such assets would not itself cause severe financial hardship. An "Unforeseeable Financial Emergency" is a severe financial hardship to the Participant resulting from (a) a sudden and unexpected illness or accident of the Participant or of a dependent of the Participant; (b) loss of the Participant's property due to casualty; (c) the involuntary termination of the Participant's employment by the Company which, in the Administrator's good faith judgment, would necessitate or make advisable the availability of all of the Participant's assets, or (d) such other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant as determined by the Administrator. A withdrawal on account of an Unforeseeable Financial Emergency shall be paid as soon as possible following the date on which the withdrawal is approved.

4.8 Early Withdrawal with Penalty. Notwithstanding the other provisions of the Plan to the contrary, a Participant may request a withdrawal from his Deferral Account by filing a request with the Administrator or its designee in writing. Payment will be made to the Participant within thirty (30) days of the approval of such a request. Any amount withdrawn under this provision will be charged with a ten (10) percent early withdrawal penalty which will be withheld from the amount withdrawn and forfeited as provided in Section 5.5.

4.9 Withholding of Taxes. The Company shall withhold any applicable minimum statutory Federal, state or local income tax from payments due under the Plan. The Company shall also withhold Social Security taxes, including the Medicare portion of such taxes, and any other employment taxes as necessary to comply with applicable laws.

4.10 Small Amounts. Notwithstanding any election by the Participant regarding the timing and manner of payment of his Deferrals, in the event of a Participant's retirement or other termination of employment, the Employer may elect to pay the Participant a lump sum distribution of the entire value of the Participant's Deferral Account; provided, that the value is less than ten-thousand dollars (\$10,000) determined as of the Valuation Date coinciding with or immediately following the Participant's termination of employment.

4.11 Payment Upon Bankruptcy Liquidation. Notwithstanding anything contained in the Plan to the contrary, in the event that the Company is liquidated in bankruptcy, (a) no distributions from the Plan shall be made in shares of Common Stock and (b) distributions to a Participant shall be made in cash in an amount determined by multiplying each Deferred

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Stock Unit in the Participant's Deferral Account by the Market Value of Common Stock on the date such Deferred Stock Unit was first credited to the Participant's Deferral Account.

4.12 Change of Control.

(a) Notwithstanding anything contained in the Plan to the contrary, immediately prior to any Change of Control (as defined below):

(i) Each Participant may elect to transfer amounts invested in the Stock Equivalent Account to the Interest Account as of the effective time of the Change of Control by filing an investment change election with the Administrator prior to the date the Change of Control is to become effective. The amount to be credited to the Participant's Interest Account as of the effective time of the Change of Control shall be determined by multiplying the number of Deferred Stock Units to be transferred by the Market Value upon the Change of Control. For purposes of the foregoing, Market Value shall be equal to the consideration paid for a share of Common Stock in connection with the Change of Control, as determined by the Administrator.

(ii) In addition, each Participant's Distribution Date shall be accelerated to be the earlier to occur of (A) the Distribution

Date specified in the Participant's Deferral Election or (B) the first business day of the first calendar year following the occurrence of the Change in Control.

The phrase "immediately prior to any Change of Control" shall be understood to mean sufficiently in advance of a Change of Control to permit Participants to take all steps reasonably necessary to receive full payment of each Participant's Deferral and to deal with the shares underlying all Deferred Stock Units so that all Deferred Stock Units and shares issuable with respect thereto may be treated in the same manner as the shares of stock of other shareholders in connection with the Change of Control.

(b) A "Change of Control" shall occur when:

(i) A "Person" (which term, when used in this Section 4.12, shall have the meaning it has when it is used in Section 13(d) of the Securities Exchange Act of 1934 (the "Exchange Act"), but shall not include the Company, any underwriter temporarily holding securities pursuant to an offering of such securities, any trustee or other fiduciary holding securities under an employee benefit plan of the Company, or any corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of Voting Stock (as defined below) of the Company) is or becomes, without the prior consent of a majority of the Continuing Directors (as defined below), the Beneficial Owner (as defined in Rule 13d-3 promulgated under the Exchange Act), directly or indirectly, of Voting Stock (as defined below) representing twenty percent (20%) or more of the combined voting power of the Company's then outstanding securities; or

(ii) The stockholders of the Company approve and the Company consummates a reorganization, merger or consolidation of the Company or the Company sells, or otherwise disposes of, all or substantially all of the Company's property and assets, or the Company liquidates or dissolves (other than a reorganization, merger, consolidation or sale which would result in all or substantially all of the beneficial owners of the Voting Stock of the

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Company outstanding immediately prior thereto continuing to beneficially own, directly or indirectly (either by remaining outstanding or by being converted into voting securities of the resulting entity), more than fifty percent (50%) of the combined voting power of the voting securities of the Company or such entity resulting from the transaction (including, without limitation, an entity which as a result of such transaction owns the Company or all or substantially all of the Company's property or assets, directly or indirectly) outstanding immediately after such transaction in substantially the same proportions relative to each other as their ownership immediately prior to such transaction); or

(iii) The individuals who are Continuing Directors of the Company (as defined below) cease for any reason to constitute at least a majority of the Board of the Company.

(iv) For purposes of this Section 4.12, (A) the term "Continuing Director" means (I) any member of the Board who is a member of the Board immediately after the issuance of any class of securities of the Company that are required to be registered under Section 12 of the Exchange Act, or (II) any person who subsequently becomes a member of the Board whose nomination for election or election to the Board is recommended by a majority of the Continuing Directors and (B) the term "Voting Stock" means all capital stock of the Company which by its terms may be voted on all matters submitted to stockholders of the Company generally.

(c) Immediately upon the consummation of a Change in Control, the Company shall, or shall cause any acquirer or successor to, deposit into an irrevocable grantor trust (the "Rabbi Trust") an amount of cash equal to the then aggregate value of the Deferral Accounts. The trustee of the Rabbi Trust and the terms and conditions of the agreement of trust establishing the Rabbi Trust shall be determined by the Company prior to the consummation of the Change in Control; provided, however, that the Rabbi Trust shall provide for the distribution of its assets to Participants in accordance with the terms of this Plan; provided, further, that the Rabbi Trust shall meet the requirements of Revenue Procedure 92-64, 1992-2 C.B. 422, issued by the Internal Revenue Service, such that Participants will not incur tax liability in connection with the establishment of, or deposit of any assets in, the Rabbi Trust. From time to

time, the Company shall make such additional contributions to the Rabbi Trust as the Administrator shall determine are necessary or appropriate in order to continue to fully fund the Deferral Accounts of all Participants.

ARTICLE V  
MISCELLANEOUS

5.1 Funding. Benefits payable under the Plan to any Participant shall be paid directly by the Participant's Employer (including the Company if the Participant is employed by the Company). The Company and the Employers shall not be required to fund, or otherwise segregate assets to be used for payment of benefits under the Plan.

5.2 Account Statements. As soon as practical after the end of each Plan Year (or after such additional date or dates as the Administrator, in its discretion, may designate), each Participant shall be provided with a statement of the balance of his Deferral Account hereunder

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as of the last day of such Plan Year (or as of such other dates as the Administrator, in its discretion, may designate).

5.3 No Employment Rights. Establishment of the Plan shall not be construed to give any Eligible Employee the right to be retained in the Company's service or to any benefits not specifically provided by the Plan.

5.4 Interests Not Transferable. Except as (a) provided under (i) Section 4.9 or (ii) an agreement between a Participant and the Company, or (b) required for purposes of withholding of any tax under the laws of the United States or any state or locality, no benefit payable at any time under the Plan shall be subject in any manner to alienation, sale, transfer, assignment, pledge, attachment, or other legal process, or encumbrance of any kind. Any attempt to alienate, sell, transfer, assign, pledge or otherwise encumber any such benefits, whether currently or thereafter payable, shall be void. No person shall, in any manner, be liable for or subject to the debts or liabilities of any person entitled to such benefits. If any person shall attempt to, or shall alienate, sell, transfer, assign, pledge or otherwise encumber his benefits under the Plan, or if by any reason of his bankruptcy or other event happening at any time, such benefits would devolve upon any other person or would not be enjoyed by the person entitled thereto under the Plan, then the Administrator, in its discretion, may terminate the interest in any such benefits of the person entitled thereto under the Plan and hold or apply them for or to the benefit of such person entitled thereto under the Plan or his spouse, children or other dependents, or any of them, in such manner as the Administrator may deem proper.

5.5 Forfeitures and Unclaimed Amounts. Unclaimed amounts shall consist of the amounts of the Deferral Account of a Participant that are not distributed because of the Administrator's inability, after a reasonable search, to locate a Participant or his Beneficiary, as applicable, within a period of two (2) years after the date upon which the payment of any benefits becomes due and the amount by which a Participant's Account is reduced under Section 4.8. Unclaimed amounts shall be forfeited at the end of such two-year period. These forfeitures will reduce the obligations of the Company under the Plan and the Participant or Beneficiary, as applicable, shall have no further right to his Deferral Account unless the Administrator determines otherwise in a particular case.

5.6 Controlling Law. The law of the State of Maryland, except its law with respect to choice of law, shall be controlling in all matters relating to the Plan to the extent not preempted by ERISA.

5.7 Gender and Number. Words in the masculine gender shall include the feminine, and the plural shall include the singular and the singular shall include the plural.

5.8 Action by the Company. Except as otherwise specifically provided herein, any action required of or permitted by the Company under the Plan shall be by resolution of the Board of Directors of the Company or by action of any committee or subcommittee of the Board or other person(s) authorized by resolution of the Board.

5.9 Assumption of Plan. The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation or

otherwise) to all or substantially all of the business and/or assets of the Company, whether pursuant to a Change in Control or otherwise, to expressly assume and agree to perform the obligations under this Plan in the same

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manner and to the same extent that the Company would be required to perform if no such succession had taken place.

ARTICLE VI  
EMPLOYER PARTICIPATION

Any subsidiary or affiliate of the Company incorporated under the laws of any state in the United States (an "Employer") may, with the approval of the Administrator and under such terms and conditions as the Administrator may prescribe, adopt the corresponding portions of the Plan. The Administrator may amend the Plan as necessary or desirable to reflect the adoption of the Plan by an Employer; provided, however, that an adopting Employer shall not have the authority to amend or terminate the Plan under Article VII.

ARTICLE VII  
AMENDMENT AND TERMINATION

The Company intends the Plan to be permanent, but reserves the right at any time by action of its Board of Directors to modify, amend or terminate the Plan; provided, however, that any amendment or termination of the Plan shall not reduce or eliminate any Deferral Account accrued through the date of such amendment or termination. The Administrator shall have the same authority to adopt amendments to the Plan as the Board of Directors of the Company in the following circumstances:

(a) to adopt amendments to the Plan which the Administrator determines are necessary or desirable for the Plan to comply with or to obtain benefits or advantages under the provisions of applicable law, regulations or rulings or requirements of the Internal Revenue Service or other governmental or administrative agency or changes in such law, regulations, rulings or requirements; and

(b) to adopt any other procedural or cosmetic amendment that the Administrator determines to be necessary or desirable that does not materially change benefits to Participants or their Beneficiaries or materially increase the Company's or adopting Employers' obligations under the Plan.

\* \* \* \* \*

I hereby certify that the Plan was originally established effective as of June 1, 2000. I hereby certify that the Plan, as amended and restated in its entirety, was approved by the Board of Directors of Coach, Inc., effective as of May 2, 2002.

Executed on this second day of May, 2002.

/s/ Carole P. Sadler  
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Carole P. Sadler, Secretary

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COACH, INC. NON-QUALIFIED DEFERRED COMPENSATION PLAN  
FOR OUTSIDE DIRECTORS  
(Amended and Restated as of May 2, 2002)

The Coach, Inc. Non-Qualified Deferred Compensation Plan for Outside Directors was originally approved by the Board of Directors (the "Board") of Coach, Inc., a Maryland corporation (the "Company"), on June 23, 2000, and was originally approved by the stockholders of the Company on June 29, 2000. In furtherance of the purposes of said plan and in order to amend said plan in certain respects, the plan has been amended and restated in its entirety, effective as of May 2, 2002. This amendment and restatement constitutes a complete amendment, restatement and continuation of the Coach, Inc. Non-Qualified Deferred Compensation Plan for Outside Directors (as amended and restated, the "Plan").

SECTION 1. PARTICIPATION.

(a) A member of the Board who is not an employee of the Company may elect to defer the compensation that he or she earns for services as a director that he or she has not elected to receive in a form other than cash ("Annual Cash Retainer") which would otherwise be payable for each fiscal year quarter (or other payment period established by the Company) ("Retainer Payment Quarter") but for such director's election to participate in the Plan.

(b) The deferred Annual Cash Retainer ("Deferred Compensation") shall be paid on such future date (the "Distribution Date") or dates and in such manner as a director who elects to participate in the Plan ("Participating Director") shall elect in a written Deferred Compensation Agreement in such form, consistent with the terms of the Plan, as shall be provided by the Board or its delegate ("Deferred Compensation Agreement"); provided, however, that no Deferred Compensation shall be paid in the same calendar year in which any portion of the Annual Cash Retainer representing the Deferred Compensation is earned. Any election to defer all or any portion of the Annual Cash Retainer shall be applicable to all future Annual Cash Retainer fees earned until the election is revoked by the Participating Director pursuant to Section 4 hereof.

SECTION 2. ADMINISTRATION. The Plan shall be administered by the Board. The Board may delegate certain administrative authority to a committee or subcommittee of the Board or to one or more employees of the Company, but shall retain the ultimate responsibility for the interpretation of, and amendments to, the Plan. Members of the Board shall not be liable for any of their actions or determinations made in good faith with respect to the administration of the Plan. Except to the extent superseded by the laws of the United States, the laws of the State of Maryland, without regard to its conflict of laws principles, shall govern in all matters relating to the Plan.

SECTION 3. ESTABLISHMENT AND MAINTENANCE OF DEFERRAL ACCOUNTS.

(a) The Company shall establish and maintain a separate Deferred Compensation account ("Deferral Account") for each Participating Director which, except as otherwise may be provided pursuant to Section 6, shall be a bookkeeping account. Deferred Compensation shall be credited to the Deferral Account as of the business day coinciding with or next following the 15th day of each calendar month or the business day coinciding with or next following the last day of each calendar month, in each case coincident with or next following the date the retainer fees would otherwise have been paid to the Participating Director ("Credit Dates").

(b) Each Participating Director must make an investment election at the time such Participating Director elects to defer compensation pursuant to Section 1. The Participating Director shall, pursuant to the applicable Deferred Compensation Agreement, designate the portion of the Deferred Compensation which is to be treated as invested in each investment alternative. The two investment alternatives shall be as follows:

(i) Stock Equivalent Account. Under the Stock Equivalent Account, the Participating Director's Deferral Account shall be invested in "Deferred Stock Units" under which each Deferred Stock Unit represents the right to receive one share of Coach, Inc. common stock, par value \$0.01 per share

("Common Stock"), on the Distribution Date (subject to Section 5(a)). The number of Coach, Inc. Deferred Stock Units to be credited to the Participating Director's Deferral Account and appropriate subaccounts on each Credit Date shall be determined by dividing the Deferred Compensation to be "invested" on that date by the average of the high and low quotes of a share of Common Stock on the applicable day on the New York Stock Exchange Composite Transaction Tape ("Market Value"). Fractional Deferred Stock Units will be computed to two decimal places. On any Common Stock dividend record date, an amount equal to the number of Deferred Stock Units held as of such dividend record date multiplied by the dividend paid on Common Stock on the applicable dividend payment date shall either (A) be credited to the Participating Director's Deferral Account and appropriate subaccount as of the March 31st, June 30th, September 30th or December 31st coincident with or next following the dividend payment date and "invested" in additional Deferred Stock Units as though such dividend credits were Deferred Compensation or (B) at the election of the Participating Director at such time and in accordance with such rules as established by the Board, be paid in cash to the Participating Director as of the March 31st, June 30th, September 30th or December 31st coincident with or next following the dividend payment date. In the event of any stock dividend, stock split, combination or exchange of securities, merger, consolidation, recapitalization, spin-off or other distribution (other than normal cash dividends) of any or all of the assets of the Company to stockholders, or any other similar change or event effected without receipt of consideration, such proportionate adjustments, if any, as the Board in its discretion may deem appropriate to reflect such change or event shall be made with respect to the number of Deferred Stock Units credited to a Participating Director's Deferral Account. Subject to Section 5(a), the number of shares of Common Stock to be paid to a Participating Director on a Distribution Date shall be equal to the number of Deferred Stock Units accumulated in

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the Deferral Account on such date divided by the total of the payments to be made. Deferred Stock Units shall not have voting rights.

(ii) Interest Account. Under the Interest Account, interest will be credited to the Participating Director's Deferral Account as of the business day coinciding with or next following each June 30 and December 31 (a "Valuation Date") and on the date the final payment of Deferred Compensation is to be made based on the balance in the Participating Director's Deferral Account "invested" in the Interest Account on the Valuation Date or such final payment date. The rate of interest to be credited for a Plan Year (as defined in Section 4) will be set at the beginning of each calendar year based upon the U.S. Prime Rate in effect as of such date as reported in the Wall Street Journal or such other source as may be designated by the Board. If installment payments are elected, the amount to be paid to the Participating Director on a Distribution Date shall be determined as follows: the amount of the principal payment of each installment shall be determined by dividing the current principal balance by the number of remaining installment payments and the amount of the interest payment shall be determined by dividing the current interest balance by the number of remaining installment payments. All payments from the Interest Account shall be made in cash.

(c) A Participating Director's investment election shall be subject to the following rules:

(i) If the Participating Director fails to make an investment election with respect to Deferred Compensation, the Deferred Compensation shall be deemed to be invested in the Interest Account.

(ii) All investments in the Stock Equivalent Account shall be irrevocable.

(iii) A Participating Director may elect to transfer amounts invested in the Interest Account to the Stock Equivalent Account as of any Valuation Date by filing an investment change election with the Board prior to the Valuation Date the change is to become effective. The amount elect to be transferred to the Stock Equivalent Account shall be treated as invested in Deferred Stock Units as of the Valuation Date and the number of Deferred Stock Units to be credited to the Participating Director's Deferral Account and appropriate subaccounts as of the Valuation Date shall be determined by dividing the amount to be transferred by the Market Value on such Valuation Date.

(iv) Until invested as of the Credit Date in either the Interest Account or Stock Equivalent Account, a Participating Director's Deferred

Compensation shall be credited with interest in such amount as the Board may determine.

(d) A Participating Director may elect to re-defer balances of existing Deferred Compensation accounts. A re-deferral shall be effected by executing and delivering an election form at least six months prior to the original payment date and

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provided further that such re-deferral is not within the same tax year as the original deferral payment date.

SECTION 4. REVOCATION OF ELECTION. A Participating Director may elect to revoke the election to defer his or her Annual Cash Retainer by written notice delivered to the Secretary of the Company at least seven (7) business days prior to the date the retainer fees would otherwise have been paid to the Participating Director ("Revocation Notice"). The revocation shall become effective at the beginning of the next immediate Retainer Payment Quarter and shall be applicable only to Annual Cash Retainer fees earned after the effective date of the Revocation Notice, and, thereafter, the Participating Director shall not be entitled to defer any future Annual Cash Retainer fees for the remaining portion of the Plan Year in which the Revocation Notice is delivered. "Plan Year" means the twelve-month period beginning on November 1 and ending on October 31.

SECTION 5. PAYMENTS OF DEFERRED COMPENSATION.

(a) As specified in the Deferred Compensation Agreement, a Participating Director may elect to receive payments of Deferred Compensation either (i) in a lump sum payment as of the Distribution Date or (ii) in annual installments over a period not to exceed ten (10) years commencing as of the Distribution Date. If the Participating Director elects an installment method of payment the Distribution Date must be as of January 1.

(b) The Deferral Account shall continue to be maintained for the benefit of the Participating Director and paid in accordance with the Deferred Compensation Agreement in the event that the Participating Director's service as a director shall terminate prior to all of the outstanding balance in the Deferral Account being paid out.

(c) If a Participating Director shall die while an active director of the Company prior to all the payments being made from the Deferral Account, the unpaid balance of the Deferral Account shall be paid on the thirtieth (30th) day after the date the Secretary of the Company has been duly notified of his or her death to either of the Participating Director's estate or to his or her designated beneficiary or beneficiaries, as designated in the Deferred Compensation Agreement, or in the absence of such designation, to his or her personal representative. Such death payment shall be made in a single lump sum, irrespective of the time and manner of payment specified in the Deferred Compensation Agreement.

SECTION 6. UNFUNDED OBLIGATION OF THE COMPANY. Deferral Account balances shall constitute general contractual obligations of the Company to the Participating Directors. The Company shall not segregate assets, create any security interest or encumber its assets in order to provide for or fund the payment of any Deferral Account balances.

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SECTION 7. NON-ASSIGNABILITY. The rights and benefits of a Participating Director under the Plan are personal and cannot be pledged, transferred or assigned except by designation of a beneficiary (or beneficiaries), by will or the laws of descent and distribution.

SECTION 8. CHANGE OF CONTROL.

(a) Notwithstanding anything contained in the Plan to the contrary, immediately prior to any Change of Control (as defined below):

(i) Each Participating Director may elect to transfer amounts invested in the Stock Equivalent Account to the Interest Account as of the effective time of the Change of Control by filing an investment change election with the Administrator prior to the date the Change of Control is to become effective. The amount to be credited to the Participating Director's Interest

Account as of the effective time of the Change of Control shall be determined by multiplying the number of Deferred Stock Units to be transferred by the Market Value upon the Change of Control. For purposes of the foregoing, Market Value shall be equal to the consideration paid for a share of Common Stock in connection with the Change of Control, as determined by the Administrator.

(ii) In addition, each Participating Director's Distribution Date shall be accelerated to be the earlier to occur of (A) the Distribution Date specified in the Participating Director's investment election or (B) the first business day of the first calendar year following the occurrence of the Change in Control.

The phrase "immediately prior to any Change of Control" shall be understood to mean sufficiently in advance of a Change of Control to permit Participating Directors to take all steps reasonably necessary to receive full payment of each Participating Director's Deferral Account and to deal with the shares underlying all Deferred Stock Units so that all Deferred Stock Units and shares issuable with respect thereto may be treated in the same manner as the shares of stock of other shareholders in connection with the Change of Control.

(b) A "Change of Control" shall occur when:

(i) A "Person" (which term, when used in this Section 8, shall have the meaning it has when it is used in Section 13(d) of the Securities Exchange Act of 1934 (the "Exchange Act"), but shall not include the Company, any underwriter temporarily holding securities pursuant to an offering of such securities, any trustee or other fiduciary holding securities under an employee benefit plan of the Company, or any corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of Voting Stock (as defined below) of the Company) is or becomes, without the prior consent of a majority of the Continuing Directors (as defined below), the Beneficial Owner (as defined in Rule 13d-3 promulgated under the Exchange Act), directly or indirectly, of Voting Stock (as defined

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below) representing twenty percent (20%) or more of the combined voting power of the Company's then outstanding securities; or

(ii) The stockholders of the Company approve and the Company consummates a reorganization, merger or consolidation of the Company or the Company sells, or otherwise disposes of, all or substantially all of the Company's property and assets, or the Company liquidates or dissolves (other than a reorganization, merger, consolidation or sale which would result in all or substantially all of the beneficial owners of the Voting Stock of the Company outstanding immediately prior thereto continuing to beneficially own, directly or indirectly (either by remaining outstanding or by being converted into voting securities of the resulting entity), more than fifty percent (50%) of the combined voting power of the voting securities of the Company or such entity resulting from the transaction (including, without limitation, an entity which as a result of such transaction owns the Company or all or substantially all of the Company's property or assets, directly or indirectly) outstanding immediately after such transaction in substantially the same proportions relative to each other as their ownership immediately prior to such transaction); or

(iii) The individuals who are Continuing Directors of the Company (as defined below) cease for any reason to constitute at least a majority of the Board of the Company.

(iv) For purposes of this Section 8, (A) the term "Continuing Director" means (I) any member of the Board who is a member of the Board immediately after the issuance of any class of securities of the Company that are required to be registered under Section 12 of the Exchange Act, or (II) any person who subsequently becomes a member of the Board whose nomination for election or election to the Board is recommended by a majority of the Continuing Directors and (B) the term "Voting Stock" means all capital stock of the Company which by its terms may be voted on all matters submitted to stockholders of the Company generally.

(c) Immediately upon the consummation of a Change in Control, the Company shall, or shall cause any acquirer or successor to, deposit into an irrevocable grantor trust (the "Rabbi Trust") an amount of cash equal to the then aggregate value of the Deferral Accounts. The trustee of the Rabbi Trust and the terms and conditions of the agreement of trust establishing the Rabbi

Trust shall be determined by the Company prior to the consummation of the Change in Control; provided, however, that the Rabbi Trust shall provide for the distribution of its assets to Participating Directors in accordance with the terms of this Plan; provided, further, that the Rabbi Trust shall meet the requirements of Revenue Procedure 92-64, 1992-2 C.B. 422, issued by the Internal Revenue Service, such that Participating Directors will not incur tax liability in connection with the establishment of, or deposit of any assets in, the Rabbi Trust. From time to time, the Company shall make such additional contributions to the Rabbi Trust as the Board shall determine are necessary or appropriate in order to continue to fully fund the Deferral Accounts of all Participating Directors.

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SECTION 9. ASSUMPTION OF PLAN. The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company, whether pursuant to a Change in Control or otherwise, to expressly assume and agree to perform the obligations under this Plan in the same manner and to the same extent that the Company would be required to perform if no such succession had taken place.

SECTION 10. AMENDMENTS. Any substantive amendment to the Plan shall be approved by the Board. No amendment shall be made which would adversely affect the tax status of the Deferred Compensation accumulated in the Deferral Accounts.

SECTION 11. EFFECTIVE DATE; TERMINATION. The Plan originally became effective on June 29, 2000. The Board may terminate the Plan at any time; provided that, such termination shall not affect the rights of Participating Directors that have accrued under the Plan prior to such termination. In the event of a termination, the payment schedule specified in the Deferred Compensation Agreement or under the terms of the Plan shall continue to be followed.

\* \* \* \* \*

I hereby certify that the Plan was originally approved by the Board of Directors of Coach, Inc. on June 23, 2000 and was originally approved by the stockholders of Coach, Inc. on June 29, 2000.

I hereby certify that the Plan, as amended and restated in its entirety, was approved by the by the Board of Directors of Coach, Inc., effective as of May 2, 2002.

Executed on this second day of May, 2002.

/s/ Carole P. Sadler  
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Carole P. Sadler  
Secretary

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COACH, INC.  
2001 EMPLOYEE STOCK PURCHASE PLAN

ARTICLE I.  
PURPOSE, SCOPE AND ADMINISTRATION OF THE PLAN

1.1 Purpose and Scope. The purpose of the Coach, Inc. 2001 Employee Stock Purchase Plan is to assist employees of Coach, Inc. and its subsidiaries in acquiring a stock ownership interest in the Company pursuant to a plan which is intended to qualify as an "employee stock purchase plan" under Section 423 of the Internal Revenue Code of 1986, as amended.

1.2 Administration of Plan. The Plan shall be administered by the Committee. The Committee shall have the power to make, amend and repeal rules and regulations for the interpretation and administration of the Plan consistent with the qualification of the Plan under Section 423 of the Code, and the Committee also is authorized to change the Option Periods, Offering Dates and Exercise Dates under the Plan by providing written notice to all Employees at least 15 days prior to the date following which such changes will take effect. The Committee may delegate administrative tasks under the Plan to one or more Officers of the Company. The Committee's interpretation and decisions in respect to the Plan shall be final and conclusive.

ARTICLE II.  
DEFINITIONS

Whenever the following terms are used in this Plan, they shall have the meaning specified below unless the context clearly indicates to the contrary. The singular pronoun shall include the plural where the context so indicates.

2.1 "Board" shall mean the Board of Directors of the Company.

2.2 "Code" shall mean the Internal Revenue Code of 1986, as amended.

2.3 "Committee" shall mean the Compensation and Employee Benefits Committee of the Board, which Committee shall administer the Plan as provided in Section 1.2 above.

2.4 "Common Stock" shall mean shares of common stock of the Company, par value \$0.01 per share.

2.5 "Company" shall mean Coach, Inc., a Maryland corporation.

2.6 "Compensation" shall mean the base salary or wages and targeted commissions paid to an Employee by the Company or a Subsidiary in accordance with established payroll procedures.

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2.7 "Eligible Employee" shall mean an Employee who (a) is customarily scheduled to work at least 20 hours per week, and (b) whose customary employment is more than five (5) months in a calendar year.

2.8 "Employee" shall mean any employee of the Company or a Subsidiary.

2.9 "Exercise Date" shall mean each May 31 and November 30.

2.10 "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

2.11 "Fair Market Value" of a share of Common Stock as of a given date shall mean (a) the closing price of a share of Common Stock on the principal exchange on which shares of Common Stock are then trading, if any (or as reported on any composite index which includes such principal exchange), on the trading day previous to such date, or if shares were not traded on the trading day previous to such date, then on the next preceding date on which a trade occurred, or (b) if Common Stock is not traded on an exchange but is quoted on Nasdaq or a successor quotation system, the mean between the closing representative bid and asked prices for the Common Stock on the trading day

previous to such date as reported by Nasdaq or such successor quotation system, or (c) if Common Stock is not publicly traded on an exchange and not quoted on Nasdaq or a successor quotation system, the Fair Market Value of a share of Common Stock as established by the Committee acting in good faith.

2.12 "Offering Date" shall mean each December 1 and June 1. The first Offering Date under the Plan shall be February 8, 2002.

2.13 "Officer" shall mean an employee of the Company who is either an executive officer or member of the management of the Company.

2.14 "Option Period" shall mean the period beginning on an Offering Date and ending on the next succeeding Exercise Date.

2.15 "Option Price" shall mean the purchase price of a share of Common Stock hereunder as provided in Section 4.1 below.

2.16 "Participant" shall mean any Eligible Employee who elects to participate pursuant to the terms of the Plan.

2.17 "Plan" shall mean this Coach, Inc. 2001 Employee Stock Purchase Plan, as it may be amended from time to time.

2.18 "Plan Account" shall mean a bookkeeping account established and maintained by the Company in the name of each Participant.

2.19 "Subsidiary" shall mean any corporation of which the Company or a Subsidiary owns stock possessing 50% or more of the total combined voting power of all classes of stock in the corporation.

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ARTICLE III.  
PARTICIPATION

3.1 Eligibility. An Eligible Employee may participate in the Plan if immediately after the applicable Offering Date, that Employee would not be deemed for purposes of Section 423(b)(3) of the Code to possess 5% or more of the total combined voting power or value of all classes of stock of the Company or any Subsidiary.

3.2 Election to Participate; Payroll Deductions

(a) Except as otherwise provided in Section 3.3, an Eligible Employee may participate in the Plan only by means of payroll deduction. An Eligible Employee may elect to participate in the Plan during an Option Period by delivering to the Company in the calendar month preceding the Offering Date on which such Option Period commences a written payroll deduction authorization on a form prescribed by the Company.

(b) Payroll deductions (i) must equal at least five dollars (\$5.00) per pay period; and (ii) may be expressed either as (A) a whole number percentage, or (B) a fixed dollar amount, subject to the provisions of Sections 4.2 and 4.3 below. Amounts deducted from a Participant's Compensation pursuant to this Section 3.2 shall be credited to the Participant's Plan Account.

(c) A Participant may, on one occasion only during an Option Period, increase or decrease the amount of his or her payroll deductions with respect to that Option Period by completing and filing with the Company a new written payroll deduction authorization form authorizing the change in the payroll deduction rate. The change in rate shall be effective as of the beginning of the next payroll period following the date of the filing of the new Enrollment Documents, or, if this is impracticable for administrative reasons in the Company's reasonable judgment, as of the beginning of the next succeeding payroll period.

3.3 Leave of Absence. During leaves of absence approved by the Company meeting the requirements of Regulation Section 1.421-7(h)(2) under the Code, a Participant may continue participation in the Plan by making cash payments to the Company on his or her normal payday equal to his or her authorized payroll deduction.

ARTICLE IV.  
PURCHASE OF SHARES

4.1 Option Price. The Option Price per share of the Common Stock sold to Participants hereunder shall be 85% of the Fair Market Value of such share on either the Offering Date or the Exercise Date of the Option Period, whichever is lower, but in no event shall the Option Price per share be less than the par value per share (\$0.01) of the Common Stock.

#### 4.2 Purchase of Shares

(a) On each Exercise Date on which he or she is employed, each Participant will automatically and without any action on his or her part be deemed to have exercised his or her option to purchase at the Option Price the largest number of whole shares of

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Common Stock which can be purchased with the amount in the Participant's Plan Account. The balance, if any, remaining in the Participant's Plan Account (after exercise of his or her option) as of an Exercise Date shall be carried forward to the next Option Period, unless the Participant has elected to withdraw from the Plan pursuant to Section 6.1 below.

(b) As soon as practicable following each Exercise Date, the number of shares purchased by such Participant pursuant to subsection (a) above will be delivered, in the Company's sole discretion, to either (i) the Participant, or (ii) an account established in the Participant's name at a stock brokerage or other financial services firm designated by the Company. In the event the Company is required to obtain from any commission or agency authority to issue any such shares of Common Stock, the Company will seek to obtain such authority. Inability of the Company to obtain from any such commission or agency authority which counsel for the Company deems necessary for the lawful issuance of any such shares shall relieve the Company from liability to any Participant except to refund to him or her the amount withheld.

4.3 Limitations on Purchase. No Employee shall be granted an option under the Plan which permits his or her rights to purchase Common Stock under the Plan or any other employee stock purchase plan of the Company or any of its Subsidiaries to accrue at a rate which exceeds \$25,000 (as measured by the Fair Market Value of such Common Stock at the time the option is granted, i.e., the Offering Date) for each calendar year such option is outstanding. For purposes of this Section 4.3, the right to purchase Common Stock under an option accrues when the option (or any portion thereof) becomes exercisable, and the right to purchase Common Stock which has accrued under one option under the Plan may not be carried over to any other option.

4.4 Transferability of Rights. An option granted under the Plan shall not be transferable and is exercisable only by the Participant. No option or interest or right to the option shall be available to pay off any debts, contracts or engagements of the Participant or his or her successors in interest or shall be subject to disposition by pledge, encumbrance, assignment or any other means whether such disposition be voluntary or involuntary or by operation of law by judgment, levy, attachment, garnishment or any other legal or equitable proceedings (including bankruptcy), and any attempt at disposition of the option shall have no effect.

### ARTICLE V. PROVISIONS RELATING TO COMMON STOCK

5.1 Common Stock Reserved. Subject to adjustment as provided in Section 5.2, the maximum number of shares of Common Stock that shall be made available for sale under this Plan shall be 300,000. Shares of Common Stock made available for sale under this Plan may be authorized but unissued or reacquired shares reserved for issuance under this Plan.

5.2 Adjustment for Changes in Common Stock. In the event that adjustments are made in the number of outstanding shares of Common Stock or the shares are exchanged for a different class of stock of the Company by reason of stock dividend, stock split or other subdivision, the Committee shall make appropriate adjustments in (a) the number and class of shares or other securities that may be reserved for purchase hereunder, and (b) the Option Price of outstanding options.

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5.3 Merger, Acquisition or Liquidation. In the event of the merger or consolidation of the Company into another corporation, the acquisition by

another corporation of all or substantially all of the Company's assets or 80% or more of the Company's then outstanding voting stock or the liquidation or dissolution of the Company, the date of exercise with respect to outstanding options shall be the business day immediately preceding the effective date of such merger, consolidation, acquisition, liquidation or dissolution unless the Committee shall, in its sole discretion, provide for the assumption or substitution of such options in a manner complying with Section 424(a) of the Code.

5.4 Insufficient Shares. If the aggregate funds available for the purchase of Common Stock on any Exercise Date would cause an issuance of shares in excess of the number provided for in Section 5.1 above, (a) the Committee shall proportionately reduce the number of shares that would otherwise be purchased by each Participant in order to eliminate such excess, and (b) the Plan shall automatically terminate immediately after such Exercise Date.

5.5 Rights as Stockholders. With respect to shares of Common Stock subject to an option, a Participant shall not be deemed to be a stockholder and shall not have any of the rights or privileges of a stockholder. A Participant shall have the rights and privileges of a stockholder when, but not until, a certificate has been issued to him or her following exercise of his or her option.

#### ARTICLE VI. TERMINATION OF PARTICIPATION

##### 6.1 Cessation of Contributions; Voluntary Withdrawal

(a) A Participant may cease payroll deductions during an Option Period by delivering notice of such cessation to the Company. Upon any such cessation, the Participant may elect either to withdraw from the Plan pursuant to subsection (b) below or to have amounts credited to his or her Plan Account held in the Plan for the purchase of Common Stock pursuant to Section 4.2. A Participant who ceases contributions to the Plan during any Option Period shall not be permitted to resume contributions to the Plan during that Option Period.

(b) A Participant may withdraw from the Plan at any time by notice to the Secretary of the Company prior to the close of business on an Exercise Date. Within 21 days after the notice of withdrawal is delivered, the Company shall refund the entire amount, if any, in a Participant's Plan Account to him or her, at which time the Participant's payroll deduction authorization, his or her interest in the Plan and his or her option under the Plan shall terminate. Any Eligible Employee who withdraws from the Plan may again become a Participant in accordance with Section 3.2 above.

##### 6.2 Termination of Eligibility

(a) If a Participant ceases to be eligible under Section 3.1 above for any reason, the amount in such Participant's Plan Account will be refunded to the Participant or

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his or her designated beneficiary or estate within 21 days of his or her termination of employment or other cessation of eligibility.

(b) Upon payment by the Company to the Participant or his or her beneficiary or estate of the remaining balance, if any, in Participant's Plan Account, the Participant's interest in the Plan and the Participant's option under the Plan shall terminate.

#### ARTICLE VII. GENERAL PROVISIONS

7.1 Condition of Employment. Neither the creation of the Plan nor an Employee's participation therein shall be deemed to create a contract of employment, any right of continued employment or in any way affect the right of the Company or a Subsidiary to terminate an Employee at any time with or without cause.

##### 7.2 Amendment of the Plan

(a) The Board may, in its sole discretion, amend, suspend or terminate the Plan at any time and from time to time; provided, however, that without approval of the Company's stockholders given within 12 months before or

after action by the Board, the Plan may not be amended to increase the maximum number of shares subject to the Plan or change the designation or class of Eligible Employees.

(b) Upon termination of the Plan, the balance in each Participant's Plan Account shall be refunded within 21 days of such termination.

7.3 Use of Funds; No Interest Paid. All funds received by the Company by reason of purchase of Common Stock under this Plan will be included in the general funds of the Company free of any trust or other restriction and may be used for any corporate purpose. No interest will be paid to any Participant or credited under the Plan.

7.4 Effective Date; Term; Approval by Stockholders. The Plan shall become effective as of the first date that both (a) the Board has approved the Plan and (b) the stockholders of the Company have approved the Plan by a vote sufficient to meet the requirements of Section 423(b)(2) of the Code; provided that such stockholder approval occurs within 12 months following the date the Board approves the Plan. Options may be granted prior to such stockholder approval; provided, however, that such options may not be exercisable prior to the date the Plan is approved by the Company's stockholders. In the event that the stockholders fail to so approve the Plan, any options granted under the Plan may be cancelled, all payroll deductions shall be cancelled and the Plan shall be terminated. Except as otherwise provided by this Section 7.4, the Plan shall terminate on the tenth anniversary of the date of its initial approval by the stockholders of the Company or such earlier date as may be established by action of the Board. No option may be granted during any period of suspension of the Plan nor after termination of the Plan.

7.5 Effect Upon Other Plans. The adoption of the Plan shall not affect any other compensation or incentive plans in effect for the Company or any Subsidiary. Nothing in

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this Plan shall be construed to limit the right of the Company or any Subsidiary (a) to establish any other forms of incentives or compensation for employees of the Company or any Subsidiary, or (b) to grant or assume options otherwise than under this Plan in connection with any proper corporate purpose, including, but not by way of limitation, the grant or assumption of options in connection with the acquisition, by purchase, lease, merger, consolidation or otherwise, of the business, stock or assets of any corporation, firm or association.

7.6 Conformity to Securities Laws. Notwithstanding any other provision of this Plan, this Plan and the participation in this Plan by any individual who is then subject to Section 16 of the Exchange Act shall be subject to any additional limitations set forth in any applicable exemptive rule under Section 16 of the Exchange Act (including any amendment to Rule 16b-3 of the Exchange Act) that are requirements for the application of such exemptive rule. To the extent permitted by applicable law, the Plan shall be deemed amended to the extent necessary to conform to such applicable exemptive rule.

7.7 Notice of Disposition of Shares. The Company may require any Participant to give the Company prompt notice of any disposition of shares of Common Stock, acquired pursuant to the Plan, within two years after the applicable Offering Date or within one year after the applicable Exercise Date with respect to such shares. The Company may direct that the certificates evidencing shares acquired pursuant to the Plan refer to such requirement.

7.8 Tax Withholding. The Company shall be entitled to require payment in cash or deduction from other compensation payable to each Participant of any sums required by federal, state or local tax law to be withheld with respect to any purchase of shares of Common Stock under the Plan or any sale of such shares.

7.9 Governing Law. The Plan and all rights and obligations thereunder shall be construed and enforced in accordance with the laws of the State of Maryland.

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I hereby certify that the foregoing Coach, Inc. 2001 Employee Stock Purchase Plan was duly approved by the Board of Directors of Coach, Inc. on September 4, 2001.

I hereby certify that the foregoing Coach, Inc. 2001 Employee Stock Purchase Plan was duly approved by the stockholders of Coach, Inc. on November 7, 2001.

Executed on this 3rd day of December, 2001.

/s/ Carole P. Sadler

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Secretary

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. Coach (UK) Limited (United Kingdom)
7. Coach Europe Services S.r.l. (Italy)
8. Coach Stores Canada Inc. (Canada)
9. Coach Japan, Inc. (Japan) (50% owned)

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statements No. 333-51706, No. 333-64610 and No. 333-82102 on Form S-8 of Coach, Inc., of our report dated July 29, 2002 (August 30, 2002 as to Note 22), appearing in this Annual Report on Form 10-K of Coach, Inc. for the year ended June 29, 2002.

DELOITTE & TOUCHE LLP

New York, New York  
September 18, 2002