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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 July 3, 2004**

or

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

**Commission file number: 1-16153**

**Coach, Inc.**

**(Exact name of registrant as specified in its charter)**

**Maryland**

*(State or other jurisdiction of  
incorporation or organization)*

**52-2242751**

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

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

**10001**  
*(Zip Code)*

**(212) 594-1850**

*(Registrant's telephone number, including area code)*

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

**Title of Each Class:**

**Name of Each Exchange on which Registered**

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Common Stock, par value \$.01 per share

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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 \$7,956,367,955 as of September 3, 2004. For purposes of determining this amount only, the registrant has excluded shares of common stock held by directors and officers. Exclusion of shares held by any person should not be construed to indicate that such person possesses the power, direct or indirect, to direct or cause the direction of the management or policies of the registrant, or that such person is controlled by or under common control with the registrant.

On September 3, 2004, the Registrant had 188,067,989 outstanding shares of common stock, which is the Registrant's only class of capital stock.

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**COACH, INC.**

**TABLE OF CONTENTS FORM 10-K**

**Page  
Number**

**[PART I](#)**

|                                 |   |    |
|---------------------------------|---|----|
| <a href="#"><u>Item 1.</u></a>  | <a href="#"><u>Business of Coach, Inc. and Risk Factors</u></a>   | 3  |
| <a href="#"><u>Item 2.</u></a>  | <a href="#"><u>Properties</u></a>   | 15 |
| <a href="#"><u>Item 3.</u></a>  | <a href="#"><u>Legal Proceedings</u></a>  | 15 |
| <a href="#"><u>Item 4.</u></a>  | <a href="#"><u>Submission of Matters to a Vote of Security Holders</u></a>  | 15 |
|                                 | <b><a href="#"><u>PART II</u></a></b>   |    |
| <a href="#"><u>Item 5.</u></a>  | <a href="#"><u>Market for Registrant’s Common Equity and Related Stockholder Matters</u></a>                          | 18 |
| <a href="#"><u>Item 6.</u></a>  | <a href="#"><u>Selected Financial Data</u></a>  | 18 |
| <a href="#"><u>Item 7.</u></a>  | <a href="#"><u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u></a>          | 20 |
| <a href="#"><u>Item 7A.</u></a> | <a href="#"><u>Quantitative and Qualitative Disclosures about Market Risk</u></a>                                     | 30 |
| <a href="#"><u>Item 8.</u></a>  | <a href="#"><u>Financial Statements and Supplementary Data</u></a>  | 31 |
| <a href="#"><u>Item 9.</u></a>  | <a href="#"><u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u></a>           | 31 |
| <a href="#"><u>Item 9A.</u></a> | <a href="#"><u>Controls and Procedures</u></a>  | 31 |
|                                 | <b><a href="#"><u>PART III</u></a></b>  |    |
| <a href="#"><u>Item 10.</u></a> | <a href="#"><u>Directors and Executive Officers of the Registrant</u></a>   | 31 |
| <a href="#"><u>Item 11.</u></a> | <a href="#"><u>Executive Compensation</u></a>   | 31 |
| <a href="#"><u>Item 12.</u></a> | <a href="#"><u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u></a> | 32 |
| <a href="#"><u>Item 13.</u></a> | <a href="#"><u>Certain Relationships and Related Transactions</u></a>   | 32 |
|                                 | <b><a href="#"><u>PART IV</u></a></b>   |    |
| <a href="#"><u>Item 15.</u></a> | <a href="#"><u>Exhibits, Financial Statement Schedules and Reports on Form 8-K</u></a>                                | 32 |
|                                 | <a href="#"><u>SIGNATURES</u></a>   | 33 |
|                                 | <a href="#"><u>EX-10.1: REVOLVING CREDIT AGREEMENT</u></a>  |    |
|                                 | <a href="#"><u>EX-21.1: LIST OF SUBSIDIARIES</u></a>  |    |
|                                 | <a href="#"><u>EX-23.1: CONSENT OF DELOITTE &amp; TOUCHE LLP</u></a>  |    |
|                                 | <a href="#"><u>EX-31.1: CERTIFICATIONS</u></a>  |    |
|                                 | <a href="#"><u>EX-32.1: CERTIFICATIONS</u></a>  |    |

[Table of Contents](#)

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

**SPECIAL NOTE ON FORWARD-LOOKING INFORMATION**

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

Coach’s actual results could differ materially from the results contemplated by these forward-looking statements due to a number of factors, including those discussed in the sections of this Form 10-K filing entitled “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations 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 website at [www.coach.com](http://www.coach.com) where investors and other interested parties may obtain, free of charge, press releases and other information, as well as gain access to periodic reports to the SEC.

## PART I

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

#### OVERVIEW

Coach is a designer and marketer of high-quality, modern American classic accessories. Coach believes that it is one of the best recognized fine accessories brands in the U.S. and is enjoying increased recognition in targeted international markets. Net sales were \$1,321.1 million in the year ended July 3, 2004 ("fiscal 2004"), \$953.2 million in the year ended June 28, 2003 ("fiscal 2003") and \$719.4 million in the year ended June 29, 2002 ("fiscal 2002"). Operating income was \$444.5 million in fiscal 2004, \$243.8 million in fiscal 2003 and \$133.6 million in fiscal 2002. Coach's primary product offerings include handbags, women's and men's small leather goods, business cases, weekend and travel accessories, outerwear and related accessories. Together with its licensing partners, Coach also offers watches, footwear, eyewear 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 2004 included:

- 174 North American retail stores;
- 76 North American factory stores;
- the Internet; and
- the Coach catalog.

Coach's direct-to-consumer business represented approximately 55% of its total sales in fiscal 2004.

Coach's remaining sales were generated from products sold through a number of indirect channels, which at the end of fiscal 2004 included:

- nearly 1,100 department store locations in the U.S.;
- 115 international department store, retail store and duty free shop locations in 17 countries;
- 100 department store shop-in-shops, and retail and factory store locations operated by Coach Japan, Inc.; and
- corporate sales programs.

Over the last several years, Coach has successfully transformed itself from a manufacturer of traditionally styled classic leather products to a marketer of modern, fashionable handbags and accessories, using a broader range of fabrics and materials. Today, Coach's updated styles and multiple product categories address an increasing portion of its consumer's accessory wardrobe, responding to its customer's demands for both fashion and function. Along with the rejuvenation of the product line, Coach has created a similarly modern environment to showcase its product assortments and reinforce a consistent brand position. Finally, Coach has established a flexible, cost-effective manufacturing model in which independent manufacturers supply virtually all 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 key differentiating elements that set it apart from the competitive landscape including:

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

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

## [Table of Contents](#)

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

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

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

Coach believes that these differentiating elements have enabled the Company to offer a unique proposition in the market place. In fiscal 2004, net sales increased 38.6% and operating income increased 82.3%, compared to fiscal 2003. In fiscal 2003, net sales increased 32.5% and operating income increased 82.4%, compared to fiscal 2002.

## **Growth Strategies**

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

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

**Grow North American Retail Store Base.** Coach believes that it has a successful retail store format that reinforces its brand image, generates strong sales per square foot and can be readily adapted to different location requirements. The modernized store environment has an open, loft-like feeling, with crisp white brick walls and a timeless, uncluttered look. Over the next four to five years, Coach plans to open approximately 100 retail stores in North America, bringing the retail store base to over 275 stores. In fiscal 2004 and fiscal 2003, Coach opened 19 and 20 new retail stores, respectively. It generally takes four to six months from the time Coach takes possession of a store to open it. In addition, Coach is also expanding select highly productive locations. In fiscal 2004, nine stores were expanded. We expect to expand at least nine stores in the fiscal year ending July 2, 2005 ("fiscal 2005"). We also expect to drive comparable store sales gains through higher traffic by attracting new and existing consumers more often, generating higher average ticket and increasing units per transaction. In addition, we have evolved our in-store marketing programs to create a more satisfying, service-oriented, shopping experience.

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

Domestically in Japan, in June 2001, we established Coach Japan, Inc. We then acquired the existing distributors and expanded the number of locations and retail square footage. We have continued to grow market share and now hold the number two position within the imported luxury accessories market.

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

**Improve Operational Efficiencies.** Coach has upgraded and reorganized its manufacturing, distribution and information systems over the past several years to allow it to bring new and existing products to market

## [Table of Contents](#)

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 2004, Coach's gross margin increased to 74.9% from 71.1% in fiscal 2003. This improvement was driven by a shift in channel mix, as our highest gross margin channels grew faster than the business as a whole; a shift in product mix, reflecting increased penetration of higher margin mixed material product and accessories; and sourcing cost initiatives. Coach expects these factors to continue to drive gross margin rate improvement.

### **Coach's Products**

**Handbags.** Coach's original business, the design, manufacture and distribution of fine handbags, accounted for approximately 58% of net sales in fiscal 2004. Coach makes monthly offerings of its handbag collections, featuring classically inspired designs as well as fashion trend designs. Typically, there are three to four collections per quarter and four to seven styles per collection, depending on the concept and opportunity.

**Accessories.** Women's accessories, consisting of wallets, wristlets, cosmetic cases, key fobs and belts, represented approximately 19% of Coach's net sales in fiscal 2004. Coach's small leather goods collections are coordinated with our handbags. Men's accessories, consisting of belts, wallets and other small leather goods, represented approximately 4% of Coach's net sales in fiscal 2004.

**Business Cases.** Business cases represented approximately 4% of Coach's net sales in fiscal 2004. This category includes computer bags and messenger-style bags, as well as men's and women's totes.

**Outerwear, Gloves, Hats and Scarves.** This category represented approximately 4% of Coach's net sales in fiscal 2004. The assortment is approximately 85% women's and contains a fashion assortment in all four components of this category.

**Weekend and Travel Accessories.** The Coach weekend and travel collections are comprised of cabin bags, duffels, suitcases, garment bags and a comprehensive collection of travel accessories. Weekend and travel accessories represented approximately 2% of Coach's net sales in fiscal 2004.

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

**Footwear.** Jimlar Corporation ("Jimlar") has been Coach's footwear licensee since 1999. The footwear is developed and manufactured primarily in Italy and is distributed through more than 500 locations in the U.S., including leading Coach retail stores and U.S. department stores. Approximately 90% of this business is in women's footwear, which coordinates with Coach handbags and employs fine materials, including calf and suede.

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

### **Design and Merchandising**

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

## [Table of Contents](#)

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, eyewear and office furniture, are conceptualized and designed to address the intended market opportunity and convey the distinctive perspective and lifestyle associated with the Coach brand. While Coach's licensing partners may employ their own designers, Coach oversees the development of their collection concepts and the design of licensed products. Licensed products are also subject to Coach's quality control standards and we exercise final approval for all new products prior to their sale.

### **Marketing**

Coach's marketing strategy is to deliver a consistent message every time the consumer comes in contact with the Coach brand, through all of its communications and visual merchandising. The Coach image is created 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 promote sales to consumers in their preferred shopping venue. As part of Coach's direct marketing strategy, it uses its database consisting of approximately 7.5 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. Coach's on-line store, like its catalogs and brochures, provides a showcase environment where consumers can browse through a strategic offering of our latest styles and colors in order to increase both on-line and store sales as well as build brand awareness.

In the U.S. and Japan, Coach spent approximately \$22 million, or 2% of net sales in fiscal 2004, 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 Canon, 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 the Coach business.

Coach also has a sophisticated consumer and market research capability, which helps us assess consumer attitudes and trends and gauge the 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, the internet and catalog. The direct-to-consumer channels represented approximately 55% of Coach's total net sales in fiscal year 2004.

***North American Retail Stores.*** Coach's retail stores establish, reinforce and capitalize on the image of the Coach brand. Coach operates 174 retail stores in North America that are located in upscale regional shopping centers and metropolitan areas. It operates flagship stores, which offer the broadest assortment of

[Table of Contents](#)

Coach products, in high-visibility locations such as New York, Chicago and San Francisco. The following table shows the number of Coach retail stores and their total and average square footage:

|                                    | Fiscal Year Ended |                  |                  |
|------------------------------------|-------------------|------------------|------------------|
|                                    | July 3,<br>2004   | June 28,<br>2003 | June 29,<br>2002 |
| Retail stores                      | 174               | 156              | 138              |
| Net increase vs. prior year        | 18                | 18               | 17               |
| Percentage increase vs. prior year | 11.5%             | 13.0%            | 14.0%            |
| Retail square footage              | 431,617           | 363,310          | 301,501          |
| Net increase vs. prior year        | 68,307            | 61,809           | 50,365           |
| Percentage increase vs. prior year | 18.8%             | 20.5%            | 20.1%            |
| Average square footage             | 2,481             | 2,329            | 2,185            |

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

**North American Factory Stores.** Coach's 76 factory stores serve as an efficient means to sell manufactured-for-factory-store product as well as discontinued and irregular inventory, outside the retail channel. These stores operate under the Coach Factory name and are geographically positioned primarily in established centers that are usually between 50 to 100 miles from major markets. The following table shows the number of Coach factory stores and their total and average square footage:

|                                    | Fiscal Year Ended |                  |                  |
|------------------------------------|-------------------|------------------|------------------|
|                                    | July 3,<br>2004   | June 28,<br>2003 | June 29,<br>2002 |
| Factory stores                     | 76                | 76               | 74               |
| Net increase vs. prior year        | 0                 | 2                | 6                |
| Percentage increase vs. prior year | 0%                | 2.7%             | 8.8%             |
| Factory square footage             | 231,355           | 232,898          | 219,507          |
| Net increase vs. prior year        | (1,543)           | 13,391           | 20,583           |
| Percentage increase vs. prior year | (0.7)%            | 6.1%             | 10.3%            |
| Average square footage             | 3,044             | 3,064            | 2,966            |

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

**Internet.** Coach views its website as a key communications vehicle for the brand to promote traffic in Coach retail stores and department store locations. 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.

**Catalog.** Coach mailed its first Coach catalog in 1980. In fiscal 2004, the Company distributed approximately 3.6 million catalogs in Coach stores and mailed a Coach catalog to about one million strategically selected U.S. households, from its database. While direct mail sales comprise a small portion of Coach's net sales, Coach views its catalog as a key communications vehicle for the brand because it promotes store traffic and facilitates the shopping experience in Coach retail stores. 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



[Table of Contents](#)

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 partners, both domestic and international, to ensure a clear and consistent product presentation. The indirect channel represented approximately 45% of total net sales in fiscal 2004.

**Coach Japan, Inc.** Coach is aggressively expanding market share and raising brand awareness with the Japanese consumer, primarily by opening flagship and freestanding stores. As of July 3, 2004, there were 100 Coach locations in Japan, including 77 department store shop-in-shops, three flagship locations, and 10 retail and 10 factory stores. The three flagship stores, which offer the broadest assortment of Coach products, are located in the Ginza, Shibuya and Marunouchi shopping districts of Tokyo. Coach Japan plans to open at least three additional flagship locations and eight other locations in fiscal 2005. In addition, to strengthen Coach's presence in premier department stores, Coach Japan is expanding select highly productive shop-in-shops in these department stores. Coach Japan expanded 16 locations during fiscal 2004 and plans to expand an additional 14 locations during fiscal 2005. Lastly, Coach Japan is driving sales through improved store productivity by providing distinctive newness to the Japanese marketplace, where innovation is key. This channel represented approximately 21% of total net sales in fiscal 2004. The following table shows the number of Coach Japan locations and their total and average square footage:

|                                    | Fiscal Year Ended |                  |                  |
|------------------------------------|-------------------|------------------|------------------|
|                                    | July 3,<br>2004   | June 28,<br>2003 | June 29,<br>2002 |
| Total locations                    | 100               | 93               | 83               |
| Net increase vs. prior year        | 7                 | 10               | 7                |
| Percentage increase vs. prior year | 7.5%              | 12.0%            | 9.2%             |
| Total square footage               | 119,291           | 102,242          | 76,975           |
| Net increase vs. prior year        | 17,049            | 25,267           | 13,604           |
| Percentage increase vs. prior year | 16.7%             | 32.8%            | 21.5%            |
| Average square footage             | 1,193             | 1,099            | 927              |

In June 2001, Coach and Sumitomo Corporation ("Sumitomo") commenced a joint venture to form Coach Japan, Inc., in order to operate the Coach business in Japan. During fiscal 2002, Coach Japan acquired the prior distributors of Coach products in Japan, in order to expand its presence in the Japanese market and to exercise greater control over its brand in that country. Coach owns 50% of Coach Japan, however, as Coach appoints a majority of the Board of Directors it is deemed to have control; as such, Coach Japan is accounted for as a consolidated subsidiary. Under the terms of the joint venture agreement, Coach supplies its merchandise to Coach Japan for distribution and sale in Japan.

**U.S. Wholesale.** Coach's products are sold to nearly 1,100 U.S. wholesale locations and represented approximately 11% of total net sales in fiscal 2004. This channel offers access to Coach consumers who prefer shopping at department stores or who live in geographic areas that are not large enough to support a Coach retail store. Recognizing the continued importance of U.S. department stores as a distribution channel for premier accessories, Coach has fine-tuned its strategy to increase productivity and drive volume, by enhancing presentation, primarily through the creation of more shop-in-shops and the introduction of caseline enhancements with proprietary Coach fixtures. We are also custom-tailoring assortments to better match the attributes of our department store consumers, in each local market. Coach's more significant U.S. wholesale customers are Federated Department Stores (including Macy's, Bloomingdale's, and Burdine's), May Co. (including Lord and Taylor and Filene's), Dillard's, Nordstrom, Marshall Fields, and Saks, Inc.

**International Wholesale.** Coach's international business, which represented approximately 7% of total net sales in fiscal 2004, is generated through wholesale distributors and authorized retailers. Coach has

## [Table of Contents](#)

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 17 countries. Coach's current network of international distributors serves markets such as Korea, Hong Kong, Guam, Taiwan, Singapore, Australia, Japan, Mexico, Saudi Arabia, China, the Caribbean, the United Kingdom, Thailand, New Zealand and Malaysia. 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 as per capita spending on luxury accessories by Japanese consumers is substantially greater than in the U.S. Coach's more significant international wholesale customers include the DFS Group 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 |                  |                  |
|--|-------------------|------------------|------------------|
|  | July 3,<br>2004   | June 28,<br>2003 | June 29,<br>2002 |
| International freestanding stores        | 18                | 18               | 12               |
| International department store locations | 70                | 49               | 71               |
| Other international locations            | 27                | 40               | 35               |
| Total international wholesale locations  | 115               | 107              | 118              |

**Business to Business.** As part of the indirect channel of distribution, Coach sells some of its products 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 July 3, 2004 are as follows:

| Category         | Licensing Partner | Introduction Date | Territory      | License Expiration Date |
|------------------|-------------------|-------------------|----------------|-------------------------|
| Watches          | Movado            | Spring '98        | U.S. and Japan | 2008                    |
| Footwear         | Jimlar            | Spring '99        | U.S.           | 2008                    |
| Eyewear          | Marchon           | Fall '03          | Worldwide      | 2007                    |
| Office furniture | Steelcase         | Fall '01          | U.S.           | 2006                    |

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

## Manufacturing

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 2004, approximately 61% of Coach's total net sales, excluding Coach Japan, 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 significant number of the new styles as "limited editions" that are planned to be offered for a brief time and then replaced with fresh new products.

## [Table of Contents](#)

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. 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. We monitor compliance with the quality control standards through on-site quality inspections at all independent manufacturing facilities.

All of Coach's fiscal year 2004 product requirements were supplied by independent manufacturers. Coach buys independently manufactured products from many countries, including China, Turkey, India, Costa Rica, Dominican Republic, Hungary, Indonesia, Italy, Korea, Philippines, Singapore, Spain, Taiwan and Thailand. Coach operates sourcing offices in Hong Kong, China and South Korea that work closely with our sourced vendors. Coach also operates a European sourcing and product development organization based in Florence, Italy that works closely with the New York design team. This broad-based multi-country manufacturing strategy is designed to optimize the mix of cost, lead times and construction capabilities. Coach carefully balances its commitments to a limited number of "better brand" partners with demonstrated integrity, quality and reliable delivery. No one vendor provides more than 15% 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.

### **Distribution**

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

### **Management Information Systems**

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

Complementing its Enterprise Resource Planning system are several other system solutions, each of which Coach believes is well-suited for its needs. The data warehouse system summarizes the transaction information and provides a single platform for all management reporting. The supply chain management system supports corporate sales and inventory functions, creating a monthly demand plan and reconciling production/procurement with financial plans. Product fulfillment is facilitated by Coach's highly automated warehouse management system and electronic data interchange system, while the unique requirements of Coach's Internet and catalog businesses are supported by Coach's order management system. Finally, the point-of-sale system supports all in-store transactions, distributes management reporting to each store, and collects sales and payroll information on a daily basis. This daily collection of store sales and inventory information results in early identification of business trends and provides a detailed baseline for store inventory replenishment. Updates and upgrades of these systems are made on a periodic basis in order to ensure that we constantly improve our functionality. All complementary systems are integrated with the central Enterprise Resource Planning system.

## Trademarks and Patents

Coach owns all of the material trademark rights used in connection with the production, marketing and distribution of all of its products, both in the U.S. and in other countries in which the products are principally sold. Coach 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 July 3, 2004, Coach employed approximately 4,200 people, about 50 of which were covered by collective bargaining agreements. Of the total, 2,400 are engaged in retail selling and administration positions, 400 are engaged in sourcing or distribution functions and 700 are employed through Coach Japan. The remaining employees are engaged in other aspects of the Coach business. Coach believes that its relations with its employees are good, and it has never encountered a strike or significant work stoppage.

## Government Regulation

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

## 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 3.*

***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

## [Table of Contents](#)

to a broad range of consumers whose preferences cannot be predicted with certainty and are subject to rapid change. Coach cannot assure that it will be able to continue to develop appealing styles or meet changing consumer demands in the future.

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

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

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

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

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

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

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

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

The Company is exposed to market risk from foreign currency exchange rate fluctuations with respect to Coach Japan as a result of its U.S. dollar-denominated inventory purchases. In order to manage this risk, Coach Japan enters into forward exchange contracts that allow them to obtain dollars at a rate that is set concurrent with the requisition of inventory. These contracts meet the definition of a derivative under Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities". As these contracts are entered into before the receipt of inventory, the contract rate may be higher or lower than market rates when the goods are received and the payment is completed. All contracts are fair valued at the end of the reporting period. If the derivative is designated as a cash flow hedge, effective subsequent changes in the fair value of the derivative are recorded in other comprehensive income and are recognized in the statement of operations when the hedged items affect earnings. Ineffective portions of changes in the fair value of cash flow hedges are recognized in earnings immediately. This non-cash charge or credit can result in fluctuations in the reported financial results.

Coach consolidates the financial results of Coach Japan into its financial statements. The functional currency of Coach Japan is the Japanese yen. 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 is a party to employment agreements with certain executives which provide for compensation and other benefits. The agreements also provide for severance payments under certain circumstances. The unexpected loss of services of one or more of these individuals could have an adverse effect on Coach's business. As the business grows, Coach will need to attract and retain additional qualified personnel and develop, train and manage an increasing number of management-level, sales and other employees. Coach cannot guarantee that it will be able to attract and retain personnel as needed in the future.

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

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

***Coach's 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, tourism and changes in local economic conditions. These factors, among others, could influence Coach's ability to sell products successfully in international markets. Coach generally purchases products from international manufacturers in U.S. dollars and sells these products in the U.S. and to its international wholesale customers in U.S. dollars. However, Coach's international wholesale customers sell Coach products in the relevant local currencies, and currency exchange rate fluctuations could adversely affect the retail prices of the products and result in decreased international consumer demand.

***Coach's 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, Maryland law or its "poison pill" may delay or prevent an acquisition of Coach by a third party.***

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

On May 3, 2001 Coach declared a "poison pill" dividend distribution of rights to buy additional common stock to the holder of each outstanding share of Coach's common stock. Subject to limited exceptions, these rights may be exercised if a person or group intentionally acquires 10% or more of Coach's common stock or announces a tender offer for 10% or more of the common stock on terms not approved by the Coach Board of Directors. In this event, each right would entitle the holder of each share of Coach's common stock to buy one additional common share of Coach stock at an exercise price far below the then-current market price. Subject to certain exceptions, Coach's Board of Directors will be entitled to redeem the rights at \$0.001 per right at any time before the close of business on the tenth day following either the public announcement that, or the date on which a majority of Coach's Board of Directors becomes aware that, a person has acquired 10% or more of the outstanding common stock. As of the end of fiscal 2004, there were no shareholders whose common stock holdings exceeded the 10% threshold established by the rights plan.

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

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

[Table of Contents](#)

**Item 2. Properties**

The following table sets forth the location, use and size of Coach's distribution, corporate and product development facilities as of July 3, 2004, all of which are leased. The leases expire at various times through 2016, subject to renewal options.

| <u>Location</u>                      | <u>Use</u>                        | <u>Approximate<br/>Square Footage</u> |
|--------------------------------------|-----------------------------------|---------------------------------------|
| Jacksonville, Florida                | Distribution and customer service | 560,000                               |
| New York, New York                   | Corporate                         | 190,000                               |
| Carlstadt, New Jersey                | Corporate and product development | 55,000                                |
| Tokyo, Japan                         | Coach Japan, corporate            | 20,000                                |
| Florence, Italy                      | Sourcing and product development  | 16,000                                |
| Shenzhen, People's Republic of China | Quality control                   | 6,000                                 |
| Kowloon, Hong Kong                   | Sourcing and quality control      | 5,000                                 |
| Seoul, South Korea                   | Sourcing                          | 3,000                                 |

As of July 3, 2004, Coach also occupies 174 retail and 76 factory leased stores located in North America. Indirectly, through Coach Japan, Coach operates 100 department store shop-in-shops, and retail and factory store locations in Japan. Coach considers these properties to be in generally good condition and believes that its facilities are adequate for its operations and provide sufficient capacity to meet its anticipated requirements.

**Item 3. Legal Proceedings**

Coach is involved in various routine legal proceedings as both plaintiff and defendant incident to the ordinary course of its business, including proceedings to protect Coach's intellectual property rights, litigation instituted by persons alleged to have been injured upon premises within Coach's control and litigation with present or former employees. As part of its policing program for its intellectual property rights, from time to time, Coach files lawsuits in the U.S. and abroad alleging acts of trademark counterfeiting, trademark infringement, patent infringement, trade dress infringement, trademark dilution and/or state or foreign law claims. At any given point in time, Coach may have one or more of such actions 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. Although Coach's litigation with present or former employees is routine and incidental to the conduct of Coach's business, as well as for any business employing significant numbers of U.S.-based employees, such litigation can result in large monetary awards when a civil jury is allowed to determine compensatory and/or punitive damages for actions claiming discrimination on the basis of age, gender, race, religion, disability or other legally protected characteristic or for termination of employment that is wrongful or in violation of implied contracts. Coach believes, however, that the outcome of all pending legal proceedings in the aggregate will not have a material adverse effect on Coach's business or consolidated financial statements.

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

None



**Executive Officers and Directors**

The following table sets forth information regarding each of Coach's executive officers and directors serving as of July 3, 2004:

| Name                     | Age | Position(s)(1)  |
|--------------------------|-----|---|
| Lew Frankfort            | 58  | Chairman, Chief Executive Officer and Director                              |
| Keith Monda              | 58  | President, Chief Operating Officer and Director                             |
| Reed Krakoff             | 40  | President, Executive Creative Director                                      |
| Michael Tucci            | 43  | President, North American Retail Division                                   |
| Mike Devine              | 45  | Senior Vice President, Chief Financial Officer and Chief Accounting Officer |
| Carole Sadler            | 45  | Senior Vice President, General Counsel and Secretary                        |
| Felice Schulaner         | 44  | Senior Vice President, Human Resources                                      |
| Joseph Ellis(3)          | 62  | Director  |
| Sally Frame Kasaks(2)(3) | 60  | Director  |
| Gary Loveman (2)(3)      | 44  | Director  |
| Irene Miller(2)(3)       | 52  | Director  |
| Michael Murphy(2)(3)     | 67  | Director  |

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

**Lew Frankfort** has been involved with the Coach business for 25 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, 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.

**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,

## [Table of Contents](#)

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

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

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

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

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

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

## [Table of Contents](#)

**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., Tuesday Morning, Inc., The Children's Place, Inc. and Crane & Co. She holds a Bachelor of Arts degree from American University.

**Gary Loveman** was elected to Coach's Board of Directors in February 2002. Mr. Loveman has served as Chief Executive Officer and President of Harrah's Entertainment, Inc. since January 2003; he had served as President of Harrah's since April 2001 and as Chief Operating Officer of Harrah's since May 1998. He was a member of the three-executive Office of the President of Harrah's from May 1999 to April 2001 and was Executive Vice President from May 1998 to May 1999. From 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 Harrah's. He holds a Bachelor of Arts degree in Economics from Wesleyan University and a Ph.D. in Economics from the Massachusetts Institute of Technology.

**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. 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, Metropolitan Pier and Exposition Authority, 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 (dollars and shares in thousands, except per share data)**

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

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

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

## [Table of Contents](#)

reorganization plan involving the complete closure of its Lares, Puerto Rico, manufacturing operation. These actions, also intended to reduce costs, resulted in the transfer of production to lower cost third-party manufacturers.

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

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

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

#### **Executive Overview**

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

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

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

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

[Table of Contents](#)

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

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

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

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

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

**Results Of Operations**

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

|  | Fiscal Year Ended                                       |                |               |                |               |                |
|--|---|----------------|---------------|----------------|---------------|----------------|
|  | July 3, 2004(1)   |                | June 28, 2003 |                | June 29, 2002 |                |
|  | \$  | % of net sales | \$            | % of net sales | \$            | % of net sales |
|  | (dollars and shares in millions, except per share data) |                |               |                |               |                |
| Net sales  | \$1,316.3   | 99.6%          | \$949.4       | 99.6%          | \$716.5       | 99.6%          |
| Licensing revenue  | 4.8   | 0.4            | 3.8           | 0.4            | 2.9           | 0.4            |
| Total net sales  | 1,321.1   | 100.0          | 953.2         | 100.0          | 719.4         | 100.0          |
| Cost of sales  | 331.0   | 25.1           | 275.8         | 28.9           | 236.0         | 32.8           |
| Gross profit   | 990.1   | 74.9           | 677.4         | 71.1           | 483.4         | 67.2           |
| Selling, general and administrative expenses                   | 545.6   | 41.3           | 433.7         | 45.5           | 346.4         | 48.1           |
| Reorganization costs   | —   | —              | —             | —              | 3.4           | 0.5            |
| Operating income   | 444.5   | 33.6           | 243.7         | 25.6           | 133.6         | 18.6           |
| Interest (income) expense, net                                 | (3.2)   | (0.2)          | (1.1)         | (0.1)          | 0.3           | 0.1            |
| Income before provision for income taxes and minority interest | 447.7   | 33.9           | 244.8         | 25.7           | 133.3         | 18.5           |
| Provision for income taxes                                     | 168.0   | 12.7           | 90.6          | 9.5            | 47.3          | 6.6            |
| Minority interest, net of tax                                  | 18.0  | 1.4            | 7.6           | 0.8            | 0.2           | 0.0            |
| Net income   | \$ 261.7  | 19.8%          | \$146.6       | 15.4%          | \$ 85.8       | 11.9%          |
| Net income per share:  |   |                |               |                |               |                |
| Basic  | \$ 1.41   |                | \$ 0.82       |                | \$ 0.49       |                |
| Diluted  | \$ 1.36   |                | \$ 0.79       |                | \$ 0.47       |                |
| Weighted-average number of common shares:                      |   |                |               |                |               |                |
| Basic  | 186.1   |                | 179.6         |                | 176.1         |                |
| Diluted  | 192.8   |                | 185.8         |                | 181.9         |                |

(1) 53-week fiscal year

[Table of Contents](#)

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

|                 | Fiscal Year Ended     |                  |                  |                  | Percentage of Total Net Sales |                 |                  |                  |
|-----------------|-----------------------|------------------|------------------|------------------|-------------------------------|-----------------|------------------|------------------|
|                 | July 3,<br>2004(1)    | June 28,<br>2003 | June 29,<br>2002 | Rate of Increase |                               | July 3,<br>2004 | June 28,<br>2003 | June 29,<br>2002 |
|                 | (dollars in millions) |                  |                  | ('04 v. '03)     | ('03 v. '02)                  |                 |                  |                  |
| Direct          | \$ 726.5              | \$ 559.5         | \$ 447.1         | 29.8%            | 25.1%                         | 55.0%           | 58.7%            | 62.1%            |
| Indirect        | 594.6                 | 393.7            | 272.3            | 51.0             | 44.6                          | 45.0            | 41.3             | 37.9             |
| Total net sales | \$1,321.1             | \$ 953.2         | \$ 719.4         | 38.6%            | 32.5%                         | 100.0%          | 100.0%           | 100.0%           |

(1) 53-week fiscal year

**Fiscal 2004 Compared to Fiscal 2003**

*Net Sales*

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

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

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

*Gross Profit*

Gross profit increased 46.2% to \$990.1 million in fiscal 2004 from \$677.4 million in fiscal 2003. Gross margin increased 380 basis points to 74.9% in fiscal 2004 from 71.1% in fiscal 2003. This improvement was driven by: a shift in channel mix, as our higher gross margin channels grew faster than the business as a whole,



## [Table of Contents](#)

which contributed approximately 140 additional basis points; a shift in product mix, reflecting increased penetration of higher margin mixed material product and accessories, which contributed approximately 120 additional basis points; and the continuing impact of sourcing cost initiatives, which contributed approximately 120 additional basis points.

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

|             | First Quarter | Second Quarter | First Half | Third Quarter | Fourth Quarter | Second Half | Total Year |
|-------------|---------------|----------------|------------|---------------|----------------|-------------|------------|
| Fiscal 2004 | 72.7%         | 74.2%          | 73.6%      | 75.9%         | 76.7%          | 76.3%       | 74.9%      |
| Fiscal 2003 | 68.1%         | 70.3%          | 69.4%      | 72.5%         | 73.2%          | 72.9%       | 71.1%      |
| Fiscal 2002 | 64.1%         | 68.6%          | 66.8%      | 68.8%         | 66.6%          | 67.6%       | 67.2%      |

### *Selling, General and Administrative Expenses*

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

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

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

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

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

### *Interest Income, Net*

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



## [Table of Contents](#)

### *Provision for Income Taxes*

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

### *Minority Interest*

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

### ***Fiscal 2003 Compared to Fiscal 2002***

#### *Net Sales*

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

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

#### *Gross Profit*

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

#### *Selling, General and Administrative Expenses*

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

## [Table of Contents](#)

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

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

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

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

### *Reorganization Costs*

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

### *Interest Income, Net*

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

### *Provision for Income Taxes*

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

### *Minority Interest*

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

## FINANCIAL CONDITION

### *Liquidity and Capital Resources*

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

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

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

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

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

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

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

To provide funding for working capital and general corporate purposes, Coach Japan entered into credit facilities with several Japanese financial institutions. These facilities allow a maximum borrowing of 8.6 billion yen or approximately \$79 million at July 3, 2004. Interest is based on the Tokyo Interbank rate plus a margin of up to 50 basis points.

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

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

The Coach Board of Directors has authorized the establishment of a common stock repurchase program. Under this program, up to \$180 million may be utilized to repurchase Coach's outstanding common stock. Purchases of Coach stock may be made from time to time, subject to market conditions and at prevailing

## [Table of Contents](#)

market prices, through open market purchases. Repurchased shares will be retired and may be reissued in the future for general corporate or other uses. This stock repurchase program expires in January 2006. The Company may terminate or limit the stock repurchase program at any time.

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

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

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

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

Coach experiences significant seasonal variations in its working capital requirements. During the first fiscal quarter Coach builds inventory for the holiday selling season, opens new retail stores and generates higher levels of trade receivables. In the second fiscal quarter its working capital requirements are reduced substantially as Coach generates consumer sales and collects wholesale accounts receivable. In fiscal 2004, Coach purchased approximately \$349 million of inventory, which was funded by on hand cash, operating cash flow and by borrowings under the Japanese revolving credit facilities.

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

Currently, Sara Lee is a guarantor or a party to many of Coach's leases. Coach has agreed to make efforts to remove Sara Lee from all of its existing leases, and Sara Lee is not a guarantor or a party to any new or renewed leases. Coach has obtained a letter of credit for the benefit of Sara Lee in an amount approximately equal to the annual minimum rental payments under leases transferred to Coach by Sara Lee, but for which Sara Lee retains contingent liability. Coach is required to maintain this letter of credit until the annual minimum rental payments under the relevant leases are less than \$2.0 million. The initial letter of credit had a face amount of \$20.6 million, and we expect this amount to decrease annually as Coach's guaranteed obligations are reduced. As of July 3, 2004, the letter of credit was \$16.8 million. We expect that we will be required to maintain the letter of credit for at least 10 years.

[Table of Contents](#)

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

|   | Payments 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                              | \$ 56.6                | \$109.4      | \$98.8       | \$184.9          | \$449.7 |
| Revolving credit facility                     | 1.7                    | —            | —            | —                | 1.7     |
| Long-term debt, including the current portion | 0.1                    | 0.3          | 0.5          | 2.6              | 3.5     |
| Total   | \$ 58.4                | \$109.7      | \$99.3       | \$187.5          | \$454.9 |

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

**Long-Term Debt**

Coach is party to an Industrial Revenue Bond related to its Jacksonville, Florida facility. This loan has a remaining balance of \$3.5 million and bears interest at 8.77%. Principal and interest payments are made semiannually, with the final payment due in 2014.

**Seasonality**

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

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

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

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

**Stock-Based Compensation**

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

**Inventories**

U.S. inventories are valued at the lower of cost (determined by the first-in, first-out method) or market. Inventories in Japan are valued at the lower of cost (determined by the last-in, first-out method) or market.

## [Table of Contents](#)

Inventory costs include material, conversion costs, freight and duties. Reserves for slow moving and aged merchandise are provided based on historical experience and current product demand. We evaluate the adequacy of reserves quarterly. A decrease in product demand due to changing customer tastes, buying patterns or increased competition could impact Coach's evaluation of its slow moving and aged merchandise.

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

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

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which the Company adopted effective with the beginning of fiscal 2002, the Company assesses the carrying value of its long-lived assets for possible impairment based on a review of forecasted operating cash flows and the profitability of the related business. The Company did not record any impairment losses in fiscal 2004 or fiscal 2003. See Note 18 of the Consolidated Financial Statements for long-lived asset write-downs recorded in connection with the Company's fiscal 2002 reorganization plan.

### ***Revenue Recognition***

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

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

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

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

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity." SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). The provisions of SFAS No. 150 are effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning

## [Table of Contents](#)

after June 15, 2003. The adoption of SFAS No. 150 did not have an impact on Coach's financial position or results of operations.

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

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

### **Item 7A. Quantitative and Qualitative Disclosures about Market Risk**

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

#### ***Foreign Exchange***

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

Approximately 98% of Coach's fiscal 2004 non-licensed product needs were purchased from independent manufacturers in countries other than the United States. These countries include China, Turkey, India, Costa Rica, Dominican Republic, Hungary, Indonesia, Italy, Korea, Philippines, Singapore, Spain, Taiwan and Thailand. Additionally, sales are made through international channels to third party distributors. Substantially all purchases and sales involving international parties, excluding Coach Japan, are denominated in U.S. dollars and, therefore, are not hedged by Coach using any derivative instruments.

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

[Table of Contents](#)

The foreign currency contracts entered into by the Company have durations no greater than 12 months. The fair values of open foreign currency derivatives included in accrued liabilities at July 3, 2004 and June 28, 2003 were \$0.5 million and \$0, respectively. The fair value of open foreign currency derivatives included in current assets at July 3, 2004 and June 28, 2003 was \$0 and \$0.4 million, respectively. As of July 3, 2004, open foreign currency forward contracts designated as hedges, with a notional amount of \$63.6 million, were fair valued, resulting in a reduction to equity as a charge to other comprehensive income of \$0.5 million, net of taxes. As of June 28, 2003, open foreign currency forward contracts designated as hedges, with a notional amount of \$39.3 million, respectively, were fair valued, resulting in an increase to equity as a benefit to other comprehensive income of \$0.2 million, net of taxes. Also, during fiscal 2003, open foreign currency forward contracts not designated as hedges, with a notional amount of \$33.2 million, were fair valued and resulted in a pretax non cash benefit to earnings of \$3.4 million, included as a component of selling, general and administrative expenses.

***Interest Rate***

Coach faces minimal interest rate risk exposure in relation to its outstanding debt of \$5.2 million at July 3, 2004. Of this amount, \$1.7 million, under revolving credit facilities, is subject to interest rate fluctuations. A hypothetical 1% change in the interest rate applied to the fair value of debt would not have a material impact on earnings or cash flows of Coach.

**Item 8. *Financial Statement and Supplementary Data***

See the "Index to Financial Statements", which is located on page 34 of this report.

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

None

**Item 9A. *Controls and Procedures***

Based on the evaluation of the Company's disclosure controls and procedures as of July 3, 2004, each of Lew Frankfort, the Chief Executive Officer of the Company, and Michael F. Devine, III, the Chief Financial Officer of the Company, has concluded that the Company's disclosure controls and procedures are effective in providing reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission's rules and forms.

Based on an evaluation by management, with the participation of Messrs. Frankfort and Devine, there was no change in the Company's internal control over financial reporting that occurred during the Company's fourth fiscal quarter that has materially affected, or is reasonably like to materially affect, the Company's internal control over financial reporting.

**PART III**

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

The information set forth in the Proxy Statement for the 2004 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 2004 annual meeting of stockholders is incorporated herein by reference. The Proxy Statement will be filed with the Commission within 120 days



[Table of Contents](#)

after the end of the fiscal year covered by the Form 10-K pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended.

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

(a) Security ownership of management set forth in the Proxy Statement for the 2004 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 2004 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 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K**

(a) Financial Statements and Financial Statement Schedule See the "Index to Financial Statements" which is located on page 34 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 16, 2004.

| <u>Signature</u>                           | <u>Title</u>   |
|--|--|
| /s/ LEW FRANKFORT                          | Chairman, Chief Executive Officer and Director   |
| Lew Frankfort<br>/s/ KEITH MONDA           | President, Chief Operating Officer and Director  |
| Keith Monda<br>/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<br>/s/ JOSEPH ELLIS | Director   |
| Joseph Ellis<br>/s/ SALLY FRAME KASAKS     | Director   |
| Sally Frame Kasaks<br>/s/ GARY LOVEMAN     | Director   |
| Gary Loveman<br>/s/ IRENE MILLER           | Director   |
| Irene Miller<br>/s/ MICHAEL MURPHY         | Director   |
| Michael Murphy                             |  |

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-K  
FINANCIAL STATEMENTS  
For the Fiscal Year Ended July 3, 2004  
COACH, INC.  
New York, New York 10001  
INDEX TO FINANCIAL STATEMENTS

|   | Page<br>Number |
|---|----------------|
| Financial Statements  |                |
| <a href="#">Report of Independent Registered Public Accounting Firm</a>   | 35             |
| <a href="#">Consolidated Balance Sheets — At July 3, 2004 and June 28, 2003</a>   | 36             |
| <a href="#">Consolidated Statements of Income — For Fiscal Years Ended July 3, 2004, June 28, 2003 and June 29, 2002</a>              | 37             |
| <a href="#">Consolidated Statement of Stockholders' Equity — For Fiscal Years Ended July 3, 2004, June 28, 2003 and June 29, 2002</a> | 38             |
| <a href="#">Consolidated Statements of Cash Flows — For Fiscal Years Ended July 3, 2004, June 28, 2003 and June 29, 2002</a>          | 39             |
| <a href="#">Notes to Consolidated Financial Statements</a>  | 40             |
| <a href="#">Market and Dividend Information</a>   | 63             |
| <a href="#">Financial Statement Schedules for the years ended July 3, 2004, June 28, 2003 and June 29, 2002:</a>                      |                |
| <a href="#">Schedule II — Valuation and Qualifying Accounts</a>   | 64             |

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

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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

We have audited the accompanying consolidated balance sheets of Coach, Inc. and subsidiaries (the "Company") as of July 3, 2004 and June 28, 2003 and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended July 3, 2004. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of July 3, 2004 and June 28, 2003, and the results of its operations and its cash flows for each of the three years in the period ended July 3, 2004, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Deloitte & Touche LLP

New York, New York

September 15, 2004

**COACH, INC.**  
**CONSOLIDATED BALANCE SHEETS**

|   | July 3,<br>2004 | June 28,<br>2003 |
|---|-----------------|------------------|
| <b>(amounts in thousands,<br/>except share data)</b>  |                 |                  |
| <b>ASSETS</b>   |                 |                  |
| Cash and cash equivalents   | \$ 262,720      | \$229,176        |
| Short-term investments  | 171,723         | —                |
| Trade accounts receivable, less allowances of \$5,456 and \$6,095,<br>respectively  | 55,724          | 35,470           |
| Inventories   | 161,913         | 143,807          |
| Deferred income taxes   | 34,521          | 21,264           |
| Prepaid expenses and other current assets   | 19,015          | 18,821           |
|   | 705,616         | 448,538          |
| Total current assets  |                 |                  |
| Property and equipment, net   | 148,524         | 118,547          |
| Long-term investments   | 130,000         | —                |
| Deferred income taxes   | —               | 9,112            |
| Goodwill  | 13,605          | 13,009           |
| Indefinite life intangibles   | 9,788           | 9,389            |
| Other noncurrent assets   | 21,125          | 19,057           |
|   | \$1,028,658     | \$617,652        |
| Total assets  |                 |                  |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |                 |                  |
| Accounts payable  | \$ 44,771       | \$ 26,637        |
| Accrued liabilities   | 135,353         | 108,273          |
| Revolving credit facility   | 1,699           | 26,471           |
| Current portion of long-term debt   | 115             | 80               |
|   | 181,938         | 161,461          |
| Total current liabilities   |                 |                  |
| Deferred income taxes   | 15,791          | —                |
| Long-term debt  | 3,420           | 3,535            |
| Other liabilities   | 5,025           | 3,572            |
| Minority interest, net of tax   | 40,198          | 22,155           |
|   | 246,372         | 190,723          |
| Total liabilities   |                 |                  |
| Commitments and contingencies (Note 6)  |                 |                  |
| Stockholders' equity  |                 |                  |
| Preferred stock: (authorized 25,000,000 shares; \$0.01 par value)<br>none issued  | —               | —                |
| Common stock: (authorized 500,000,000 shares; \$0.01 par value)<br>issued and outstanding — 189,618,201 and 183,009,256 shares,<br>respectively | 1,896           | 1,830            |
| Capital in excess of par value  | 357,026         | 214,484          |
| Retained earnings   | 430,461         | 217,622          |
| Accumulated other comprehensive income (loss)   | 2,195           | (1,359)          |
| Unearned compensation   | (9,292)         | (5,648)          |
|   | 782,286         | 426,929          |
| Total stockholders' equity  |                 |                  |
| Total liabilities and stockholders' equity  | \$1,028,658     | \$617,652        |

See accompanying Notes to Consolidated Financial Statements.

**COACH, INC.**  
**CONSOLIDATED STATEMENTS OF INCOME**

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

(1) 53-week fiscal year

See accompanying Notes to 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 of<br>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 June 30,<br>2001  | \$ 148,314                       | \$ —                                 | \$ 1,748                          | \$124,403                      | \$ 22,650            | \$ (487)   | \$ —                     |                                | 174,744                      |
| Net income  | 85,827                           | —                                    | —                                 | —                              | 85,827               | —  | —                        | \$ 85,827                      |                              |
| Shares issued for<br>stock options<br>and employee<br>benefit plans | 20,802                           | —                                    | 58                                | 20,744                         | —                    | —  | —                        |                                | 5,884                        |
| Tax benefit from<br>exercise of stock<br>options                    | 13,793                           | —                                    | —                                 | 13,793                         | —                    | —  | —                        |                                |                              |
| Repurchase of<br>common stock                                       | (9,848)                          | —                                    | (18)                              | (6,862)                        | (2,968)              | —  | —                        |                                | (1,720)                      |
| Grant of restricted<br>stock awards                                 | —                                | —                                    | 2                                 | 2,430                          | —                    | —  | (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                       | \$ —                                 | \$ 1,790                          | \$154,508                      | \$105,509            | \$ 215   | \$ (1,666)               |                                | 178,908                      |
| Net income  | 146,628                          | —                                    | —                                 | —                              | 146,628              | —  | —                        | 146,628                        |                              |
| Shares issued for<br>stock options<br>and employee<br>benefit plans | 28,395                           | —                                    | 78                                | 28,317                         | —                    | —  | —                        |                                | 7,900                        |
| Tax benefit from<br>exercise of stock<br>options                    | 41,503                           | —                                    | —                                 | 41,503                         | —                    | —  | —                        |                                |                              |
| Repurchase of<br>common stock                                       | (49,947)                         | —                                    | (38)                              | (15,394)                       | (34,515)             | —  | —                        |                                | (3,858)                      |
| Grant of restricted<br>stock awards                                 | —                                | —                                    | —                                 | 5,550                          | —                    | —  | (5,550)                  |                                | —                            |
| Amortization of<br>restricted stock<br>awards                       | 1,568                            | —                                    | —                                 | —                              | —                    | —  | 1,568                    |                                | 59                           |
| Unrealized gain on<br>cash flow<br>hedging<br>derivatives, net      | 168                              | —                                    | —                                 | —                              | —                    | 168  | —                        | 168                            |                              |
| Translation<br>adjustments  | (348)                            | —                                    | —                                 | —                              | —                    | (348)  | —                        | (348)                          |                              |
| Minimum pension<br>liability  | (1,394)                          | —                                    | —                                 | —                              | —                    | (1,394)  | —                        | (1,394)                        |                              |
| Comprehensive<br>income   |                                  |                                      |                                   |                                |                      |  |                          | \$ 145,054                     |                              |
| Balances at June 28,<br>2003  | \$ 426,929                       | \$ —                                 | \$ 1,830                          | \$214,484                      | \$217,622            | \$ (1,359)   | \$ (5,648)               |                                | 183,009                      |
| Net income  | 261,748                          | —                                    | —                                 | —                              | 261,748              | —  | —                        | 261,748                        |                              |
| Shares issued for<br>stock options<br>and employee<br>benefit plans | 34,141                           | —                                    | 81                                | 34,060                         | —                    | —  | —                        |                                | 8,120                        |
| Tax benefit from<br>exercise of stock<br>options                    | 106,458                          | —                                    | —                                 | 106,458                        | —                    | —  | —                        |                                |                              |
| Repurchase of<br>common stock                                       | (54,954)                         | —                                    | (15)                              | (6,030)                        | (48,909)             | —  | —                        |                                | (1,511)                      |
| Grant of restricted<br>stock awards                                 | —                                | —                                    | —                                 | 8,054                          | —                    | —  | (8,054)                  |                                | —                            |
| Amortization of<br>restricted stock<br>awards                       | 4,410                            | —                                    | —                                 | —                              | —                    | —  | 4,410                    |                                | —                            |

|   |            |      |          |           |           |          |            |            |
|---|------------|------|----------|-----------|-----------|----------|------------|------------|
| Unrealized loss on cash flow hedging derivatives, net | (460)      | —    | —        | —         | —         | (460)    | —          | (460)      |
| Translation adjustments                               | 2,892      | —    | —        | —         | —         | 2,892    | —          | 2,892      |
| Minimum pension liability                             | 1,122      | —    | —        | —         | —         | 1,122    | —          | 1,122      |
| Comprehensive income                                  |            |      |          |           |           |          |            | \$ 265,302 |
| Balances at July 3, 2004                              | \$ 782,286 | \$ — | \$ 1,896 | \$357,026 | \$430,461 | \$ 2,195 | \$ (9,292) | 189,618    |

See accompanying Notes to Consolidated Financial Statements.



COACH, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

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

(1) 53-week fiscal year

See accompanying Notes to Consolidated Financial Statements.

**COACH, INC.**

**Notes to Consolidated Financial Statements**

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

**1. Nature of Operations and Significant Accounting Policies**

**Nature of Operations**

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

**Significant Accounting Policies**

***Fiscal Year***

The Company's fiscal year ends on the Saturday closest to June 30. Unless otherwise stated, references to years in the financial statements relate to fiscal years. The fiscal year ended July 3, 2004 ("fiscal 2004") was a 53-week period, whereas the fiscal years ended June 28, 2003 ("fiscal 2003") and June 29, 2002 ("fiscal 2002") were each 52-week periods.

***Use of Estimates***

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

***Principles of Consolidation***

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

***Cash and Cash Equivalents***

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

***Investments***

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

COACH, INC.

Notes to Consolidated Financial Statements — (Continued)

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

***Concentration of Credit Risk***

Financial instruments that potentially expose Coach to concentration of credit risk consist primarily of cash investments and accounts receivable. The Company places its cash investments with high-credit quality financial institutions and currently invests primarily in U.S. government and agency debt securities, municipal government and corporate debt securities, and bank money market funds placed with major banks and financial institutions. Accounts receivable is generally diversified due to the number of entities comprising Coach's customer base and their dispersion across many geographical regions. The Company's allowance for bad debts, returns and allowances was \$5,456 at July 3, 2004 and \$6,095 at June 28, 2003. The Company believes no significant concentration of credit risk exists with respect to these cash investments and accounts receivable.

***Inventories***

Inventories consist primarily of finished goods. U.S. inventories are valued at the lower of cost (determined by the first-in, first-out method ("FIFO")) or market. Inventories in Japan are valued at the lower of cost (determined by the last-in, first-out method ("LIFO")) or market. At the end of fiscal 2004 and fiscal 2003, inventories recorded at LIFO were \$2,409 and \$650 higher, respectively, than if they were valued at FIFO. Inventories valued under LIFO amounted to \$34,508 and \$23,484 in fiscal 2004 and 2003, respectively. Inventory costs include material, conversion costs, freight and duties.

***Property and Equipment***

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

***Goodwill and Other Intangible Assets***

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

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

In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which the Company adopted effective with the beginning of fiscal 2002, the Company assesses the carrying value of its long-lived assets for possible impairment based on a review of forecasted operating cash flows and the profitability of the related business. The Company did not record any impairment losses in fiscal 2004 or fiscal 2003. See Note 18 to the Consolidated Financial Statements for long-lived asset write-downs recorded in connection with the Company's fiscal 2002 reorganization plan.

COACH, INC.

Notes to Consolidated Financial Statements — (Continued)

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

***Minority Interest in Subsidiary***

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

***Revenue Recognition***

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

***Advertising***

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

***Shipping and Handling***

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

***Income Taxes***

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

***Stock-Based Compensation***

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

## COACH, INC.

## Notes to Consolidated Financial Statements — (Continued)

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

income and earnings per share as if the fair value based method of accounting, defined in SFAS No. 123, "Accounting for Stock-Based Compensation", had been applied:

|   | Fiscal Year Ended |                  |                  |
|---|-------------------|------------------|------------------|
|   | July 3,<br>2004   | June 28,<br>2003 | June 29,<br>2002 |
| Net income, as reported   | \$261,748         | \$146,628        | \$ 85,827        |
| Deduct:   |                   |                  |                  |
| Total stock-based employee compensation expense determined under the fair value based method for all awards, net of related tax effects | (23,799)          | (15,947)         | (10,227)         |
| Proforma net income   | \$237,949         | \$130,681        | \$ 75,600        |
| Earnings per share:   |                   |                  |                  |
| Basic — as reported   | \$ 1.41           | \$ 0.82          | \$ 0.49          |
| Basic — proforma  | \$ 1.28           | \$ 0.73          | \$ 0.43          |
| Diluted — as reported   | \$ 1.36           | \$ 0.79          | \$ 0.47          |
| Diluted — proforma  | \$ 1.23           | \$ 0.70          | \$ 0.42          |

**Fair Value of Financial Instruments**

The fair value of the revolving credit facility at July 3, 2004 and June 28, 2003 approximated its carrying value due to its floating interest rates. The Company has evaluated its Industrial Revenue Bond and believes, based on the interest rate, related term and maturity, that the fair value of such instrument approximates its carrying amount. As of July 3, 2004 and June 28, 2003, the carrying values of cash and cash equivalents, investments, trade accounts receivable, accounts payable, and accrued liabilities approximated their values due to the short-term maturities of these accounts. See Note 7, "Investments," for the fair values of the Company's investments as of July 3, 2004.

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

**Foreign Currency**

The functional currency of the Company's foreign operations is the applicable local currency. Assets and liabilities are translated into U.S. dollars using the current exchange rates in effect at the balance sheet date, while revenues and expenses are translated at the weighted-average exchange rates for the period. The resulting translation adjustments are recorded as a component of accumulated other comprehensive income (loss) within stockholders' equity. Translation adjustment gains in fiscal 2004 were \$2,892 compared to translation adjustment losses in fiscal 2003 of \$348. Translation adjustment gains in fiscal 2002 were \$396.

COACH, INC.

Notes to Consolidated Financial Statements — (Continued)

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

**Net Income Per Share**

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

**Stock Split**

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

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

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

**Recent Accounting Pronouncements**

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

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

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

## COACH, INC.

## Notes to Consolidated Financial Statements — (Continued)

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

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

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

**Reclassifications**

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

**2. Balance Sheet Components**

The components of certain balance sheet accounts are as follows:

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

COACH, INC.

Notes to Consolidated Financial Statements — (Continued)

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

3. Income Taxes

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

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

Current and deferred tax provisions (benefits) were:

|  | Fiscal Year Ended |            |               |          |               |           |
|--|-------------------|------------|---------------|----------|---------------|-----------|
|  | July 3, 2004      |            | June 28, 2003 |          | June 29, 2002 |           |
|  | Current           | Deferred   | Current       | Deferred | Current       | Deferred  |
| Federal  | \$128,449         | \$ (7,314) | \$67,432      | \$ 1,728 | \$41,497      | \$ 245    |
| Puerto Rico  | —                 | —          | 31            | (1,182)  | 50            | 12        |
| Foreign  | 2,302             | 19,538     | 402           | 6,239    | 5,089         | (5,559)   |
| State  | 25,468            | (577)      | 13,942        | 1,993    | 5,658         | 333       |
| Total current and deferred tax provisions (benefits) | \$156,219         | \$11,647   | \$81,807      | \$ 8,778 | \$52,294      | \$(4,969) |



COACH, INC.

Notes to Consolidated Financial Statements — (Continued)

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

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

|   | Fiscal Year Ended |                  |                   |
|---|-------------------|------------------|-------------------|
|   | July 3,<br>2004   | June 28,<br>2003 | June 29,<br>2002  |
| <b>Deferred tax provisions (benefits)</b> |                   |                  |                   |
| Depreciation                              | \$ (3)            | \$ 2,269         | \$ (261)          |
| Employee benefits                         | (3,267)           | 1,048            | 5,346             |
| Advertising accruals                      | (280)             | 348              | —                 |
| Nondeductible reserves                    | (5,228)           | (2,025)          | (65)              |
| Earnings of foreign subsidiaries          | 23,920            | 9,296            | (3,637)           |
| Other, net                                | (3,495)           | (2,158)          | (6,352)           |
| Total deferred tax provisions (benefits)  | <u>\$11,647</u>   | <u>\$ 8,778</u>  | <u>\$ (4,969)</u> |

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

|                                     | Fiscal Year Ended |                  |
|-------------------------------------|-------------------|------------------|
|                                     | July 3,<br>2004   | June 28,<br>2003 |
| <b>Deferred tax assets</b>          |                   |                  |
| Reserves not deductible until paid  | \$31,060          | \$19,071         |
| Pension and other employee benefits | 7,041             | 4,523            |
| Property, plant and equipment       | 11,499            | 11,439           |
| Other                               | 5,212             | 7,345            |
| Total deferred tax assets           | <u>\$54,812</u>   | <u>\$42,378</u>  |
| <b>Deferred tax liabilities</b>     |                   |                  |
| Earnings of foreign subsidiaries    | 29,578            | 5,657            |
| Other                               | 6,504             | 6,345            |
| Total deferred tax liabilities      | <u>\$36,082</u>   | <u>\$12,002</u>  |
| Net deferred tax assets             | <u>\$18,730</u>   | <u>\$30,376</u>  |

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

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

**4. Debt**

**Revolving Credit Facilities**

On February 27, 2001, Coach, certain lenders and Fleet National Bank ("Fleet"), as primary lender and administrative agent, entered into a \$100,000 senior unsecured three-year revolving credit facility (the "Fleet facility"). On October 16, 2003, this facility was renewed, extending the facility expiration to October 16, 2006. At Coach's request, the Fleet facility can be expanded to \$125,000 and, during the first two years of its

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

term, the expiration date can be extended for one additional year, to October 16, 2007. This facility is available for seasonal working capital requirements or general corporate purposes and may be prepaid without penalty or premium.

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

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

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

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

To provide funding for working capital and general corporate purposes, Coach Japan entered into credit facilities with several Japanese financial institutions. These facilities allow a maximum borrowing of 8.6 billion yen or approximately \$79,000 at July 3, 2004. Interest is based on the Tokyo Interbank rate plus a margin of up to 50 basis points.

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

During fiscal 2004 and 2003, the peak borrowings under the Japanese credit facilities were \$36,084 and \$43,443. As of July 3, 2004 and June 28, 2003, outstanding borrowings under the Japanese credit facilities were \$1,699 and \$26,471, respectively.

***Long-Term Debt***

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

| Fiscal Year        | Amount  |
|--------------------|---------|
| 2005               | \$ 115  |
| 2006               | 150     |
| 2007               | 170     |
| 2008               | 235     |
| 2009               | 285     |
| Subsequent to 2009 | 2,580   |
| Total              | \$3,535 |

## COACH, INC.

## Notes to Consolidated Financial Statements — (Continued)

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

**5. Leases**

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

|                    | Fiscal Year Ended |                  |                  |
|--------------------|-------------------|------------------|------------------|
|                    | July 3,<br>2004   | June 28,<br>2003 | June 29,<br>2002 |
| Minimum rentals    | \$55,352          | \$47,098         | \$36,965         |
| Contingent rentals | 7,555             | 4,885            | 3,292            |
| Total rent expense | \$62,907          | \$51,983         | \$40,257         |

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

| Fiscal Year                          | Amount    |
|--------------------------------------|-----------|
| 2005                                 | \$ 56,635 |
| 2006                                 | 57,234    |
| 2007                                 | 52,188    |
| 2008                                 | 51,304    |
| 2009                                 | 47,449    |
| Subsequent to 2009                   | 184,914   |
| Total minimum future rental payments | \$449,724 |

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

**6. Commitments and Contingencies**

At July 3, 2004 and June 28, 2003, the Company had letters of credit outstanding totaling \$50,473 and \$48,336, respectively. Of these amounts, \$16,764 and \$19,820, respectively, related to the letter of credit obtained in connection with leases transferred to the Company by the Sara Lee Corporation, for which Sara Lee retains contingent liability. Coach expects that it will be required to maintain the letter of credit for at least 10 years. The remaining letters of credit, which expire at various dates through 2007, primarily collateralize the Company's obligation to third parties for the purchase of inventory and lease guarantees.

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

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

## COACH, INC.

## Notes to Consolidated Financial Statements — (Continued)

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

## 7. Investments

At June 28, 2003, the Company had no investments. During fiscal 2004, the Company began investing in marketable securities with maturities greater than 90 days, in order to maximize the rate of return on investments. The Company's investments consist of U.S. government and agency debt securities as well as municipal government and corporate debt securities. As the Company has both the ability and the intent to hold these securities until maturity, all investments are classified as held to maturity and stated at amortized cost. The Company's investment securities are as follows:

|                                       | Fiscal Year Ended<br>July 3, 2004 |                  |
|---------------------------------------|-----------------------------------|------------------|
|                                       | Amortized<br>Cost                 | Fair Value       |
| Short-term investments:               |                                   |                  |
| U.S. government and agency securities | \$ 50,000                         | \$ 49,930        |
| Commercial paper                      | 74,260                            | 74,187           |
| Corporate debt securities             | 22,500                            | 22,500           |
| Certificates of deposit               | 24,963                            | 24,860           |
| Short-term investments                | <u>\$171,723</u>                  | <u>\$171,477</u> |
| Long-term investments:                |                                   |                  |
| U.S. government and agency securities | \$130,000                         | \$129,975        |
| Long-term investments                 | <u>\$130,000</u>                  | <u>\$129,975</u> |

Securities with maturity dates within one year are classified as short-term investments. Securities with maturity dates greater than one year are classified as long-term investments. At July 3, 2004, the maturity dates of long-term investments, based on current contractual maturities, extend to December 2005. Actual maturities could differ from contractual maturities as some borrowers have the right to call certain obligations.

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

## 8. Stock-Based Compensation

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

For options granted under Coach's stock option plans prior to July 1, 2003, an active employee can receive a replacement stock option equal to the number of shares surrendered upon a stock-for-stock exercise. The exercise price of the replacement option is 100% of the market value at the date of exercise of the original option and will remain exercisable for the remaining term of the original option. Replacement stock options generally vest six months from the grant date. Replacement stock options of 5,632, 3,680 and 2,168 were granted in fiscal 2004, 2003 and 2002, respectively.

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 under the Coach option plans is as 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 June 30, 2001 | 18,888                                       | \$ 4.95                                   | 3,502                 | \$ 6.03                                   |
| Granted                      | 8,904  | 9.63                                      |                       |   |
| Exercised                    | (7,116)                                      | 5.09                                      |                       |   |
| Canceled/expired             | (656)  | 5.04                                      |                       |   |
| Outstanding at June 29, 2002 | 20,020                                       | \$ 6.99                                   | 3,184                 | \$ 6.82                                   |
| Granted                      | 9,520  | 15.33                                     |                       |   |
| Exercised                    | (10,176)                                     | 7.51                                      |                       |   |
| Canceled/expired             | (1,834)                                      | 7.91                                      |                       |   |
| Outstanding at June 28, 2003 | 17,530                                       | \$ 11.12                                  | 2,874                 | \$ 10.87                                  |
| Granted                      | 11,374                                       | 33.09                                     |                       |   |
| Exercised                    | (12,060)                                     | 16.23                                     |                       |   |
| Canceled/expired             | (502)  | 13.73                                     |                       |   |
| Outstanding at July 3, 2004  | 16,342                                       | \$ 22.56                                  | 2,639                 | \$ 13.04                                  |

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

| Range of<br>Exercise<br>Prices | Options Outstanding                      |  |   | Options Exercisable                      |   |
|--------------------------------|--|--|---|--|---|
|                                | Number<br>Outstanding at<br>July 3, 2004 | Weighted-<br>Average<br>Remaining<br>Contractual<br>Life (Years) | Weighted-<br>Average<br>Exercise<br>Price | Number<br>Exercisable at<br>July 3, 2004 | Weighted-<br>Average<br>Exercise<br>Price |
| \$ 4.00 – 10.00                | 3,296                                    | 6.27   | \$ 7.78                                   | 1,514                                    | \$ 6.30                                   |
| \$10.01 – 20.00                | 4,002                                    | 7.85   | 12.51                                     | 660                                      | 13.82                                     |
| \$20.01 – 30.00                | 5,400                                    | 8.91   | 25.62                                     | 116                                      | 26.02                                     |
| \$30.01 – 45.60                | 3,644                                    | 6.08   | 42.39                                     | 349                                      | 36.01                                     |
|                                | 16,342                                   | 7.49   | \$ 22.56                                  | 2,639                                    | \$ 13.04                                  |

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

|                         | Fiscal Year Ended |                  |                  |
|-------------------------|-------------------|------------------|------------------|
|                         | July 3,<br>2004   | June 28,<br>2003 | June 29,<br>2002 |
| Expected lives (years)  | 1.6               | 1.5              | 1.6              |
| Risk-free interest rate | 1.6%              | 1.7%             | 3.3%             |
| Expected volatility     | 32.4%             | 35.2%            | 48.3%            |
| Dividend yield          | —%                | —%               | —%               |

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

## COACH, INC.

## Notes to Consolidated Financial Statements — (Continued)

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

**Employee Stock Purchase Plan.** During fiscal 2002, Coach established the employee stock purchase plan and received stockholder approval of this program. Under this plan, full-time Coach employees are permitted to purchase a limited number of Coach common shares at 85% of market value. Under this plan, Coach sold 100, 134 and 52 shares to employees in fiscal 2004, 2003 and 2002, respectively. Pro forma compensation expense is calculated for the fair value of employees' purchase rights using the Black-Scholes model and the following weighted-average assumptions:

|                         | Fiscal Year Ended |                  |                  |
|-------------------------|-------------------|------------------|------------------|
|                         | July 3,<br>2004   | June 28,<br>2003 | June 29,<br>2002 |
| Expected lives (years)  | 0.5               | 0.5              | 0.4              |
| Risk-free interest rate | 1.2%              | 1.2%             | 1.9%             |
| Expected volatility     | 28.8%             | 38.3%            | 35.6%            |
| Dividend yield          | —%                | —%               | —%               |

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

**Stock Unit Awards.** Restricted stock unit awards of Coach common stock have been granted to employees as retention awards. The value of retention awards is determined based upon the fair value of Coach stock at the grant date. Stock awards are restricted and subject to forfeiture until the retention period is completed. The retention period is generally three years. As of July 3, 2004, retention awards of 796 shares were outstanding. This value is initially recorded as unearned compensation and is charged to earnings over the retention period. The amortization expense related to these awards was \$4,410, \$1,568 and \$766 for fiscal 2004, 2003 and 2002, respectively.

**Deferred Compensation.** Under the Coach, Inc. Executive Deferred Compensation Plan, executive officers and certain employees at or above the senior director level may elect to defer all or a portion of their annual bonus or annual base salary into the plan. Under the Coach, Inc. Deferred Compensation Plan for Non-Employee Directors, Coach's outside directors may similarly defer their director's fees. Amounts deferred under these plans may, at the participants' election, be either represented by deferred stock units, which represent the right to receive shares of Coach common stock on the distribution date elected by the participant, or placed in an interest-bearing account to be paid on such distribution date. The amounts accrued under these plans at July 3, 2004 and June 28, 2003 were \$4,263 and \$2,915, respectively, and are included in other noncurrent liabilities in the consolidated balance sheets.

## 9. Retirement Plans

Coach maintains the Coach, Inc. Savings and Profit Sharing Plan, which is a defined contribution plan. Employees who meet certain eligibility requirements and are not part of a collective bargaining agreement may participate in this program. The annual expense incurred by Coach for this defined contribution plan was \$7,620, \$5,308 and \$3,926 in fiscal 2004, 2003, and 2002, respectively.

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

COACH, INC.

Notes to Consolidated Financial Statements — (Continued)

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

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

|  | Fiscal Year Ended |                  |
|--|-------------------|------------------|
|  | July 3,<br>2004   | June 28,<br>2003 |
| <b>Change in Benefit Obligation</b>            |                   |                  |
| Benefit obligation at beginning of year        | \$ 5,983          | \$5,414          |
| Service cost                                   | 13                | 15               |
| Interest cost                                  | 381               | 370              |
| Benefits paid                                  | (249)             | (218)            |
| Actuarial loss (gain)                          | 797               | 402              |
| Plan settlements(1)                            | (1,665)           | —                |
| Benefit obligation at end of year              | <u>\$ 5,260</u>   | <u>\$5,983</u>   |
| <b>Change in Plan Assets</b>                   |                   |                  |
| Fair value of plan assets at beginning of year | \$ 3,863          | \$4,740          |
| Actual return (loss) on plan assets            | 757               | (659)            |
| Employer contributions                         | —                 | —                |
| Benefits paid                                  | (249)             | (218)            |
| Plan settlements(1)                            | (1,665)           | —                |
| Fair value of plan assets at end of year       | <u>\$ 2,706</u>   | <u>\$3,863</u>   |

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

|  | Fiscal Year Ended |                  |
|--|-------------------|------------------|
|  | July 3,<br>2004   | June 28,<br>2003 |
| <b>Funded status</b>   |                   |                  |
| Funded status at end of year                                 | \$(2,554)         | \$(2,120)        |
| Unrecognized prior service cost                              | —                 | 1                |
| Unrecognized net actuarial loss                              | 1,766             | 2,244            |
| Net amount recognized  | <u>\$ (788)</u>   | <u>\$ 125</u>    |
| <b>Amounts recognized in the consolidated balance sheets</b> |                   |                  |
| Other noncurrent assets                                      | \$ —              | \$ 1             |
| Accrued benefit liability                                    | (2,554)           | (2,120)          |
| Accumulated other comprehensive income                       | 1,766             | 2,244            |
| Net amount recognized  | <u>\$ (788)</u>   | <u>\$ 125</u>    |

COACH, INC.

Notes to Consolidated Financial Statements — (Continued)

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

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

|  | Fiscal Year Ended |                  |
|--|-------------------|------------------|
|  | July 3,<br>2004   | June 28,<br>2003 |
| <b>Information for pension plans with an accumulated benefit obligation in excess of plan assets</b> |                   |                  |
| Projected benefit obligation   | \$5,260           | \$5,983          |
| Accumulated benefit obligation   | 5,260             | 5,983            |
| Fair value of plan assets  | 2,706             | 3,863            |
| <b>Additional Information</b>  |                   |                  |
| Increase in minimum liability included in other comprehensive income                                 | \$ (479)          | \$1,394          |
| <b>Weighted-average assumptions used to determine benefit obligations</b>                            |                   |                  |
| Discount rate  | 6.00%             | 6.50%            |
| Rate of compensation increase  | N/A               | N/A              |
| <b>Weighted-average assumptions used to determine net periodic benefit cost</b>                      |                   |                  |
| Discount rate  | 6.50%             | 7.00%            |
| Expected long term return on plan assets   | 7.50%             | 8.25%            |

To develop the expected long-term rate of return on plan assets assumption, the Company considered the current level of expected returns on risk-free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected long-term rate of return on plan assets assumption for the portfolio. This resulted in the selection of the 7.50% assumption for fiscal 2004.

|  | Fiscal Year Ended |                  |                  |
|--|-------------------|------------------|------------------|
|  | July 3,<br>2004   | June 28,<br>2003 | June 29,<br>2002 |
| <b>Components of net periodic benefit cost</b> |                   |                  |                  |
| Service cost                                   | \$ 13             | \$ 15            | \$ 15            |
| Interest cost                                  | 381               | 370              | 350              |
| Expected return on plan assets                 | (281)             | (381)            | (381)            |
| Amortization of prior service cost             | —                 | 1                | 1                |
| Amortization of net actuarial loss             | 246               | 46               | 86               |
| Settlement loss                                | 559               | —                | —                |
| Net periodic benefit cost                      | \$ 918            | \$ 51            | \$ 71            |



## COACH, INC.

## Notes to Consolidated Financial Statements — (Continued)

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

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

| Asset Category         | Plan Assets |             |
|------------------------|-------------|-------------|
|                        | Fiscal 2004 | Fiscal 2003 |
| Domestic equities      | 69.0%       | 46.6%       |
| International equities | 4.1         | 2.5         |
| Fixed income           | 25.1        | 36.9        |
| Real estate            | —           | 8.0         |
| Cash equivalents       | 1.8         | 6.0         |
| Total                  | 100.0%      | 100.0%      |

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

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

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

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

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

| Fiscal Year | Pension Benefits |
|-------------|------------------|
| 2005        | \$ 278           |
| 2006        | 294              |
| 2007        | 315              |
| 2008        | 332              |
| 2009        | 345              |
| 2010 — 2014 | 1,826            |

## 10. Segment Information

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

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

assess performance, Coach's executive officers regularly evaluate the sales and operating income of these segments. Operating income is the gross margin of the segment less direct expenses of the segment. Unallocated corporate expenses include production variances, general marketing, administration and information systems, as well as distribution and customer service expenses.

| Fiscal 2004  | Direct-to-<br>Consumer | Indirect  | Corporate<br>Unallocated | Total       |
|--|------------------------|-----------|--------------------------|-------------|
| Net sales  | \$726,457              | \$594,649 | \$ —                     | \$1,321,106 |
| Operating income (loss)  | 293,626                | 288,648   | (137,809)                | 444,465     |
| Interest income  | —                      | —         | 4,000                    | 4,000       |
| Interest expense   | —                      | —         | 808                      | 808         |
| Income (loss) before provision for income taxes<br>and minority interest | 293,626                | 288,648   | (134,617)                | 447,657     |
| Provision for income taxes   | —                      | —         | 167,866                  | 167,866     |
| Minority interest, net of tax  | —                      | —         | 18,043                   | 18,043      |
| Depreciation and amortization  | 24,965                 | 6,940     | 10,949                   | 42,854      |
| Total assets   | 211,890                | 176,568   | 640,200                  | 1,028,658   |
| Additions to long-lived assets   | 35,588                 | 19,919    | 12,186                   | 67,693      |
| Fiscal 2003  | Direct-to-<br>Consumer | Indirect  | Corporate<br>Unallocated | Total       |
| Net sales  | \$559,553              | \$393,673 | \$ —                     | \$953,226   |
| Operating income (loss)  | 198,247                | 166,604   | (121,089)                | 243,762     |
| Interest income  | —                      | —         | 1,754                    | 1,754       |
| Interest expense   | —                      | —         | 695                      | 695         |
| Income (loss) before provision for income taxes<br>and minority interest | 198,247                | 166,604   | (120,030)                | 244,821     |
| Provision for income taxes   | —                      | —         | 90,585                   | 90,585      |
| Minority interest, net of tax  | —                      | —         | 7,608                    | 7,608       |
| Depreciation and amortization  | 17,484                 | 5,327     | 7,420                    | 30,231      |
| Total assets   | 194,157                | 137,587   | 285,908                  | 617,652     |
| Additions to long-lived assets   | 32,520                 | 16,602    | 7,990                    | 57,112      |

**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 (loss)   | 135,831            | 106,720   | (108,916)             | 133,635   |
| Interest income   | —                  | —         | 825                   | 825       |
| Interest expense  | —                  | —         | 1,124                 | 1,124     |
| Income (loss) before provision for income taxes and minority interest | 135,831            | 106,720   | (109,215)             | 133,336   |
| Provision for income taxes  | —                  | —         | 47,325                | 47,325    |
| Minority interest, net of tax   | —                  | —         | 184                   | 184       |
| Depreciation and amortization   | 16,192             | 1,986     | 7,316                 | 25,494    |
| Total assets  | 150,315            | 108,764   | 181,492               | 440,571   |
| Additions to long-lived assets  | 28,461             | 21,162    | 7,398                 | 57,021    |

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

|  | Fiscal Year Ended |               |               |
|--|-------------------|---------------|---------------|
|  | July 3, 2004      | June 28, 2003 | June 29, 2002 |
| Production variances                   | \$ 12,581         | \$ 6,755      | \$ 2,180      |
| Advertising, marketing and design      | (56,714)          | (48,491)      | (44,526)      |
| Administration and information systems | (63,521)          | (51,843)      | (38,512)      |
| Distribution and customer service      | (30,155)          | (27,510)      | (24,685)      |
| Reorganization costs                   | —                 | —             | (3,373)       |
| Total corporate unallocated            | \$(137,809)       | \$ (121,089)  | \$ (108,916)  |

**Geographic Area Information**

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

|                    | United States | Japan     | Other International(1) | Total       |
|--------------------|---------------|-----------|------------------------|-------------|
| <b>Fiscal 2004</b> |               |           |                        |             |
| Net sales          | \$ 982,668    | \$278,011 | \$ 60,427              | \$1,321,106 |
| Long-lived assets  | 265,171       | 55,487    | 2,384                  | 323,042     |
| <b>Fiscal 2003</b> |               |           |                        |             |
| Net sales          | \$ 735,890    | \$177,821 | \$ 39,515              | \$ 953,226  |
| Long-lived assets  | 127,251       | 31,966    | 785                    | 160,002     |
| <b>Fiscal 2002</b> |               |           |                        |             |
| Net sales          | \$ 590,237    | \$ 95,702 | \$ 33,464              | \$ 719,403  |
| Long-lived assets  | 106,600       | 20,647    | 705                    | 127,952     |

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

**COACH, INC.****Notes to Consolidated Financial Statements — (Continued)****(dollars and shares in thousands, except per share data)****11. Derivative Instruments and Hedging Activities**

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

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

**12. Goodwill**

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

|                          | <u>Direct-to-<br/>Consumer</u> | <u>Indirect</u> | <u>Total</u>    |
|--------------------------|--------------------------------|-----------------|-----------------|
| Balance at June 29, 2002 | \$ 3,408                       | \$ 9,598        | \$13,006        |
| Foreign exchange impact  | —                              | 3               | 3               |
|                          | <u>3,408</u>                   | <u>9,601</u>    | <u>13,009</u>   |
| Balance at June 28, 2003 | \$ 3,408                       | \$ 9,601        | \$13,009        |
| Foreign exchange impact  | —                              | 596             | 596             |
|                          | <u>3,408</u>                   | <u>10,197</u>   | <u>13,605</u>   |
| Balance at July 3, 2004  | <u>\$ 3,408</u>                | <u>\$10,197</u> | <u>\$13,605</u> |

**13. Business Interruption Insurance**

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

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

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

**14. Earnings Per Share**

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

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

**15. Stock Repurchase Program**

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

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

**16. Related-Party Transaction**

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

**COACH, INC.**

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

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

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

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

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

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

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

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

**18. Reorganization Costs**

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

## COACH, INC.

## Notes to Consolidated Financial Statements — (Continued)

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

termination costs and \$485 for the write-down of long-lived assets to net realizable value. The composition of the reorganization reserve, included in accrued liabilities, is set forth in the following table:

|                                       | Provision<br>Recorded in<br>Fiscal 2002<br>Reorganization<br>Reserves | Write-down of<br>Long-Lived<br>Assets to Net<br>Realizable<br>Value | Cash<br>Payments | Reorganization<br>Reserves as of<br>June 29, 2002 | Cash<br>Payments | Reorganization<br>Reserves as of<br>June 28, 2003 |
|---------------------------------------|---|---|------------------|---|------------------|---|
| Workers' separation costs             | \$ 2,229  | \$ —  | \$(2,073)        | \$ 156  | \$ (156)         | \$ —  |
| Lease termination costs               | 659   | —   | (616)            | 43  | (43)             | —   |
| Losses on disposal of fixed<br>assets | 485   | (485)   | —                | —   | —                | —   |
| Total reorganization reserve          | \$ 3,373  | \$ (485)  | \$(2,689)        | \$ 199  | \$ (199)         | \$ —  |

**19. Shareholder Rights Plan**

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

Subject to limited exceptions, these rights may be exercised if a person or group intentionally acquires 10% or more of the Company's common stock or announces a tender offer for 10% or more of the common stock on terms not approved by the Coach Board of Directors. In this event, each right would entitle the holder of each share of Coach's common stock to buy one additional common share of the Company at an exercise price far below the then-current market price. Subject to certain exceptions, Coach's Board of Directors will be entitled to redeem the rights at \$0.001 per right at any time before the close of business on the tenth day following either the public announcement that, or the date on which a majority of Coach's Board of Directors becomes aware that, a person has acquired 10% or more of the outstanding common stock. As of the end of fiscal 2004, there were no shareholders whose common stock holdings exceeded the 10% threshold established by the rights plan.

**20. Subsequent Event**

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

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

## COACH, INC.

## Notes to Consolidated Financial Statements — (Continued)

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

## 21. Quarterly Financial Data (Unaudited)

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

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



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

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

|                               | Fiscal Year Ended 2004 |         |
|-------------------------------|------------------------|---------|
|                               | High                   | Low     |
| Quarter ended                 |                        |         |
| September 27, 2003            | \$29.64                | \$24.87 |
| December 27, 2003             | 39.92                  | 27.08   |
| March 27, 2004                | 43.67                  | 34.15   |
| July 3, 2004                  | 46.19                  | 39.50   |
| Closing price at July 2, 2004 |                        | \$46.09 |

  

|                                | Fiscal Year Ended 2003 |         |
|--------------------------------|------------------------|---------|
|                                | High                   | Low     |
| Quarter ended                  |                        |         |
| September 28, 2002             | \$14.68                | \$ 9.07 |
| December 28, 2002              | 17.24                  | 11.80   |
| March 29, 2003                 | 19.97                  | 14.59   |
| June 28, 2003                  | 26.44                  | 18.54   |
| Closing price at June 27, 2003 |                        | \$24.97 |

  

|                                | Fiscal Year Ended 2002 |         |
|--------------------------------|------------------------|---------|
|                                | High                   | Low     |
| Quarter ended                  |                        |         |
| September 29, 2001             | \$10.55                | \$ 5.48 |
| December 29, 2001              | 9.66                   | 5.71    |
| March 30, 2002                 | 13.14                  | 9.49    |
| June 29, 2002                  | 14.97                  | 11.97   |
| Closing price at June 28, 2002 |                        | \$13.73 |

Coach has never declared or paid any cash dividends on its common stock. Coach currently intends to retain future earnings, if any, for use in its business and is presently not planning to pay regular cash dividends in its common stock. The Fleet facility prohibits Coach from paying dividends while the credit facility is in place, with certain exceptions. Any future determination to pay cash dividends will be at the discretion of Coach's Board of Directors and will be dependent upon Coach's financial condition, operating results, capital requirements and such other factors as the Board of Directors deems relevant.

## COACH, INC.

## Schedule II — Valuation and Qualifying Accounts

For the Fiscal Years Ended July 3, 2004, June 28, 2003, and June 30, 2002

|                         | 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 2004</b>      |                                    |   |                                    |                              |
| Allowance for bad debts | \$ 1,312                           | \$ 610  | \$ (118)                           | \$1,804                      |
| Allowance for returns   | 4,783                              | 3,292   | (4,423)                            | 3,652                        |
| Total                   | \$ 6,095                           | \$ 3,902  | \$(4,541)                          | \$5,456                      |
| <b>Fiscal 2003</b>      |                                    |   |                                    |                              |
| Allowance for bad debts | \$ 1,335                           | \$ 97   | \$ (120)                           | \$1,312                      |
| Allowance for returns   | 2,841                              | 3,561   | (1,619)                            | 4,783                        |
| Total                   | \$ 4,176                           | \$ 3,658  | \$(1,739)                          | \$6,095                      |
| <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                      |

(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 July 3, 2004****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, which is incorporated by reference from Exhibit 3.4 to Coach's Annual Report on Form 10-K for the fiscal year ended June 29, 2002   |
| 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   |
| 10.2               | Master Separation Agreement between Coach and Sara Lee, which is incorporated herein by reference from Exhibit 2.1 to Coach's Registration Statement on Form S-1 (Registration No. 333-39502)  |
| 10.3               | Tax Sharing Agreement between Coach and Sara Lee, which is incorporated herein by reference from Exhibit 2.2 to Coach's Registration Statement on Form S-1 (Registration No. 333-39502)  |
| 10.4               | General Assignment and Assumption Agreement between Coach and Sara Lee, which is incorporated herein by reference from Exhibit 2.3 to Coach's Registration Statement on Form S-1 (Registration No. 333-39502)                            |
| 10.5               | Employee Matters Agreement between Coach and Sara Lee, which is incorporated by reference herein from Exhibit 2.4 to Coach's Form 10-Q for the quarterly period ended September 30, 2000, filed with the Commission on November 14, 2000 |
| 10.6               | Real Estate Matters Agreement between Coach and Sara Lee, which is incorporated herein by reference from Exhibit 2.5 to Coach's Registration Statement on Form S-1 (Registration No. 333-39502)  |
| 10.7               | Master Transitional Services Agreement between Coach and Sara Lee, which is incorporated herein by reference from Exhibit 2.6 to Coach's Registration Statement on Form S-1 (Registration No. 333-39502)                                 |
| 10.8               | Indemnification and Insurance Matters Agreement between Coach and Sara Lee, which is incorporated herein by reference from Exhibit 2.7 to Coach's Registration Statement on Form S-1 (Registration No. 333-39502)                        |
| 10.9               | Lease Indemnification and Reimbursement Agreement between Sara Lee and Coach, which is incorporated herein by reference from Exhibit 2.10 to Coach's Registration Statement on Form S-1 (Registration No. 333-39502)                     |
| 10.10              | Coach, Inc. 2000 Stock Incentive Plan, which is incorporated by reference from Exhibit 10.10 to Coach's Annual Report on Form 10-K for the fiscal year ended June 28, 2003   |
| 10.11              | Coach, Inc. Executive Deferred Compensation Plan, which is incorporated by reference from Exhibit 10.11 to Coach's Annual Report on Form 10-K for the fiscal year ended June 28, 2003  |

## Table of Contents

| <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 Exhibit 10.13 to Coach's Annual Report on Form 10-K for the fiscal year ended June 28, 2003   |
| 10.14              | Coach, Inc. Non-Qualified Deferred Compensation Plan for Outside Directors, which is incorporated by reference from Exhibit 10.14 to Coach's Annual Report on Form 10-K for the fiscal year ended June 28, 2003  |
| 10.15              | Coach, Inc. 2001 Employee Stock Purchase Plan, which is incorporated by reference from Exhibit 10.15 to Coach's Annual Report on Form 10-K for the fiscal year ended June 29, 2002   |
| 10.16              | Jacksonville, FL Lease Agreement, which is incorporated herein by reference from Exhibit 10.6 to Coach's Registration Statement on Form S-1 (Registration No. 333-39502)   |
| 10.17              | New York, NY Lease Agreement, which is incorporated herein by reference from Exhibit 10.7 to Coach's Registration Statement on Form S-1 (Registration No. 333-39502)   |
| 10.18              | 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 |
| 10.20              | Employment Agreement dated June 1, 2003 between Coach and Lew Frankfort, which is incorporated by reference from Exhibit 10.20 to Coach's Annual Report on Form 10-K for the fiscal year ended June 28, 2003   |
| 10.21              | Employment Agreement dated June 1, 2003 between Coach and Reed Krakoff, which is incorporated by reference from Exhibit 10.21 to Coach's Annual Report on Form 10-K for the fiscal year ended June 28, 2003  |
| 10.22              | Employment Agreement dated June 1, 2003 between Coach and Keith Monda, which is incorporated by reference from Exhibit 10.22 to Coach's Annual Report on Form 10-K for the fiscal year ended June 28, 2003   |
| 21.1               | List of Subsidiaries of Coach  |
| 23.1               | Consent of Deloitte & Touche LLP   |
| 31.1               | Rule 13(a)-14(a)/15(d)-14(a) Certifications  |
| 32.1               | Section 1350 Certifications  |

### (b) Reports on Form 8-K

Current Report on Form 8-K, filed with the Commission on July 29, 2003. This report contained the Company's preliminary earnings result for the fourth quarter of, and full year for, fiscal year 2003.

Current Report on Form 8-K, filed with the Commission on October 21, 2003. This report contained the Company's preliminary earnings result for the first quarter of fiscal year 2004.

Current Report on Form 8-K, filed with the Commission on January 7, 2004. This report contained the Company's preliminary sales result for the second quarter of fiscal year 2004.

Current Report on Form 8-K, filed with the Commission on January 21, 2004. This report contained the Company's preliminary earnings result for the second quarter of fiscal year 2004.

Current Report on Form 8-K, filed with the Commission on April 21, 2004. This report contained the Company's preliminary earnings result for the third quarter of fiscal year 2004.

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

REVOLVING CREDIT AGREEMENT

Dated as of October 16, 2003

among

COACH, INC.,

THE LENDERS LISTED ON SCHEDULE I HERETO

and

FLEET NATIONAL BANK, as Administrative Agent

and

HSBC BANK USA, as Syndication Agent

with

FLEET SECURITIES, INC., as Arranger

TABLE OF CONTENTS

1. DEFINITIONS AND RULES OF INTERPRETATION..... 1

    1.1. Definitions..... 1

    1.2. Rules of Interpretation..... 15

2. THE REVOLVING CREDIT FACILITY..... 16

    2.1. Commitment to Lend..... 16

    2.2. Commitment Fee..... 18

    2.3. Reduction of Total Commitment..... 18

    2.4. The Revolving Credit Notes..... 18

    2.5. Interest on Revolving Credit Loans..... 19

    2.6. Requests for Revolving Credit Loans..... 20

        2.6.1. General..... 20

        2.6.2. Swing Line..... 20

    2.7. Conversion Options..... 20

        2.7.1. Conversion to Different Type of Revolving Credit Loan..... 21

        2.7.2. Continuation of Type of Revolving Credit Loan..... 21

        2.7.3. Eurodollar Rate Loans..... 21

        2.7.4. Applicability of Conversion and Continuation Provisions..... 22

    2.8. Funds for Revolving Credit Loan..... 22

        2.8.1. Funding Procedures..... 22

        2.8.2. Advances by Administrative Agent..... 22

    2.9. Settlements..... 23

        2.9.1. General..... 23

        2.9.2. Failure to Make Funds Available..... 23

        2.9.3. No Effect on Other Lenders..... 24

3. REPAYMENT OF THE REVOLVING CREDIT LOANS..... 24

    3.1. Maturity..... 24

    3.2. Mandatory Repayments of Revolving Credit Loans.....

    24

    3.3. Optional Repayments of Revolving Credit Loans..... 25

4. LETTERS OF CREDIT..... 25

    4.1. Letter of Credit Commitments..... 25

        4.1.1. Commitment to Issue Letters of Credit..... 26

        4.1.2. Letter of Credit Applications..... 26

        4.1.3. Terms of Letters of Credit..... 26

        4.1.4. Reimbursement Obligations of Lenders..... 26

|        |   |    |
|--------|---|----|
| 4.1.5. | Participations of Lenders.....                | 27 |
| 4.2.   | Reimbursement Obligation of the Borrower..... | 27 |
| 4.3.   | Letter of Credit Payments.....                | 28 |

-ii-

|         |  |    |
|---------|--|----|
| 4.4.    | Obligations Absolute.....                        | 28 |
| 4.5.    | Reliance by Issuer.....                          | 29 |
| 4.6.    | Letter of Credit Fee.....                        | 29 |
| 5.      | CERTAIN GENERAL PROVISIONS.....                  | 30 |
| 5.1.    | Closing and Arrangement Fees.....                | 30 |
| 5.2.    | Administrative Agent's Fee.....                  | 30 |
| 5.3.    | Funds for Payments.....                          | 30 |
| 5.3.1.  | Payments to Administrative Agent.....            | 30 |
| 5.3.2.  | No Offset, etc.....                              | 30 |
| 5.4.    | Computations.....                                | 31 |
| 5.5.    | Inability to Determine Eurodollar Rate.....      | 31 |
| 5.6.    | Illegality.....                                  | 31 |
| 5.7.    | Additional Costs, etc.....                       | 32 |
| 5.8.    | Capital Adequacy.....                            | 33 |
| 5.9.    | Certificate.....                                 | 34 |
| 5.10.   | Indemnity.....                                   | 34 |
| 5.11.   | Interest After Default.....                      | 34 |
| 5.11.1. | Overdue Amounts.....                             | 34 |
| 5.11.2. | Amounts Not Overdue.....                         | 34 |
| 6.      | GUARANTIES.....                                  | 34 |
| 6.1.    | Guaranties of Significant Subsidiaries.....      | 34 |
| 7.      | REPRESENTATIONS AND WARRANTIES.....              | 34 |
| 7.1.    | Corporate Authority.....                         | 35 |
| 7.1.1.  | Incorporation; Good Standing.....                | 35 |
| 7.1.2.  | Authorization.....                               | 35 |
| 7.1.3.  | Enforceability.....                              | 35 |
| 7.2.    | Governmental Approvals.....                      | 35 |
| 7.3.    | Title to Properties.....                         | 36 |
| 7.4.    | Financial Statements and Projections.....        | 36 |
| 7.4.1.  | Fiscal Year.....                                 | 36 |
| 7.4.2.  | Financial Statements.....                        | 36 |
| 7.4.3.  | Projections.....                                 | 36 |
| 7.5.    | No Material Adverse Changes, etc.....            | 36 |
| 7.6.    | Franchises, Patents, Copyrights, etc.....        | 37 |
| 7.7.    | Litigation.....                                  | 37 |
| 7.8.    | No Materially Adverse Contracts, etc.....        | 37 |
| 7.9.    | Tax Status.....                                  | 37 |
| 7.10.   | No Event of Default.....                         | 37 |
| 7.11.   | Holding Company and Investment Company Acts..... | 37 |
| 7.12.   | Absence of Financing Statements, etc.....        | 38 |
| 7.13.   | Certain Transactions.....                        | 38 |
| 7.14.   | Employee Benefit Plans.....                      | 38 |
| 7.14.1. | In General.....                                  | 38 |
| 7.14.2. | Terminability of Welfare Plans.....              | 38 |
| 7.14.3. | Guaranteed Pension Plans.....                    | 38 |

-iii-

|         |                               |    |
|---------|-------------------------------|----|
| 7.14.4. | Multiemployer Plans.....      | 39 |
| 7.15.   | Use of Proceeds.....          | 39 |
| 7.15.1. | General.....                  | 39 |
| 7.15.2. | Regulations U and X.....      | 39 |
| 7.15.3. | Ineligible Securities.....    | 39 |
| 7.16.   | Environmental Compliance..... | 39 |
| 7.17.   | Subsidiaries, etc.....        | 41 |

|  |    |
|--|----|
| 7.18. Disclosure.....  | 41 |
| 7.19. Foreign Assets Control Regulations, Etc.....           | 41 |
| 8. AFFIRMATIVE COVENANTS.....                                | 41 |
| 8.1. Punctual Payment.....                                   | 41 |
| 8.2. Records and Accounts.....                               | 42 |
| 8.3. Financial Statements, Certificates and Information..... | 42 |
| 8.4. Notices.....  | 43 |
| 8.4.1. Defaults.....   | 43 |
| 8.4.2. Environmental Events.....                             | 43 |
| 8.4.3. Notice of Litigation and Judgments.....               | 43 |
| 8.4.4. ERISA Events.....                                     | 44 |
| 8.4.5. Notice of Change of Fiscal Year End.....              | 44 |
| 8.5. Legal Existence; Maintenance of Properties.....         | 44 |
| 8.6. Insurance.....  | 44 |
| 8.7. Taxes.....  | 44 |
| 8.8. Inspection of Properties and Books, etc.....            | 45 |
| 8.8.1. General.....  | 45 |
| 8.8.2. Communications with Accountants.....                  | 45 |
| 8.9. Compliance with Laws.....                               | 45 |
| 8.10. Use of Proceeds.....                                   | 45 |
| 8.11. Subsidiaries.....                                      | 45 |
| 8.11.1. Additional Subsidiaries.....                         | 45 |
| 8.11.2. New Guarantors.....                                  | 46 |
| 8.12. Further Assurances.....                                | 46 |
| 9. CERTAIN NEGATIVE COVENANTS.....                           | 46 |
| 9.1. Restrictions on Indebtedness.....                       | 46 |
| 9.2. Restrictions on Liens.....                              | 47 |
| 9.3. Restrictions on Investments.....                        | 49 |
| 9.4. Restricted Payments.....                                | 50 |
| 9.5. Merger, Consolidation and Disposition of Assets.....    | 50 |
| 9.5.1. Mergers and Acquisitions.....                         | 50 |
| 9.5.2. Disposition of Assets.....                            | 51 |
| 9.6. Sale and Leaseback.....                                 | 51 |
| 9.7. Compliance with Environmental Laws.....                 | 52 |
| 9.8. Employee Benefit Plans.....                             | 52 |
| 9.9. Business Activities.....                                | 52 |
| 9.10. Transactions with Affiliates.....                      | 53 |
| 10. FINANCIAL COVENANTS.....                                 | 53 |
| 10.1. Fixed Charge Ratio.....                                | 53 |
| 10.2. Leverage Ratio.....                                    | 53 |
| 11. CLOSING CONDITIONS.....                                  | 53 |
| 11.1. Loan Documents.....                                    | 53 |
| 11.2. Certified Copies of Governing Documents.....           | 53 |
| 11.3. Corporate or Other Action.....                         | 53 |
| 11.4. Incumbency Certificate.....                            | 53 |
| 11.5. Certificates of Location and UCC Search Results.....   | 54 |
| 11.6. Certificates of Insurance.....                         | 54 |
| 11.7. Opinion of Counsel.....                                | 54 |
| 11.8. Payment of Fees.....                                   | 54 |
| 11.9. Termination of Existing Credit Facility.....           | 54 |
| 11.10. Closing Certificate.....                              | 54 |
| 11.11. Pro Forma Compliance Certificate.....                 | 54 |
| 12. CONDITIONS TO ALL BORROWINGS.....                        | 55 |
| 12.1. Representations True; No Event of Default.....         | 55 |
| 12.2. No Legal Impediment.....                               | 55 |
| 12.3. Proceedings and Documents.....                         | 55 |
| 13. EVENTS OF DEFAULT; ACCELERATION; ETC.....                | 55 |
| 13.1. Events of Default and Acceleration.....                | 55 |
| 13.2. Termination of Commitments.....                        | 58 |
| 13.3. Remedies.....  | 58 |
| 14. THE AGENT.....   | 59 |
| 14.1. Authorization.....                                     | 59 |

|        |  |    |
|--------|--|----|
| 14.2.  | Employees and Administrative Agents.....                                     | 59 |
| 14.3.  | No Liability.....  | 60 |
| 14.4.  | No Representations.....  | 60 |
|        | 14.4.1. General.....   | 60 |
|        | 14.4.2. Closing Documentation, etc.....                                      | 60 |
| 14.5.  | Payments.....  | 61 |
|        | 14.5.1. Payments to Administrative Agent.....                                | 61 |
|        | 14.5.2. Distribution by Administrative Agent.....                            | 61 |
|        | 14.5.3. Delinquent Lenders.....  | 61 |
| 14.6.  | Holder of Notes.....   | 62 |
| 14.7.  | Indemnity.....   | 62 |
| 14.8.  | Administrative Agent as Lender.....  | 62 |
| 14.9.  | Resignation.....   | 62 |
| 14.10. | Notification of Defaults and Events of Default.....                          | 63 |
| 15.    | ASSIGNMENT AND PARTICIPATION.....  | 63 |
|        | 15.1. Conditions to Assignment by Lenders.....                               | 63 |
|        | 15.2. Certain Representations and Warranties; Limitations;<br>Covenants..... | 63 |
|        | 15.3. Register.....  | 64 |

-v-

|     |   |    |
|-----|---|----|
|     | 15.4. New Notes.....  | 64 |
|     | 15.5. Participations.....                                       | 64 |
|     | 15.6. Assignee or Participant Affiliated with the Borrower..... | 64 |
|     | 15.7. Miscellaneous Assignment Provisions.....                  | 65 |
|     | 15.8. Assignment by Borrower.....                               | 65 |
| 16. | PROVISIONS OF GENERAL APPLICATION.....                          | 65 |
|     | 16.1. Setoff.....   | 66 |
|     | 16.2. Expenses.....   | 66 |
|     | 16.3. Indemnification.....                                      | 67 |
|     | 16.4. Treatment of Certain Confidential Information.....        | 67 |
|     | 16.4.1. Confidentiality.....                                    | 67 |
|     | 16.4.2. Prior Notification.....                                 | 68 |
|     | 16.4.3. Other.....  | 69 |
|     | 16.5. Survival of Covenants, Etc.....                           | 69 |
|     | 16.6. Notices.....  | 69 |
|     | 16.7. Governing Law.....  | 70 |
|     | 16.8. Headings.....   | 70 |
|     | 16.9. Counterparts.....   | 70 |
|     | 16.10. Entire Agreement, Etc.....                               | 71 |
|     | 16.11. WAIVER OF JURY TRIAL.....                                | 71 |
|     | 16.12. Consents, Amendments, Waivers, Etc.....                  | 71 |
|     | 16.13. Severability.....  | 73 |

-vi-

Exhibits  
-----

|           |  |
|-----------|--|
| Exhibit A | Form of Revolving Credit Note              |
| Exhibit B | Form of Loan Request                       |
| Exhibit C | Form of Compliance Certificate             |
| Exhibit D | Assignment and Acceptance                  |
| Exhibit E | Form of Guaranty                           |
| Exhibit F | Form of Subsidiary Reimbursement Agreement |



Schedules

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|                |                            |
|----------------|----------------------------|
| Schedule 1     | Lenders and Commitments    |
| Schedule 4.1.1 | Existing Letters of Credit |
| Schedule 7.3   | Title to Properties        |
| Schedule 7.7   | Litigation                 |
| Schedule 7.16  | Environmental Compliance   |
| Schedule 7.17  | Subsidiaries Etc.          |
| Schedule 9.1   | Existing Indebtedness      |
| Schedule 9.2   | Existing Liens             |
| Schedule 9.3   | Existing Investments       |

BM DRAFT 9/10/03

REVOLVING CREDIT  
AGREEMENT

This REVOLVING CREDIT AGREEMENT is made as of October 16, 2003, by and among COACH, INC. (the "Borrower"), a Maryland corporation having its principal place of business at 516 West 34th Street, New York, New York 10001, FLEET NATIONAL BANK, a national banking association ("Fleet"), the other lending institutions listed on Schedule 1 and Fleet, as administrative agent (the "Administrative Agent") for itself and such other lending institutions.

1. DEFINITIONS AND RULES OF INTERPRETATION.

1.1. DEFINITIONS. The following terms shall have the meanings set forth in this Section 1 or elsewhere in the provisions of this Credit Agreement referred to below:

Adjustment Date. With respect to any quarter, the second Business Day following the Administrative Agent's receipt of the Compliance Certificate required to be delivered pursuant to Section 8.3(c) for such quarter; provided, however, that in the event that the Borrower fails to deliver any Compliance Certificate to the Administrative Agent within the time period set forth in Section 8.3(c), the Adjustment Date shall be the second Business Day following the date on which such Compliance Certificate was required to be delivered pursuant to Section 8.3(c).

Administrative Agent's Office. The Administrative Agent's office located at 100 Federal Street, Boston, Massachusetts 02110, or at such other location as the Administrative Agent may designate from time to time.

Administrative Agent. Fleet National Bank, acting as administrative agent for the Lenders and each other Person appointed as the successor Administrative Agent in accordance with Section 14.9.

Administrative Agent's Fee. See Section 5.2.

Administrative Agent's Special Counsel. Bingham McCutchen LLP or such other counsel as may be approved by the Administrative Agent.

Affiliate. Any Person that would be considered to be an affiliate of any other Person under Rule 144(a) of the Rules and Regulations of the Securities and Exchange Commission, as in effect on the date hereof, if such other Person were issuing securities.

Applicable Margin. Subject to the last paragraph of this definition and with respect to each period commencing on an Adjustment Date through the date immediately preceding the next Adjustment Date (each a "Rate Adjustment Period"), the Applicable Margin with respect to Prime Rate Loans, Eurodollar Rate Loans, Standby Letter of Credit Fees, Documentary Letter of Credit Fees or Commitment Fees, as the case may be, shall be the applicable margin set forth below for each such category with respect to the Fixed Charge Ratio, as determined for the Reference Period of the Borrower and its Subsidiaries ending on the last day of the

fiscal quarter of the Borrower and its Subsidiaries ended immediately prior to the applicable Rate Adjustment Period.

| LEVEL<br>----- | FIXED CHARGE<br>RATIO<br>-----   | PRIME RATE<br>LOANS<br>----- | EURODOLLAR<br>RATE LOANS<br>----- | STANDBY<br>LETTER OF<br>CREDIT<br>FEES<br>---- | DOCUMENTARY<br>LETTER OF<br>CREDIT<br>FEES<br>---- | COMMITMENT<br>FEE<br>--- |
|----------------|--|------------------------------|-----------------------------------|--|--|--------------------------|
| I              | Greater than or<br>equal to<br>8.00:1.00                               | 0.000%                       | 0.550%                            | 0.550%   | 0.2250%  | 0.125%                   |
| II             | Less than<br>8.00:1.00 but<br>greater than or<br>equal to<br>6.50:1.00 | 0.000%                       | 0.625%                            | 0.625%   | 0.3125%  | 0.150%                   |
| III            | Less than<br>6.50:1.00 but<br>greater than or<br>equal to<br>5.00:1.00 | 0.000%                       | 0.750%                            | 0.750%   | 0.3750%  | 0.200%                   |
| IV             | Less than<br>5.00:1.00 but<br>greater than or<br>equal to<br>3.50:1.00 | 0.000%                       | 1.000%                            | 1.000%   | 0.5000%  | 0.250%                   |
| V              | Less than<br>3.50:1.00   | 0.000%                       | 1.250%                            | 1.250%   | 0.6250%  | 0.300%                   |

During the period commencing on the Closing Date through the date immediately preceding the first Adjustment Date to occur after the fiscal quarter ending March 27, 2004, the Applicable Margin with respect to the Loans outstanding and the Letter of Credit Fees and the Commitment Fee payable shall be the Applicable Margin set forth in Level III above. Notwithstanding the foregoing, (a) if the Borrower fails to deliver any Compliance Certificate required under Section 8.3(c) hereof, then, for the period commencing on the next Adjustment Date to occur subsequent to such failure through the date immediately following the date on which such Compliance Certificate is delivered, the Applicable Margin shall be the Applicable Margin set forth in Level V above, and (b) at all times while an Event of Default shall have occurred and be continuing, the Applicable Margin to be included in the calculations set forth in Section 5.11 shall be the Applicable Margin set forth in Level V above.

Applicable Pension Legislation. At any time, any pension or retirement benefits legislation (be it national, federal, provincial, territorial or otherwise) then applicable to the Borrower or any of its Subsidiaries.

Arrangement Fee. See Section 5.1.

Arranger. Fleet Securities, Inc.

Assignment and Acceptance. See Section 15.1.

Balance Sheet Date. June 28, 2003.

Borrower. As defined in the preamble hereto.

Business Day. Any day on which banking institutions in Boston, Massachusetts and New York, New York, are open for the transaction of banking business and, in the case of Eurodollar Rate Loans, also a day which is a Eurodollar Business Day.

Capital Expenditures. Amounts paid or Indebtedness incurred by the Borrower or any of its Subsidiaries in connection with (i) additions to property, plant and equipment and other capital expenditures of the Borrower or any of its Subsidiaries that are (or would be required to be) set forth in a consolidated statement of cash flows of the Borrower for such period prepared in accordance with GAAP, and (ii) without duplication, obligations with respect to Capitalized Leases and Synthetic Leases (had the Synthetic Lease been treated for accounting purposes as a Capitalized Lease) incurred by the Borrower or any of its Subsidiaries during such period.

Capitalized Leases. Leases under which the Borrower or any of its Subsidiaries is the lessee or obligor, the discounted future rental payment obligations under which are required to be capitalized on the balance sheet of the lessee or obligor in accordance with GAAP.

Capital Stock. Any and all shares, interests, participations or other equivalents (however designated) of capital stock of a corporation, any and all equivalent ownership interests in a Person (other than a corporation) and any and all warrants, rights or options to purchase any of the foregoing.

CERCLA. The Comprehensive Environmental Response, Compensation and Liability Act of 1980 as amended.

Change of Control. An event or series of events by which any person or group of persons (within the meaning of Section 13 or 14 of the Securities Exchange Act of 1934) shall have acquired beneficial ownership (within the meaning of Rule 13d-3 promulgated by the Securities and Exchange Commission under said Act), directly or indirectly, of twenty percent (20%) or more of the outstanding shares of Capital Stock of the Borrower; or, during any period of twelve consecutive calendar months, individuals who were directors of the Borrower on the first day of such period (together with any new directors whose election by such board or whose nomination for election by the shareholders of the Borrower was approved by a vote of a majority of the directors still in office who were either directors at the beginning of such period or whose election or nomination for election was previously so approved) shall cease to constitute a majority of the board of directors of the Borrower.

CJI. Coach Japan, Inc., a joint venture of the Borrower with Sumitomo Corporation.

Closing Date. The first date on which the conditions set forth in Section 11 have been satisfied and any Revolving Credit Loans are to be made or any Letter of Credit is to be issued hereunder.

Closing Fee. See Section 5.1.

Code. The Internal Revenue Code of 1986.

Commitment. With respect to each Lender, the amount set forth on Schedule 1 hereto as the amount of such Lender's commitment to make Revolving Credit Loans to, and to participate in the issuance, extension, amendment and renewal of Letters of Credit for the account of, the Borrower, as the same may be reduced from time to time; or if such commitment is terminated pursuant to the provisions hereof, zero.

Commitment Fee. See Section 2.2.

Commitment Percentage. With respect to each Lender, the percentage set forth on Schedule 1 hereto as such Lender's percentage of the aggregate Commitments of all of the Lenders.

Compliance Certificate. See Section 8.3(c).

Consolidated or consolidated. With reference to any term defined herein, shall mean that term as applied to the accounts of the Borrower and its Subsidiaries, consolidated in accordance with GAAP.

Consolidated EBIT. Consolidated Net Income, plus, to the extent deducted in determining Consolidated Net Income, consolidated income taxes and Consolidated Total Interest Expense, in each case as determined in accordance with GAAP.

Consolidated EBITDA. With respect to any fiscal period, an amount equal to the sum of (a) Consolidated EBIT for such period plus (b) consolidated depreciation and consolidated amortization for such period as determined in accordance with GAAP.

Consolidated EBITDAR. With respect to any fiscal period, an amount equal to the sum of (a) Consolidated EBITDA for such period plus (b) Rental Expense for such period as determined in accordance with GAAP.

Consolidated Net Income. The consolidated net income (or loss) of the Borrower and its Subsidiaries determined in accordance with GAAP.

Consolidated Total Funded Debt. With respect to the Borrower and its Subsidiaries, the sum, without duplication, of the aggregate amount of Indebtedness of the Borrower and its Subsidiaries, on a consolidated basis, relating to (i) obligations for borrowed money, (ii) the deferred purchase price of assets (other than trade payables incurred in the ordinary course of business), and (iii) obligations under any Synthetic Leases or any Capitalized Leases, but excluding the Maximum Drawing Amount of all Letters of Credit outstanding and the maximum drawing amount of any other letters of credit outstanding.

Consolidated Total Interest Expense. For any period, interest expense (without deduction of interest income) of the Borrower and its Subsidiaries, determined on a consolidated basis in accordance with GAAP.

Conversion Request. A notice given by the Borrower to the Administrative Agent of the Borrower's election to convert or continue a Loan in accordance with Section 2.7.

Credit Agreement. This Revolving Credit Agreement, including the Schedules and Exhibits hereto.

Default. See Section 13.1.

Delinquent Lender. See Section 14.5.3.

Distribution. The declaration or payment of any dividend on or in respect of any shares of any class of Capital Stock of the Borrower, other than dividends payable solely in shares of common stock of the Borrower; the purchase, redemption, defeasance, retirement or other acquisition of, or sinking fund or other similar payment in respect of, any shares of any class of Capital Stock of the Borrower, directly or indirectly through a Subsidiary of the Borrower or otherwise; the return of capital by the Borrower to its shareholders as such; or any other distribution on or in respect of any shares of any class of Capital Stock of the Borrower.

Documentary Letter of Credit Fee. See Section 4.6.

Dollars or \$. Dollars in lawful currency of the United States of America.

Domestic Lending Office. Initially, the office of each Lender designated as such in Schedule 1 hereto; thereafter, such other office of such Lender, if any, located within the United States that will be making or maintaining Base Rate Loans.

Drawdown Date. The date on which any Revolving Credit Loan is made or is to be made, and the date on which any Revolving Credit Loan is converted or continued in accordance with Section 2.7.

Eligible Assignee. Any of (a) a commercial bank or other financial institution; (b) a Lender Affiliate; and (c) if, but only if, any Default or Event of Default has occurred and is continuing, any other bank, insurance company, commercial finance company or other financial institution or other Person approved by the Administrative Agent.

Employee Benefit Plan. Any employee benefit plan, whether single-employer or multiple-employer, within the meaning of Section 3(3) of ERISA maintained or contributed to by the Borrower or any ERISA Affiliate, other than a Guaranteed Pension Plan or a Multiemployer Plan.

Environmental Laws. Any judgment, decree, order, law, license, rule or regulation pertaining to environmental matters, including without limitation, those arising under the Resource Conservation and Recovery Act, CERCLA, the Superfund Amendments and Reauthorization Act of 1986, the Federal Clean Water Act, the Federal Clean Air Act, the Toxic Substances Control Act, or any state, local or foreign law, statute, regulation, ordinance, order or decree relating to health, safety or the environment.

EPA. See Section 7.16(b).

ERISA. The Employee Retirement Income Security Act of 1974.

ERISA Affiliate. Any Person which is treated as a single employer with the Borrower under Section 414(b) or (c) of the Code.

ERISA Reportable Event. A reportable event with respect to a Guaranteed Pension Plan within the meaning of Section 4043 of ERISA and the regulations promulgated thereunder.

Eurocurrency Reserve Rate. For any day with respect to a Eurodollar Rate Loan, the maximum rate (expressed as a decimal) at which any bank subject thereto would be required to maintain reserves under Regulation D of the Board of Governors of the Federal Reserve System (or any successor or similar regulations relating to such reserve requirements) against "Eurocurrency Liabilities" (as that term is used in Regulation D), if such liabilities were outstanding. The Eurocurrency Reserve Rate shall be adjusted automatically on and as of the effective date of any change in the Eurocurrency Reserve Rate.

Eurodollar Business Day. Any day on which commercial banks are open for international business (including dealings in Dollar deposits) in London or such other Eurodollar interbank market as may be selected by the Administrative Agent in its sole discretion acting in good faith.

Eurodollar Lending Office. Initially, the office of each Lender designated as such in Schedule 1 hereto; thereafter, such other office of such Lender, if any, that shall be making or maintaining Eurodollar Rate Loans.

Eurodollar Rate. For any Interest Period with respect to a Eurodollar Rate Loan, the rate of interest equal to (a) the arithmetic average of the rates per annum for the Reference Lender (rounded upwards to the nearest 1/16 of one percent) of the rate at which such Reference Lender's Eurodollar Lending Office is offered Dollar deposits two Eurodollar Business Days prior to the beginning of such Interest Period in the interbank eurodollar market where the eurodollar and foreign currency and exchange operations of such Eurodollar Lending Office are customarily conducted, for delivery on the first day of such Interest Period for the number of days comprised therein and in an amount comparable to the principal amount of the Eurodollar Rate Loan of the Reference Lender to which such Interest Period applies, divided by (b) a number equal to 1.00 minus the Eurocurrency Reserve Rate, if applicable.

Eurodollar Rate Loans. Revolving Credit Loans bearing interest calculated by reference to the Eurodollar Rate.

Event of Default. See Section 13.1.

Executive Order. See Section 7.19.

Extension Notice. See Section 2.1(c).

Fee Letter. The fee letter dated as of the Closing Date, among the Borrower, the Administrative Agent and the Arranger.

Fees. Collectively, the Commitment Fee, the Letter of Credit Fees, the Administrative Agent's Fee, the Closing Fee, the Arrangement Fee and any other fee agreed to be paid by the Borrower pursuant to or in connection with this Credit Agreement.

Financial Affiliate. A Subsidiary of the bank holding company controlling any Lender, which Subsidiary is engaging in any of the activities permitted by Section 4(e) of the Bank Holding Company Act of 1956 (12 U.S.C. Section 1843).

Fixed Charge Ratio. As at any date of determination, the ratio of (a) the sum of Consolidated EBITDAR minus Capital Expenditures for the Reference Period ending on such date, to (b) the sum of Consolidated Total Interest Expense plus Rental Expense for such Reference Period.

Fixed Rate. With respect to any Swing Line Loan, the fixed rate of interest quoted by the Swing Line Lender on any date or whenever the Borrower requests a Swing Line Loan, which rate the Swing Line Lender is willing to charge with respect to a Swing Line Loan made by it.

Fixed Rate Loans. A Swing Line Loan bearing interest at the Fixed Rate for a period of time agreed to by the Borrower and the Swing Line Lender pursuant to Section 2.5(c).

Fleet. Fleet National Bank, a national banking association, in its individual capacity.

Foreign Assets Control Regulations. See Section 7.19.

GAAP or generally accepted accounting principles. (a) When used in Section 10, whether directly or indirectly through reference to a capitalized term used therein, means (i) principles that are consistent with the principles promulgated or adopted by the Financial Accounting Standards Board and its predecessors, in effect for the fiscal year ended on the Balance Sheet Date, and (ii) to the extent consistent with such principles, the accounting practice of the Borrower reflected in its financial statements for the year ended on the Balance Sheet Date, and (b) when used in general, other than as provided above, means principles that are consistent with the principles promulgated or adopted by the Financial Accounting Standards Board and its predecessors, which are applicable to the circumstances as of the date of determination, consistently applied.

Governing Documents. With respect to any Person, its certificate or articles of incorporation, its by-laws and all shareholder agreements, voting trusts and similar arrangements applicable to any of its Capital Stock.

Governmental Authority. Any foreign, federal, state, regional, local, municipal or other government, or any department, commission, board, bureau, agency, public authority or instrumentality thereof, or any court or arbitrator.

Guaranteed Pension Plan. Any employee pension benefit plan within the meaning of Section 3(2) of ERISA maintained or contributed to by the Borrower or any ERISA Affiliate the benefits of which are guaranteed on termination in full or in part by the PBGC pursuant to Title IV of ERISA, other than a Multiemployer Plan.

Guarantors. Collectively, each Significant Subsidiary of the Borrower existing on the Closing Date and each other Person which is required to be or become a guarantor from time to time pursuant to Section 8.11 hereof. Each such Person shall be a party to a Guaranty.

Guaranty(ies). Collectively, the guaranties dated as of the date required by Section 8.11 from each Person required to become a Guarantor pursuant to Section 8.11 in favor of the Administrative Agent and the Lenders, in each case of the payment and performance of the Obligations, and in the form attached hereto as Exhibit E.

Hazardous Substances. Any hazardous waste, as defined by 42 U.S.C. Section 6903(5), any hazardous substances as defined by 42 U.S.C. Section 9601(14), any pollutant or contaminant as defined by 42 U.S.C. Section 9601(33) and any toxic substances, oil or hazardous materials or other chemicals or substances regulated by any Environmental Laws.

Indebtedness. As to any Person and whether recourse is secured by or is otherwise available against all or only a portion of the assets of such Person and whether or not contingent, but without duplication:

- (a) every obligation of such Person for money borrowed,
- (b) every obligation of such Person evidenced by bonds, debentures, notes or other similar instruments, including obligations incurred in connection with the acquisition of property, assets or businesses,
- (c) every reimbursement obligation of such Person with respect to letters of credit, bankers' acceptances or similar facilities issued for the account of such Person,
- (d) every obligation of such Person issued or assumed as the deferred purchase price of property or services (including securities repurchase agreements but excluding trade accounts payable or accrued liabilities arising in the ordinary course of business which are not overdue or which are being contested in good faith),
- (e) every obligation of such Person under any Capitalized Lease,
- (f) every obligation of such Person under any Synthetic Lease,

(g) all sales by such Person of (i) accounts or general intangibles for money due or to become due, (ii) chattel paper, instruments or documents creating or evidencing a right to payment of money or (iii) other receivables (collectively "receivables"), whether pursuant to a purchase facility or otherwise, other than in connection with the disposition of the business operations of such Person relating thereto or a disposition of defaulted receivables for collection and not as a financing arrangement, and together with any obligation of such Person to pay any discount, interest, fees, indemnities, penalties, recourse, expenses or other amounts in connection therewith,

(h) every obligation of such Person under any forward contract, futures contract, swap, option or other financing agreement or arrangement (including, without limitation, caps, floors, collars and similar agreements), the value of which is

dependent upon interest rates, currency exchange rates, commodities or other indices (a "derivative contract"),

(i) every obligation in respect of Indebtedness of any other entity (including any partnership in which such Person is a general partner) to the extent that such Person is liable therefor as a result of such Person's ownership interest in or other relationship with such entity, except to the extent that the terms of such Indebtedness provide that such Person is not liable therefor and such terms are enforceable under applicable law, and

(j) every obligation, contingent or otherwise, of such Person guaranteeing, or having the economic effect of guarantying or otherwise acting as surety for, any obligation of a type described in any of clauses (a) through (i) of another Person, in any manner, whether directly or indirectly.

Ineligible Securities. Securities which may not be underwritten or dealt in by member banks of the Federal Reserve System under Section 16 of the Banking Act of 1933 (12 U.S.C. Section 24, Seventh), as amended.

Interest Payment Date. (a) As to any Prime Rate Loan, the first day of the next succeeding calendar quarter with respect to interest accrued during such calendar quarter, including, without limitation, the calendar quarter which includes the Drawdown Date of such Prime Rate Loan; (b) as to any Eurodollar Rate Loan in respect of which the Interest Period is (i) 3 months or less, the last day of such Interest Period and (ii) more than 3 months, the date that is 3 months from the first day of such Interest Period and, in addition, the last day of such Interest Period; and (c) as to any Swing Line Loan which is also a Fixed Rate Loan, on the first day of the next succeeding calendar quarter with respect to interest accrued during such calendar quarter.

Interest Period. With respect to each Revolving Credit Loan, (a) initially, the period commencing on the Drawdown Date of such Loan and ending on the last day of one of the periods set forth below, as selected by the Borrower in a Loan Request or as otherwise required by the terms of this Credit Agreement (i) for any Prime Rate Loan, the last day of the calendar quarter; (ii) for any Fixed Rate Loan, the period (not to exceed ten (10) days) requested by the Borrower and agreed to by the Swing Line Lender pursuant to Section 2.5(c); and (iii) for any Eurodollar Rate Loan, 1, 2, 3, or 6 months; and (b) thereafter, each period commencing on the last day of the next preceding Interest Period applicable to such Revolving Credit Loan and ending on the last day of one of the periods set forth above, as selected by the Borrower in a Conversion Request; provided that all of the foregoing provisions relating to Interest Periods are subject to the following:

(A) if any Interest Period with respect to a Eurodollar Rate Loan would otherwise end on a day that is not a Eurodollar Business Day, that Interest Period shall be extended to the next succeeding Eurodollar Business Day unless the result of such extension would be to carry such Interest Period into another calendar month, in which event such Interest Period shall end on the immediately preceding Eurodollar Business Day;

(B) if any Interest Period with respect to a Prime Rate Loan would end on a day that is not a Business Day, that Interest Period shall end on the next succeeding Business Day;

(C) if the Borrower shall fail to give notice as provided in Section 2.7, the Borrower shall be deemed to have requested a conversion of the affected Eurodollar Rate Loan to a Prime Rate Loan and the continuance of all Prime Rate Loans as Prime Rate Loans on the last day of the then current Interest Period with respect thereto;

(D) any Interest Period relating to any Eurodollar Rate Loan that begins on the last Eurodollar Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall end on the last Eurodollar Business Day of a calendar month; and

(E) any Interest Period that would otherwise extend beyond the Revolving Credit Loan Maturity Date shall end on the Revolving Credit Loan Maturity Date.

International Standby Practices. With respect to any standby Letter of Credit, the International Standby Practices (ISP98), International Chamber of Commerce Publication No. 590, or any successor code of standby letter of credit practices among banks adopted by the Issuing Lender in the ordinary course of its business as a standby letter of credit issuer and in effect at the time of issuance of such Letter of Credit.

Investments. All expenditures made and all liabilities incurred (contingently or otherwise) for the acquisition of stock or Indebtedness of, or for loans, advances, capital contributions or transfers of property to, or in respect of any guaranties (or other commitments as described under Indebtedness), or obligations of, any Person.

Issuing Lender. With respect to standby Letters of Credit, Fleet, and with respect to documentary Letters of Credit, any Lender acceptable to the Administrative Agent and the Borrower. As used herein, the term Issuing Lender shall refer, as the context requires, to the Issuing Lender issuing, extending, renewing or amending any particular Letter of Credit or collectively to each and every Lender which acts as an Issuing Lender hereunder.

Lender Affiliate. (a) With respect to any Lender, (i) an Affiliate of such Lender or (ii) for all purposes hereof other than the definition of "Eligible Assignee", any entity (whether a corporation, partnership, limited liability company, trust or legal entity) that is engaged in making, purchasing, holding or otherwise investing in bank loans and similar extensions of credit in the ordinary course of its business and is administered or managed by such Lender or an Affiliate of such Lender, and (b) following a Default or an Event of Default, with respect to any Lender that is a fund which invests in bank loans and similar extensions of credit, any other entity (whether a corporation, partnership, limited liability company, trust or other legal entity) that is a fund that invests in bank loans and similar extensions of credit and is managed by the same investment advisor as such Lender or by an Affiliate of such investment advisor.

Lenders. Fleet and the other lending institutions listed on Schedule 1 hereto and any other Person who becomes an assignee of any rights and obligations of a Lender pursuant to Section 15.

Letter of Credit. See Section 4.1.1.

Letter of Credit Application. See Section 4.1.1.

Letter of Credit Fee. See Section 4.6.

Letter of Credit Participation. See Section 4.1.4.

Leverage Ratio. As at any date of determination, the ratio of (a) Consolidated Total Funded Debt outstanding on such date to (b) Consolidated EBITDA for the Reference Period ending on such date.

Lien. Any mortgage, deed of trust, security interest, pledge, hypothecation, assignment, attachment, deposit arrangement, encumbrance, lien



(statutory, judgment or otherwise), or other security agreement or preferential arrangement of any kind or nature whatsoever (including any conditional sale or other title retention agreement, any Capitalized Lease, any Synthetic Lease, any financing lease involving substantially the same economic effect as any of the foregoing and the filing of any financing statement under the UCC or comparable law of any jurisdiction).

Loan Documents. This Credit Agreement, the Notes, the Letter of Credit Applications, the Letters of Credit, the Guaranties and the Fee Letter.

Loan Request. See Section 2.6.

Loans. The Revolving Credit Loans.

Material Adverse Effect. With respect to any change or effect, a material adverse change in, or a material adverse effect on, as the case may be, (i) business, properties, condition (economic, financial or otherwise), assets, operations or income of the Borrower, individually, or the Borrower and its Subsidiaries, taken as a whole, (ii) the ability of the Borrower or any Guarantor to perform its obligations under any Loan Document to which it is a party, or (iii) the ability of the Administrative Agent or any Lender to enforce the Loan Documents.

Maximum Drawing Amount. The maximum aggregate amount that the beneficiaries may at any time draw under outstanding Letters of Credit, as such aggregate amount may be reduced from time to time pursuant to the terms of the Letters of Credit.

Minimum Liquidity. Before and after giving effect to a proposed transaction under Sections 9.3(h) or 9.4, the Borrower shall have (i) at least twenty-five percent (25%) of Total Commitment as unused availability, or (ii) at least \$25,000,000 unrestricted excess cash or cash equivalents on the Balance Sheet, which shall be certified by the Borrower in form and substance satisfactory to the Administrative Agent.

Minority Owned Joint Venture. Any joint venture or other entity which is not a Subsidiary, other than CJI.

Moody's. Moody's Investors Services, Inc.

Multiemployer Plan. Any multiemployer plan within the meaning of Section 3(37) of ERISA maintained or contributed to by the Borrower or any ERISA Affiliate.

Notes. The Revolving Credit Notes.

Obligations. All indebtedness, obligations and liabilities of any of the Borrower and its Subsidiaries to any of the Lenders (including the Swing Line Lender), any Issuing Lender and the Administrative Agent arising or incurred under this Credit Agreement or any of the other Loan Documents or in respect of any of the Loans made or Reimbursement Obligations incurred or any Note, Letter of Credit Application, Letter of Credit or other instrument at any time evidencing any thereof, whether any of such indebtedness, obligations or liabilities (a) arise or are incurred individually or collectively, directly or indirectly, jointly or severally, absolutely or contingently, (b) arise by contract, operation of law or otherwise, (c) are matured or unmatured, liquidated or unliquidated, secured or unsecured, or (d) exist on the date of this Credit Agreement or arise thereafter.

outstanding. With respect to the Loans, the aggregate unpaid principal thereof as of any date of determination.

PBGC. The Pension Benefit Guaranty Corporation created by Section 4002 of ERISA and any successor entity or entities having similar responsibilities.

Permitted Liens. Liens permitted by Section 9.2.

Person. Any individual, corporation, limited liability company partnership, limited liability partnership, trust, other unincorporated association, business, or other legal entity, and any Governmental Authority.

Prime Rate. The higher of (a) the variable annual rate of interest publicly announced from time to time by Fleet as its "prime rate", such rate

being a reference rate, and (b) one-half of one percent (0.5%) above the Federal Funds Effective Rate. For the purposes of this definition, "Federal Funds Effective Rate" shall mean for any day, the rate per annum equal to the weighted average of the rates on overnight federal funds transactions with members of the Federal Reserve System arranged and published by federal funds brokers for such day (or, if such day is not a Business Day, for the next preceding Business Day), by the Federal Reserve Bank of New York, or, if such rate is not so published for any day that is a Business Day, the average of the quotations for such day on such transactions received by the Administrative Agent from three funds brokers of recognized standing selected by the Administrative Agent. Changes in the Prime Rate resulting from any changes in Fleet's "prime rate" shall take place immediately without notice or demand of any kind.

Prime Rate Loans. Revolving Credit Loans bearing interest calculated by reference to the Prime Rate.

Real Estate. All real property at any time owned or leased (as lessee or sublessee of such leasehold interest) by the Borrower or any of its Subsidiaries.

Record. The grid attached to a Note, or the continuation of such grid, or any other similar record, including computer records, maintained by any Lender with respect to any Loan referred to in such Note.

Reference Lender. Fleet, or, in the event that Fleet is unable to provide a quote for the Eurodollar Rate, such other Lender as Fleet shall select.

Reference Period. As of any date of determination, the period of four (4) consecutive fiscal quarters of the Borrower and its Subsidiaries ending on the last day of any fiscal quarter, treated as a single accounting period.

Register. See Section 15.3.

Reimbursement Obligation. The Borrower's obligation to reimburse the Issuing Lender and the Lenders on account of any drawing under any Letter of Credit as provided in Section 4.2.

Rental Expense. All rental expenses of the Borrower or any of its Subsidiaries during any applicable fiscal period with respect to Rental Obligations, determined on a consolidated basis in accordance with GAAP.

Rental Obligations. All obligations of the Borrower or any of its Subsidiaries under any rental agreements or leases of real or personal property, other than (a) obligations that can be terminated by the giving of notice without liability to the Borrower or such Subsidiary in excess of the liability for rent due as of the date on which such notice is given and under which no penalty or premium is paid as a result of any such termination, and (b) obligations in respect of any Capitalized Leases or any Synthetic Leases.

Replacement Lender. See Section 2.1(c).

Required Lenders. As of any date, the Lender(s) holding greater than fifty percent (50%) of the outstanding principal amount of the Revolving Credit Notes on such date; and if no such principal is outstanding, the Lender(s) whose aggregate Commitment(s) constitute(s) greater than fifty percent (50%) of the Total Commitment.

Restricted Payment. In relation to the Borrower and its Subsidiaries, any (a) Distribution, or (b) payment by the Borrower or its Subsidiaries (i) to the Borrower's or any such Subsidiary's shareholders (or other equity holders), in each case, other than to the Borrower, or (ii) to any Affiliate of the Borrower or any Subsidiary or any Affiliate of the Borrower's or such Subsidiary's shareholders (or other equity holders), in each case, other than to the Borrower.

Revolving Credit Loan Maturity Date. October 16, 2006, as the same may be extended pursuant to Section 2.1(c).

Revolving Credit Loans. Revolving credit loans (including the Swing Line Loans) made or to be made by the Lenders or the Administrative Agent to the Borrower pursuant to Section 2.

Revolving Credit Note Record. A Record with respect to a Revolving Credit Note.

Revolving Credit Notes. See Section 2.4.

Settlement. The making or receiving of payments, in immediately available funds, by the Lenders, to the extent necessary to cause each Lender's actual share of the outstanding amount of Revolving Credit Loans (after giving effect to any Loan Request) to be equal to such Lender's Commitment Percentage of the outstanding amount of such Revolving Credit Loans (after giving effect to any Loan Request), in any case where, prior to such event or action, the actual share is not so equal.

Settlement Amount. See Section 2.9.1.

Settlement Date. (a) The Drawdown Date relating to any Loan Request, (b) the date which is no more than ten (10) days after the making of a Swing Line Loan pursuant to Section 2.6.2, (d) at the option of the Administrative Agent, on any Business Day following a day on which the account officers of the Administrative Agent active upon the Borrower's account become aware of the existence of an Event of Default, (e) any day on which any conversion of a Prime Rate Loan to a Eurodollar Rate Loan occurs, or (f) any Business Day on which (i) the amount of outstanding Revolving Credit Loans decreases and (ii) the amount of the Administrative Agent's Revolving Credit Loans outstanding equals zero Dollars (\$0).

Settling Lender. See Section 2.9.1.

Significant Subsidiary. Each domestic Subsidiary of the Borrower which qualifies as "significant", as such term is defined under Regulation S-X promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended.

S&P. Standard & Poor's Ratings Group.

Standby Letter of Credit Fee. See Section 4.6.

Subsidiary. At any time and from time to time, any corporation, association, partnership, limited liability company, joint venture or other business entity of which the Borrower and/or any Subsidiary of the Borrower, directly or indirectly at such time, either (a) owns or controls more than fifty percent (50%) of the Voting Stock, or (b) is entitled to share in more than fifty percent (50%) of the profits and losses, however determined, but excluding CJI for all purposes hereof, other than when used in Sections 8.3(a) and (b), unless and until Borrower shall own or control one hundred percent (100%) of the Voting Stock of, or be entitled to share in one hundred percent (100%) of the profits and losses of, CJI.

Swing Line Lender. Fleet.

Swing Line Loans. Revolving Credit Loans made by Fleet pursuant to Section 2.6.2.

Synthetic Lease. Any lease of goods or other property, whether real or personal, which is treated as an operating lease under GAAP and as a loan or financing for U.S. income tax purposes.

Total Commitment. The sum of the Commitments of the Lenders, as in effect from time to time.

Trading with the Enemy Act. See Section 7.19.

Type. As to any Revolving Credit Loan which is not a Swing Line Loan, its nature as a Prime Rate Loan or a Eurodollar Rate Loan.

Uniform Customs. With respect to any Letter of Credit, the Uniform Customs and Practice for Documentary Credits (1993 Revision), International Chamber of Commerce Publication No. 500 or any successor version thereto adopted by the Issuing Lender in the ordinary course of its business as a letter of credit issuer and in effect at the time of issuance of such Letter of Credit.

Unpaid Reimbursement Obligation. Any Reimbursement Obligation for which

the Borrower does not reimburse the Administrative Agent, the Issuing Lender and the Lenders on the date specified in, and in accordance with, Section 4.2.

Voting Stock. Stock or similar interests, of any class or classes (however designated), the holders of which are at the time entitled, as such holders, to vote for the election of a majority of the directors (or persons performing similar functions) of the corporation, association, trust or other business entity involved, whether or not the right so to vote exists by reason of the happening of a contingency.

## 1.2. RULES OF INTERPRETATION.

(a) A reference to any document or agreement shall include such document or agreement as amended, modified or supplemented from time to time in accordance with its terms and the terms of this Credit Agreement.

(b) The singular includes the plural and the plural includes the singular.

(c) A reference to any law includes any amendment or modification to such law.

(d) A reference to any Person includes its permitted successors and permitted assigns.

(e) Accounting terms not otherwise defined herein have the meanings assigned to them by GAAP applied on a consistent basis by the accounting entity to which they refer.

(f) The words "include", "includes" and "including" are not limiting.

(g) All terms not specifically defined herein or by GAAP, which terms are defined in the Uniform Commercial Code as in effect in the State of New York, have the meanings assigned to them therein, with the term "instrument" being that defined under Article 9 of the Uniform Commercial Code.

(h) Reference to a particular "Section" refers to that section of this Credit Agreement unless otherwise indicated.

(i) The words "herein", "hereof", "hereunder" and words of like import shall refer to this Credit Agreement as a whole and not to any particular section or subdivision of this Credit Agreement.

(j) Unless otherwise expressly indicated, in the computation of periods of time from a specified date to a later specified date, the word "from" means "from and including," the words "to" and "until" each mean "to but excluding," and the word "through" means "to and including."

## 2. THE REVOLVING CREDIT FACILITY.

### 2.1. COMMITMENT TO LEND.

(a) Subject to the terms and conditions set forth in this Credit Agreement, each of the Lenders severally agrees to lend to the Borrower and the Borrower may borrow, repay, and reborrow from time to time from the Closing Date up to but not including the Revolving Credit Loan Maturity Date upon notice by the Borrower to the Administrative Agent given in accordance with Section 2.6, such sums as are requested by the Borrower up to a maximum aggregate amount outstanding (after giving effect to all amounts requested) at any one time equal to such Lender's Commitment minus such Lender's Commitment Percentage of the sum of the Maximum Drawing Amount and all Unpaid Reimbursement Obligations, provided that the sum of the outstanding amount of the Revolving Credit Loans (after giving effect to all amounts requested), including the Swing Line Loans, plus the Maximum Drawing Amount and all Unpaid Reimbursement Obligations shall not at any time exceed the Total Commitment at such time. The Revolving Credit Loans shall be made pro rata in accordance with each Lender's Commitment Percentage. Each request for a Revolving Credit Loan hereunder shall constitute a representation and warranty by the

Borrower that the conditions set forth in Section 11 and Section 12, in the case of the initial Revolving Credit Loans to be made on the Closing Date, and Section 12, in the case of all other Revolving Credit Loans, have been satisfied on the date of such request.

(b) Limited Increase In Total Commitment. Unless a Default or Event of Default has occurred and is continuing, the Borrower may request, on one or more occasions, that the Total Commitment in effect on the date of such request be increased by up to \$25,000,000, provided, however, that (i) the aggregate amount of any and all increases pursuant to this Section 2.1(b) shall not exceed \$25,000,000, (ii) any Lender which is a party to this Agreement prior to such increase shall have the right to elect to fund its pro rata share of the increase and any additional amounts allocated by the Administrative Agent, thereby increasing its Revolving Credit Commitment

hereunder, but no Lender shall be required to do so, (iii) in the event that it becomes necessary to include one or more new Lenders to provide additional funding under this Section 2.1(b) in order to enable such increase in the Total Commitment to occur, such new Lender must be reasonably acceptable to the Administrative Agent and the Borrower, (iv) the Lenders' Commitment Percentages shall be correspondingly adjusted, (v) each new Lender shall make all (if any) such payments to the other Lenders as may be necessary to result in the sum of the Revolving Credit Loans to be made by such new Lender plus such new Lender's proportionate share of the Maximum Drawing Amount and all Unpaid Reimbursement Obligations being equal to such new Lender's Commitment Percentage (as then in effect) of the aggregate principal amount of the sum of all Revolving Credit Loans outstanding to the Borrower as of such date plus the Maximum Drawing Amount and all Unpaid Reimbursement Obligations as of such date), and (vi) Revolving Credit Notes issued or amended and such other changes shall be made to the Loan Documents, as shall be necessary to reflect any such increase in the Total Commitment. Any such increase in the Total Commitment (whether by \$25,000,000 or by a lesser amount) shall require, among other things, the satisfaction of such conditions precedent as the Administrative Agent may require, including, without limitation, the obtaining by any applicable Lender of requisite internal approvals, the Administrative Agent's receipt of evidence of applicable corporate authorization and other corporate documentation from the Borrower and the legal opinion of counsel to the Borrower, each in form and substance satisfactory to the Administrative Agent and such Lenders as are participating in such increase.

(c) Extension of Revolving Credit Loan Maturity Date. The Borrower may, provided that no Default or Event of Default has occurred and is continuing, by written notice delivered to the Administrative Agent no later than sixty (60) days prior to October 16, 2005 (the "Extension Notice") request that the Revolving Credit Loan Maturity Date be extended to a date one year after the then existing Revolving Credit Loan Maturity Date. The Administrative Agent shall notify the Lenders of such request promptly after receipt, and request each Lender to notify the Administrative Agent of its determination to consent or not to consent to such extension. If each Lender consents to the extension by so notifying the Administrative Agent in writing no later than thirty (30) Business Days after notice of the Extension Request, the Revolving Credit Loan Maturity Date shall be extended to October 16, 2007. The determination with respect to such extension shall be in the sole discretion of each Lender. Any Lender which fails to give written notice of its consent or non-consent within such period shall be deemed not to have consented to the extension hereunder (a "Dissent"); provided that the Borrower may, within sixty (60) days of such Dissent, obtain a replacement lender satisfactory to the Administrative Agent (the "Replacement Lender") to assume the dissenting Lender's Loans and Commitments by (i) requesting the non-dissenting Lenders acquire and assume all of the dissenting Lender's Loans and Commitments, as provided herein, but no such Lenders shall be under an obligation to do so; or (ii) designating a Replacement Lender reasonably satisfactory to the Administrative Agent. If any satisfactory Replacement Lender shall be obtained, and/or any of the non-dissenting Lenders shall agree to acquire and assume all of the dissenting Lender's Loans and Commitment, then such dissenting Lender shall, so long as no Event of Default shall have occurred and be continuing,

assign, in accordance with Section 15, all of its Commitment, Loans, or Notes and other rights and obligations under this Credit Agreement and all other Loan Documents to such Replacement Lender or non-dissenting Lenders, as the case may be, in exchange for payment of the principal amount so assigned and all interest and fees accrued on the amount so assigned, plus all other Obligations then due and payable to the dissenting Lender; provided, however, that (i) such assignment shall be without recourse, representation or warranty and shall be on terms and conditions reasonably satisfactory to such dissenting Lender and such Replacement Lender and/or non-dissenting Lenders, as the case may be, and (ii) prior to any such assignment, the Borrowers shall have paid to such dissenting Lender all amounts properly demanded and unreimbursed hereunder, if applicable. Upon the effective date of such assignment, the Borrower shall issue replacement Notes in favor of such Replacement Lender and/or non-dissenting Lenders, as the case may be, and such institution shall become a "Lender" for all purposes under this Credit Agreement and the other Loan Documents.

2.2. COMMITMENT FEE. The Borrower agrees to pay to the Administrative Agent for the accounts of the Lenders in accordance with their respective Commitment Percentages a commitment fee (the "Commitment Fee") calculated at the rate per annum of the Applicable Margin with respect to the Commitment Fee as in effect from time to time on the average daily amount during each calendar quarter or portion thereof from the date hereof to the Revolving Credit Loan Maturity Date by which the Total Commitment minus the sum of the Maximum Drawing Amount and all Unpaid Reimbursement Obligations exceeds the outstanding amount of Revolving Credit Loans (other than Swing Line Loans which shall not be considered usage for purposes of this calculation only) during such calendar quarter. The Commitment Fee shall be payable quarterly in arrears on the first day of each calendar quarter for the immediately preceding calendar quarter commencing on the first such date following the date hereof, with a final payment on the Revolving Credit Loan Maturity Date or any earlier date on which the Commitments shall terminate.

2.3. REDUCTION OF TOTAL COMMITMENT. The Borrower shall have the right at any time and from time to time upon three (3) Business Days prior written notice to the Administrative Agent to reduce by \$5,000,000 or an integral multiple thereof or to terminate entirely the Total Commitment, whereupon the Commitments of the Lenders shall be reduced pro rata in accordance with their respective Commitment Percentages of the amount specified in such notice or, as the case may be, terminated. Promptly after receiving any notice of the Borrower delivered pursuant to this Section 2.3, the Administrative Agent will notify the Lenders of the substance thereof. Upon the effective date of any such reduction or termination, the Borrower shall pay to the Administrative Agent for the respective accounts of the Lenders the full amount of any Commitment Fee then accrued on the amount of the reduction. No reduction or termination of the Commitments may be reinstated.

2.4. THE REVOLVING CREDIT NOTES. The Revolving Credit Loans shall be evidenced by separate promissory notes of the Borrower in substantially the form of Exhibit A hereto (each a "Revolving Credit Note"), dated as of the Closing Date (or such other date on which a Lender may become a party hereto in accordance with

Section 15 hereof) and completed with appropriate insertions. One Revolving Credit Note shall be payable to the order of each Lender in a principal amount equal to such Lender's Commitment or, if less, the outstanding amount of all Revolving Credit Loans made by such Lender, plus interest accrued thereon, as set forth below. The Borrower irrevocably authorizes each Lender to make or cause to be made, at or about the time of the Drawdown Date of any Revolving Credit Loan or at the time of receipt of any payment of principal on such Lender's Revolving Credit Note, an appropriate notation on such Lender's Revolving Credit Note Record reflecting the making of such Revolving Credit Loan or (as the case may be) the receipt of such payment. The outstanding amount of the Revolving Credit Loans set forth on such Lender's Revolving Credit Note Record shall be prima facie evidence, absent manifest error, of the principal amount thereof owing and unpaid to such Lender, but the failure to record, or any error in so recording, any such amount on such Lender's Revolving Credit Note Record shall not limit or otherwise affect the obligations of the Borrower hereunder or under any Revolving Credit Note

to make payments of principal of or interest on any Revolving Credit Note when due.

2.5. INTEREST ON REVOLVING CREDIT LOANS. Except as otherwise provided in Section 5.11,

(a) Each Revolving Credit Loan which is a Prime Rate Loan shall bear interest for the period commencing with the Drawdown Date thereof and ending on the last day of the Interest Period with respect thereto at the rate per annum equal to the Prime Rate plus the Applicable Margin with respect to Prime Rate Loans as in effect from time to time.

(b) Each Revolving Credit Loan which is a Eurodollar Rate Loan shall bear interest for the period commencing with the Drawdown Date thereof and ending on the last day of the Interest Period with respect thereto at the rate per annum equal to the Eurodollar Rate determined for such Interest Period plus the Applicable Margin with respect to Eurodollar Rate Loans as in effect from time to time.

(c) Each Swing Line Loan shall bear interest from the period commencing with the Drawdown Date thereof and ending on the last day of the Interest Period with respect thereto at a rate per annum equal to, at the Borrower's option (i) the Prime Rate plus the Applicable Margin with respect to Prime Rate Loans in effect from time to time, and (ii) the Fixed Rate, which interest shall be paid on each Interest Payment Date for Swing Line Loans for the account of the Swing Line Lender. Interest periods for Swing Line Loans which are also Fixed Rate Loans shall be for a period of ten (10) days or less. The Borrower shall give the Swing Line Lender notice no later than 1:00 p.m. on the last day of the Interest Period that is a Fixed Rate Loan of its intention to repay such Swing Line Loan or to refund such Swing Line Loan with a Revolving Credit Loan which is not a Swing Line Loan in accordance with Section 2.9. In the event that the Borrower fails to give such notice, such Swing Line Loan shall, on the last day of such Interest Period cease to be a Fixed Rate Loan.

The Borrower promises to pay interest on each Revolving Credit Loan in arrears on each Interest Payment Date with respect thereto.

2.6. REQUESTS FOR REVOLVING CREDIT LOANS.

2.6.1. GENERAL. The Borrower shall give to the Administrative Agent written notice in the form of Exhibit B hereto (or telephonic notice confirmed promptly in a writing in the form of Exhibit B hereto) of each Revolving Credit Loan requested hereunder (a "Loan Request") (a) by no later than 11:00 a.m. (Boston time) on the proposed Drawdown Date of any Prime Rate Loan and (b) by no later than 12:00 noon (Boston time) no less than three (3) Eurodollar Business Days prior to the proposed Drawdown Date of any Eurodollar Rate Loan. Each such notice shall specify (i) the principal amount of the Revolving Credit Loan requested, (ii) the proposed Drawdown Date of such Revolving Credit Loan, (iii) the Interest Period for such Revolving Credit Loan and (iv) the Type of such Revolving Credit Loan. Promptly upon receipt of any such notice, the Administrative Agent shall notify each of the Lenders thereof. Each Loan Request shall be irrevocable and binding on the Borrower and shall obligate the Borrower to accept the Revolving Credit Loan requested from the Lenders on the proposed Drawdown Date. With respect to Eurodollar Rate Loans, each Loan Request shall be in a minimum aggregate amount of \$1,000,000 or an integral multiple of \$500,000 in excess thereof, and with respect to Prime Rate Loans, each Loan Request shall be in a minimum aggregate amount of \$500,000 or an integral multiple of \$100,000 in excess thereof.

2.6.2. SWING LINE. Notwithstanding the notice and minimum amount requirements set forth in Section 2.6.1 but otherwise in accordance with the terms and conditions of this Credit Agreement, the Swing Line Lender may, at the Borrower's request and in the Swing Line Lender's sole discretion and without conferring with the Lenders, make Revolving Credit Loans (each a "Swing Line Loan") to the Borrower in an amount requested by the Borrower provided, that

(a) each such Swing Line Loan shall be in a minimum aggregate amount of \$500,000 or an integral multiple of \$100,000 in excess thereof, and (b) the aggregate outstanding amount of all Swing Line Loans made by the Swing Line Lender pursuant to this Section 2.6.2 shall not exceed \$10,000,000 at any one time. The Borrower hereby requests and authorizes the Swing Line Lender to make from time to time such Swing Line Loans as may be so requested. The Borrower acknowledges and agrees that the making of such Swing Line Loans shall, in each case, be subject in all respects to the provisions of this Credit Agreement as if they were Swing Line Loans covered by a Loan Request including, without limitation, the limitations set forth in Section 2.1 and the requirements that the applicable provisions of Section 11 (in the case of Swing Line Loans made on the Closing Date) and Section 12 be satisfied. All actions taken by the Swing Line Lender pursuant to the provisions of this Section 2.6.2 shall be conclusive and binding on the Borrower and the Lenders absent the Swing Line Lender's gross negligence or willful misconduct.

## 2.7. CONVERSION OPTIONS.

2.7.1. CONVERSION TO DIFFERENT TYPE OF REVOLVING CREDIT LOAN. The Borrower may elect from time to time to convert any outstanding Revolving Credit Loan to a Revolving Credit Loan of another Type, provided that (a) with respect to any such conversion of a Eurodollar Rate Loan to a Prime Rate Loan, the Borrower shall give the Administrative Agent at least one (1) Business Day prior written notice of such election; (b) with respect to any such conversion of a Prime Rate Loan to a Eurodollar Rate Loan, the Borrower shall give the Administrative Agent at least three (3) Eurodollar Business Days prior written notice of such election; (c) with respect to any such conversion of a Eurodollar Rate Loan into a Prime Rate Loan, such conversion shall only be made on the last day of the Interest Period with respect thereto and (d) no Revolving Credit Loan may be converted into a Eurodollar Rate Loan when any Default or Event of Default has occurred and is continuing. On the date on which such conversion is being made each Lender shall take such action as is necessary to transfer its Commitment Percentage of such Revolving Credit Loans to its Domestic Lending Office or its Eurodollar Lending Office, as the case may be. All or any part of outstanding Revolving Credit Loans of any Type may be converted into a Revolving Credit Loan of another Type as provided herein, provided that any partial conversion to a Eurodollar Rate Loan shall be in an aggregate principal amount of \$1,000,000 or an integral multiple of \$500,000 in excess thereof, and any partial conversion to a Prime Rate Loan shall be in an aggregate principal amount of \$500,000 or an integral multiple of \$100,000 in excess thereof. Each Conversion Request relating to the conversion of a Revolving Credit Loan to a Eurodollar Rate Loan shall be irrevocable by the Borrower.

2.7.2. CONTINUATION OF TYPE OF REVOLVING CREDIT LOAN. Any Revolving Credit Loan of any Type may be continued as a Revolving Credit Loan of the same Type upon the expiration of an Interest Period with respect thereto by compliance by the Borrower with the notice provisions contained in Section 2.7.1; provided that no Eurodollar Rate Loan may be continued as such when any Default or Event of Default has occurred and is continuing, but shall be automatically converted to a Prime Rate Loan on the last day of the first Interest Period relating thereto ending during the continuance of any Default or Event of Default of which officers of the Administrative Agent active upon the Borrower's account have actual knowledge. In the event that the Borrower fails to provide any such notice with respect to the continuation of any Eurodollar Rate Loan as such, then such Eurodollar Rate Loan shall be automatically converted to a Prime Rate Loan on the last day of the first Interest Period relating thereto. The Administrative Agent shall notify the Lenders promptly when any such automatic conversion contemplated by this Section 2.7 is scheduled to occur.

2.7.3. EURODOLLAR RATE LOANS. Any conversion to or from Eurodollar Rate Loans shall be in such amounts and be made pursuant to such elections so that, after giving effect thereto, the aggregate principal amount of all Eurodollar Rate Loans having the same Interest Period shall not be less than \$1,000,000 or an



integral multiple of \$500,000 in excess thereof. No more than

ten (10) Eurodollar Rate Loans having different Interest Periods may be outstanding at any time.

2.7.4. APPLICABILITY OF CONVERSION AND CONTINUATION PROVISIONS. Notwithstanding anything to the contrary herein contained, the provisions of this Section 2.7 shall not apply to Swing Line Loans.

#### 2.8. FUNDS FOR REVOLVING CREDIT LOAN.

2.8.1. FUNDING PROCEDURES. Not later than 3:00 p.m. (Boston time) on the proposed Drawdown Date of any Revolving Credit Loans, each of the Lenders will make available to the Administrative Agent, at the Administrative Agent's Office, in immediately available funds, the amount of such Lender's Commitment Percentage of the amount of the requested Revolving Credit Loans. Upon receipt from each Lender of such amount, and upon receipt of the documents required by Sections 11 and 12 and the satisfaction of the other conditions set forth therein, to the extent applicable, the Administrative Agent will make available to the Borrower the aggregate amount of such Revolving Credit Loans made available to the Administrative Agent by the Lenders. The failure or refusal of any Lender to make available to the Administrative Agent at the aforesaid time and place on any Drawdown Date the amount of its Commitment Percentage of the requested Revolving Credit Loans shall not relieve any other Lender from its several obligation hereunder to make available to the Administrative Agent the amount of such other Lender's Commitment Percentage of any requested Revolving Credit Loans.

2.8.2. ADVANCES BY ADMINISTRATIVE AGENT. The Administrative Agent may, unless notified to the contrary by any Lender prior to a Drawdown Date, assume that such Lender has made available to the Administrative Agent on such Drawdown Date the amount of such Lender's Commitment Percentage of the Revolving Credit Loans to be made on such Drawdown Date, and the Administrative Agent may, in reliance upon such assumption, make available to the Borrower a corresponding amount. If any Lender makes available to the Administrative Agent such amount on a date after such Drawdown Date, such Lender shall pay to the Administrative Agent on demand an amount equal to the product of (a) the average computed for the period referred to in clause (c) below, of the weighted average interest rate paid by the Administrative Agent for federal funds acquired by the Administrative Agent during each day included in such period, times (b) the amount of such Lender's Commitment Percentage of such Revolving Credit Loans, times (c) a fraction, the numerator of which is the number of days that elapse from and including such Drawdown Date to the date on which the amount of such Lender's Commitment Percentage of such Revolving Credit Loans shall become immediately available to the Administrative Agent, and the denominator of which is 360. A statement of the Administrative Agent submitted to such Lender with respect to any amounts owing under this paragraph shall be prima facie evidence (absent manifest error) of the amount due and owing to the Administrative Agent by such Lender. If the amount of such Lender's Commitment Percentage of such

Revolving Credit Loans is not made available to the Administrative Agent by such Lender within three (3) Business Days following such Drawdown Date, the Administrative Agent shall be entitled to recover such amount from the Borrower on demand, with interest thereon at the rate per annum applicable to the Revolving Credit Loans made on such Drawdown Date.

#### 2.9. SETTLEMENTS.

2.9.1. GENERAL. On each Settlement Date, the Administrative Agent shall, not later than 1:00 p.m. (Boston time), give telephonic, facsimile or electronic mail notice (a) to the Lenders and the Borrower of the respective outstanding amount of Revolving

Credit Loans made by the Administrative Agent on behalf of the Lenders or in the form of Swing Line Loans from the immediately preceding Settlement Date through the close of business on the prior day and the amount of any Eurodollar Rate Loans to be made (following the giving of notice pursuant to Section 2.6.1(b)) on such date pursuant to a Loan Request and (b) to the Lenders of the amount (a "Settlement Amount") that each Lender (a "Settling Lender") shall pay to effect a Settlement of any Revolving Credit Loan. A statement of the Administrative Agent submitted to the Lenders and the Borrower or to the Lenders with respect to any amounts owing under this Section 2.9 shall be prima facie evidence (absent manifest error) of the amount due and owing. Each Settling Lender shall, not later than 3:00 p.m. (Boston time) on such Settlement Date, effect a wire transfer of immediately available funds to the Administrative Agent in the amount of the Settlement Amount for such Settling Lender. All funds advanced by any Lender as a Settling Lender pursuant to this Section 2.9 shall for all purposes be treated as a Revolving Credit Loan made by such Settling Lender to the Borrower and all funds received by any Lender pursuant to this Section 2.9 shall for all purposes be treated as repayment of amounts owed with respect to Revolving Credit Loans made by such Lender. In the event that any bankruptcy, reorganization, liquidation, receivership or similar cases or proceedings in which the Borrower is a debtor prevent a Settling Lender from making any Revolving Credit Loan to effect a Settlement as contemplated hereby, such Settling Lender will make such dispositions and arrangements with the other Lenders with respect to such Revolving Credit Loans, either by way of purchase of participations, distribution, pro tanto assignment of claims, subrogation or otherwise as shall result in each Lender's share of the outstanding Revolving Credit Loans being equal, as nearly as may be, to such Lender's Commitment Percentage of the outstanding amount of the Revolving Credit Loans.

2.9.2. FAILURE TO MAKE FUNDS AVAILABLE. The Administrative Agent may, unless notified to the contrary by any Settling Lender prior to a Settlement Date, assume that such Settling Lender has made or will make available to the

Administrative Agent on such Settlement Date the amount of such Settling Lender's Settlement Amount, and the Administrative Agent may, in reliance upon such assumption, make available to the Borrower a corresponding amount. If any Settling Lender makes available to the Administrative Agent such amount on a date after such Settlement Date, such Settling Lender shall pay to the Administrative Agent on demand an amount equal to the product of (a) the average computed for the period referred to in clause (c) below, of the weighted average interest rate paid by the Administrative Agent for federal funds acquired by the Administrative Agent during each day included in such period, times (b) the amount of such Settlement Amount, times (c) a fraction, the numerator of which is the number of days that elapse from and including such Settlement Date to the date on which the amount of such Settlement Amount shall become immediately available to the Administrative Agent, and the denominator of which is 360. A statement of the Administrative Agent submitted to such Settling Lender with respect to any amounts owing under this Section 2.9.2 shall be prima facie evidence (absent manifest error) of the amount due and owing to the Administrative Agent by such Settling Lender. If such Settling Lender's Settlement Amount is not made available to the Administrative Agent by such Settling Lender within three (3) Business Days following such Settlement Date, the Administrative Agent shall be entitled to recover such amount from the Borrower on demand, with interest thereon at the rate per annum applicable to the Revolving Credit Loans as of such Settlement Date.

2.9.3. NO EFFECT ON OTHER LENDERS. The failure or refusal of any Settling Lender to make available to the Administrative Agent at the aforesaid time and place on any Settlement Date the amount of such Settling Lender's Settlement Amount shall not (a) relieve any other Settling Lender from its several obligations hereunder to make available to the Administrative Agent the amount of such other Settling Lender's Settlement Amount or (b) impose upon any Lender, other than the Settling Lender so failing or refusing, any liability

with respect to such failure or refusal or otherwise increase the Commitment of such other Lender.

### 3. REPAYMENT OF THE REVOLVING CREDIT LOANS.

3.1. MATURITY. The Borrower promises to pay on the Revolving Credit Loan Maturity Date, and there shall become absolutely due and payable on the Revolving Credit Loan Maturity Date, all of the Revolving Credit Loans outstanding on such date, together with any and all accrued and unpaid interest thereon. Without limiting the foregoing, the Borrower promises to pay to the Administrative Agent for its own account, and there shall become absolutely due and payable, the outstanding principal amount of each Swing Line Loan made to the Borrower on the earlier of the Settlement Date with respect thereto and the Revolving Credit Loan Maturity Date.

### 3.2. MANDATORY REPAYMENTS OF REVOLVING CREDIT LOANS.

(a) If at any time the sum of the outstanding amount of the Revolving Credit Loans (including the Swing Line Loans), the Maximum Drawing Amount and all Unpaid Reimbursement Obligations exceeds the Total Commitment at such time, then the Borrower shall immediately pay the amount of such excess to the Administrative Agent for the respective accounts of the Lenders for application: first,

to the Swing Line Loans; second, to any Unpaid Reimbursement Obligations; third, to the Revolving Credit Loans; and fourth, to provide to the Administrative Agent cash collateral for Reimbursement Obligations as contemplated by Section 4.2(b) and (c).

(b) During the period from November 1st of each calendar year from the Closing Date until the Revolving Credit Loan Maturity Date through June 30th of each calendar year during such period, the Borrower shall pay to the Administrative Agent such amounts as are necessary to reduce the sum of the outstanding amount of the Revolving Credit Loans (including Swing Line Loans) to no more than \$25,000,000 for a period of at least thirty (30) consecutive days during such period.

Each payment of any Unpaid Reimbursement Obligations or prepayment of Revolving Credit Loans (other than Swing Line Loans) shall be allocated among the Lenders, in proportion, as nearly as practicable, to each Reimbursement Obligation or (as the case may be) the respective unpaid principal amount of each Lender's Revolving Credit Note, with adjustments to the extent practicable to equalize any prior payments or repayments not exactly in proportion. Each payment or prepayment of Swing Line Loans shall be allocated to the Swing Line Lender.

3.3. OPTIONAL REPAYMENTS OF REVOLVING CREDIT LOANS. The Borrower shall have the right, at its election, to repay the outstanding amount of the Revolving Credit Loans and Fixed Rate Loans, as a whole or in part, at any time without penalty or premium, provided that any full or partial prepayment of the outstanding amount of any Eurodollar Rate Loans pursuant to this Section 3.3 may be made only on the last day of the Interest Period relating thereto unless breakage costs described in Section 5.10 in connection therewith are paid by the Borrower. The Borrower shall give the Administrative Agent, no later than 11:00 a.m., Boston time, on such day written notice of any proposed prepayment pursuant to this Section 3.3 of Prime Rate Loans, and no later than 12:00 noon, Boston time, three (3) Eurodollar Business Days notice of any proposed prepayment pursuant to this Section 3.3 of Fixed Rate Loans or Eurodollar Rate Loans, in each case specifying the proposed date of prepayment of Revolving Credit Loans and the principal amount to be prepaid. Each such partial prepayment of the Revolving Credit Loans shall be in a minimum aggregate amount of \$1,000,000 or an integral multiple of \$500,000 in excess thereof, shall be accompanied by the payment of accrued interest on the principal prepaid to the date of prepayment and shall be applied, in the absence of instruction by the Borrower, first to the principal of Fixed Rate Loans, second to the principal of Prime Rate Loans and third to the principal of Eurodollar Rate Loans. Each partial prepayment shall be allocated among the Lenders, in proportion, as nearly as practicable, to the respective unpaid principal amount of each Lender's Revolving Credit Note, with adjustments to the extent practicable to equalize any prior repayments not exactly in proportion.

#### 4. LETTERS OF CREDIT.

##### 4.1. LETTER OF CREDIT COMMITMENTS.

4.1.1. COMMITMENT TO ISSUE LETTERS OF CREDIT. Subject to the terms and conditions hereof and the execution and delivery by the Borrower of a letter of credit application on the Issuing Lender's customary form (a "Letter of Credit Application"), the Issuing Lender on behalf of the Lenders and in reliance upon the agreement of the Lenders set forth in Section 4.1.4 and upon the representations and warranties of the Borrower contained herein, agrees, in its individual capacity, to issue, extend, amend and renew for the account of the Borrower one or more standby or documentary letters of credit (individually, a "Letter of Credit"), in such form as may be requested from time to time by the Borrower and agreed to by the Issuing Lender; provided, however, that, after giving effect to such request, (a) with respect to all Letters of Credit, the sum of the aggregate Maximum Drawing Amount and all Unpaid Reimbursement Obligations shall not exceed \$80,000,000 at any one time, (b) with respect to standby Letters of Credit, the sum of the aggregate Maximum Drawing Amount and all Unpaid Reimbursement Obligations shall not exceed \$40,000,000 at any one time, and (c) the sum of (i) the Maximum Drawing Amount on all Letters of Credit, (ii) all Unpaid Reimbursement Obligations, and (iii) the amount of all Revolving Credit Loans (including Swing Line Loans) outstanding shall not exceed the Total Commitment at such time. As of the Closing Date, the letters of credit existing for the account of the Borrower under that certain Revolving Credit Agreement by and among the Borrower, Fleet, the Lenders and the Administrative Agent dated as of February 27, 2001, as well as the letter of credit for the account of the Borrower and naming Sara Lee Corporation as beneficiary, set forth on Schedule 4.1.1 attached hereto, shall become a Letter of Credit under this Credit Agreement for all purposes.

4.1.2. LETTER OF CREDIT APPLICATIONS. Each Letter of Credit Application shall be completed to the satisfaction of the Issuing Lender. In the event that any provision of any Letter of Credit Application shall be inconsistent with any provision of this Credit Agreement, then the provisions of this Credit Agreement shall, to the extent of any such inconsistency, govern.

4.1.3. TERMS OF LETTERS OF CREDIT. Each Letter of Credit issued, extended, amended or renewed hereunder shall, among other things, (a) provide for the payment of drafts for honor thereunder when presented in accordance with the terms thereof and when accompanied by the documents described therein, and (b) have an expiry date no later than the date which is ten (10) days (or, if the Letter of Credit is confirmed by a confirmer or otherwise provides for one or more nominated persons, thirty (30) days) prior to the Revolving Credit Loan Maturity Date. Each Letter of Credit so issued, extended, amended or renewed shall be subject to the Uniform Customs or, in the case of a standby Letter of Credit, either the Uniform Customs or the International Standby Practices.

4.1.4. REIMBURSEMENT OBLIGATIONS OF LENDERS. Each Lender severally agrees that it shall be absolutely liable, without regard to the occurrence of any Default or Event of Default or any other condition precedent whatsoever, to the extent of such Lender's Commitment Percentage, to reimburse the Issuing

Lender on demand for the amount of each draft paid by the Issuing Lender under each Letter of Credit to the extent that such amount is not reimbursed by the Borrower pursuant to Section 4.2 (such agreement for a Lender being called herein the "Letter of Credit Participation" of such Lender).

4.1.5. PARTICIPATIONS OF LENDERS. Each such payment made by a Lender shall be treated as the purchase by such Lender of a participating interest in the Borrower's Reimbursement Obligation under Section 4.2 in an amount equal to such payment. Each Lender

shall share in accordance with its participating interest in any interest which accrues pursuant to Section 4.2.

4.2. REIMBURSEMENT OBLIGATIONS. (a) In order to induce the Issuing Lender to issue, extend, amend and renew each Letter of Credit and the Lenders to participate therein, the Borrower hereby agrees to reimburse or pay to the Issuing Lender, for the account of the Issuing Lender or (as the case may be) the Lenders, with respect to each Letter of Credit issued, extended, amended or renewed by the Issuing Lender hereunder (including without limitation those issued for its Subsidiaries),

(i) except as otherwise expressly provided in Section 4.2(b) and (c), on each date that any draft presented under such Letter of Credit is honored by the Issuing Lender, or the Issuing Lender otherwise makes a payment with respect thereto, (A) the amount paid by the Issuing Lender under or with respect to such Letter of Credit, and (B) the amount of any taxes and customary fees and expenses whatsoever incurred by the Issuing Lender in connection with any payment made by the Issuing Lender under, or with respect to, such Letter of Credit,

(ii) upon the reduction (but not termination) of the Total Commitment to an amount less than the Maximum Drawing Amount, an amount equal to such difference, which amount shall be held by the Administrative Agent for the benefit of the Lenders, the Issuing Lender and the Administrative Agent as cash collateral (to be held in an interest bearing account administered by the Administrative Agent) for all Reimbursement Obligations, and

(iii) upon the termination of the Total Commitment, or the acceleration of the Reimbursement Obligations with respect to all Letters of Credit in accordance with Section 13, an amount equal to the then Maximum Drawing Amount on all Letters of Credit, which amount shall be held by the Administrative Agent for the benefit of the Lenders, the Issuing Lender and the Administrative Agent as cash collateral (to be held in an interest bearing account administered by the Administrative Agent) for all Reimbursement Obligations.

Each such payment shall be made to the Issuing Lender at the Issuing Lender's office designated on Schedule 1 hereto in immediately available funds. Interest on any and all amounts remaining unpaid by the Borrower under this Section 4.2 at any time from the date such amounts become due and payable (whether as stated in this Section 4.2,

by acceleration or otherwise) until payment in full (whether before or after judgment) shall be payable to the Issuing Lender on demand at the rate specified in Section 5.11 for overdue principal on the Revolving Credit Loans.

(b) If the Borrower requests a Letter of Credit under this Credit Agreement be issued for the account of a Subsidiary, the Borrower and such Subsidiary shall be jointly and severally liable for such Letter of Credit and the Borrower shall require such Subsidiary (other than the Guarantor) to (i) enter into a reimbursement agreement in the form attached hereto as Exhibit F and (ii) provide evidence satisfactory to the Administrative Agent that all corporate (or other) action necessary for the valid execution, delivery and performance by such Subsidiary of such reimbursement agreement shall have been duly and effectively taken.

4.3. LETTER OF CREDIT PAYMENTS. If any draft shall be presented or demand for payment made, and, with respect to documentary Letters of Credit with discrepancies between the draft presented and the requirements of the Letter of Credit, if the approval of the Borrower is required under applicable law to make payment and the Borrower has approved payment of such non-conforming draft, then the Issuing Lender shall notify the Borrower of the date and amount of the draft presented or demand for payment and of the date and time when it expects to pay such draft or honor such demand for payment. If the Borrower fails to reimburse the Issuing Lender as provided in Section 4.2 by the date that such draft is paid or other payment is made by the Issuing Lender, the Administrative Agent, on behalf of, and at the request of, the Issuing Lender, may at any time thereafter notify the Lenders of the amount of any such Unpaid Reimbursement Obligation. No later than 3:00 p.m. (Boston time) on the

Business Day next following the receipt of such notice, each Lender shall make available to the Administrative Agent, at the Administrative Agent's Office for distribution to the Issuing Lender, in immediately available funds, such Lender's Commitment Percentage of such Unpaid Reimbursement Obligation, together with an amount equal to the product of (a) the average, computed for the period referred to in clause (c) below, of the weighted average interest rate paid by the Issuing Lender for federal funds acquired by the Issuing Lender during each day included in such period, times (b) the amount equal to such Lender's Commitment Percentage of such Unpaid Reimbursement Obligation, times (c) a fraction, the numerator of which is the number of days that elapse from and including the date the Issuing Lender paid the draft presented for honor or otherwise made payment to the date on which such Lender's Commitment Percentage of such Unpaid Reimbursement Obligation shall become immediately available to the Issuing Lender, and the denominator of which is 360. The responsibility of the Issuing Lender to the Borrower and the Lenders shall be only to determine that the documents (including each draft) delivered under each Letter of Credit in connection with such presentment shall be in conformity in all material respects with such Letter of Credit and to perform standard operating functions related to the administration of Letters of Credit.

4.4. OBLIGATIONS ABSOLUTE. The Borrower's obligations under this Section 4 shall be absolute and unconditional under any and all circumstances and irrespective of the occurrence of any Default or Event of Default or any condition precedent whatsoever or any setoff, counterclaim or defense to payment which the Borrower may

have or have had against the Issuing Lender, any Lender or any beneficiary of a Letter of Credit. The Borrower further agrees with the Issuing Lender, the Administrative Agent and the Lenders that the Issuing Lender, the Administrative Agent and the Lenders shall not be responsible for, and the Borrower's Reimbursement Obligations under Section 4.2 shall not be affected by, among other things, the validity or genuineness of documents or of any endorsements thereon even if such documents should in fact prove to be in any or all respects invalid, fraudulent or forged, or any dispute between or among the Borrower, the beneficiary of any Letter of Credit or any financing institution or other party to which any Letter of Credit may be transferred or any claims or defenses whatsoever of the Borrower against the beneficiary of any Letter of Credit or any such transferee, provided that the Borrower shall not be responsible for, and the Borrower's Reimbursement Obligations shall not include, amounts or liabilities arising solely from the gross negligence or willful misconduct of the Issuing Lender in determining whether a request presented under any Letter of Credit complied with the terms of such Letter of Credit. The Issuing Lender, the Administrative Agent and the Lenders shall not be liable for any error, omission, interruption or delay in transmission, dispatch or delivery of any message or advice, however transmitted, in connection with any Letter of Credit. The Borrower agrees that any action taken or omitted by the Issuing Lender, the Administrative Agent or any Lender under or in connection with each Letter of Credit and the related drafts and documents, if done in good faith, shall be binding upon the Borrower and shall not result in any liability on the part of the Issuing Lender, the Administrative Agent or any Lender to the Borrower.

4.5. RELIANCE BY ISSUER. To the extent not inconsistent with Section 4.4, the Issuing Lender shall be entitled to rely, and shall be fully protected in relying upon, any Letter of Credit, draft, writing, resolution, notice, consent, certificate, affidavit, letter, cablegram, telegram, teletype, telex or teletype message, statement, order or other document believed by it to be genuine and correct and to have been signed, sent or made by the proper Person or Persons and upon advice and statements of legal counsel, independent accountants and other experts selected by the Issuing Lender. The Issuing Lender shall be fully justified in failing or refusing to take any action under this Credit Agreement unless it shall first have received such advice or concurrence of the Required Lenders as it reasonably deems appropriate or it shall first be indemnified to its reasonable satisfaction by the Lenders against any and all liability and expense which may be incurred by it by reason of taking or continuing to take any such action. The Issuing Lender shall in all cases be fully protected in acting, or in refraining from acting, under this Credit Agreement in accordance with a request of the Required Lenders, and such request and any action taken or failure to act pursuant

thereto shall be binding upon the Lenders and all future holders of the Revolving Credit Notes or of a Letter of Credit Participation.

4.6. LETTER OF CREDIT FEE. The Borrower shall pay a fee (in each case, a "Letter of Credit Fee") to the Administrative Agent (a) quarterly in arrears on the first day of each fiscal quarter of the Borrower for the immediately preceding fiscal quarter of the Borrower, in respect of each standby Letter of Credit, an amount equal to the Applicable Margin per annum with respect to Standby Letter of Credit Fees multiplied by the result of (i) the average daily face amount of such standby Letter of Credit

during such period, multiplied by the number of days such standby Letter of Credit is outstanding and divided by (ii) three hundred and sixty (360) (a "Standby Letter of Credit Fee"), and (b) quarterly in arrears on the first day of each fiscal quarter of the Borrower for the immediately preceding fiscal quarter of the Borrower, in respect of each documentary Letter of Credit, an amount equal to the Applicable Margin per annum with respect to documentary Letter of Credit Fees multiplied by the result of (i) the average daily face amount of such documentary Letter of Credit during such period, multiplied by the number of days such documentary Letter of Credit is outstanding, divided by (B) three hundred and sixty (360) (a "Documentary Letter of Credit Fee"), in each case which Letter of Credit Fee shall be for the accounts of the Lenders in accordance with their respective Commitment Percentages. In respect of each Letter of Credit, the Borrower shall also pay to the Issuing Lender for the Issuing Lender's own account, at such other time or times as such charges are customarily made by the Issuing Lender, the Issuing Lender's customary fronting, issuance, amendment, negotiation or document examination and other administrative fees as in effect from time to time.

#### 5. CERTAIN GENERAL PROVISIONS.

5.1. CLOSING AND ARRANGEMENT FEES. The Borrower agrees to pay to the Administrative Agent for the accounts of the Lenders on the Closing Date a closing fee (the "Closing Fee") as set forth in the Fee Letter. The Borrower agrees to pay to the Administrative Agent for the account of the Arranger, on the Closing Date an arrangement fee (the "Arrangement Fee") as set forth in the Fee Letter.

5.2. ADMINISTRATIVE AGENT'S FEE. The Borrower shall pay to the Administrative Agent an Administrative Agent's fee as set forth in the Fee Letter.

#### 5.3. FUNDS FOR PAYMENTS.

5.3.1. PAYMENTS TO ADMINISTRATIVE AGENT. All payments of principal, interest, Reimbursement Obligations, Fees and any other amounts due hereunder or under any of the other Loan Documents shall be made on the due date thereof to the Administrative Agent in Dollars, for the respective accounts of the Lenders and the Administrative Agent, at the Administrative Agent's Office or at such other place that the Administrative Agent may from time to time designate, in each case at or about 3:00 p.m. (Boston, Massachusetts, time or other local time at the place of payment) and in immediately available funds.

5.3.2. NO OFFSET, ETC. All payments by the Borrower hereunder and under any of the other Loan Documents shall be made without recoupment, setoff or counterclaim and free and clear of and without deduction for any taxes, levies, imposts, duties, charges, fees, deductions, withholdings, compulsory loans, restrictions or conditions of any nature now or hereafter imposed or levied by any jurisdiction or any political subdivision thereof or taxing or other authority therein unless the Borrower is compelled by law to make such deduction or withholding. If any such obligation is imposed upon the Borrower with respect to any amount payable by it hereunder or under any of the other

Loan Documents, the Borrower will pay to the Administrative Agent, for the account of the Lenders or (as the case may be) the

Administrative Agent, on the date on which such amount is due and payable hereunder or under such other Loan Document, such additional amount in Dollars as shall be necessary to enable the Lenders or the Administrative Agent to receive the same net amount which the Lenders or the Administrative Agent would have received on such due date had no such obligation been imposed upon the Borrower. The Borrower will deliver promptly to the Administrative Agent certificates or other valid vouchers for all taxes or other charges deducted from or paid with respect to payments made by the Borrower hereunder or under such other Loan Document.

5.4. COMPUTATIONS. All computations of interest on (a) the Loans (other than Eurodollar Rate Loans) and of Fees shall, unless otherwise expressly provided herein, be based on a 365/366-day year and (b) Eurodollar Rate Loans shall be based on a 360-day year and, in each case, paid for the actual number of days elapsed. Except as otherwise provided in the definition of the term "Interest Period" with respect to Eurodollar Rate Loans, whenever a payment hereunder or under any of the other Loan Documents becomes due on a day that is not a Business Day, the due date for such payment shall be extended to the next succeeding Business Day, and interest and Fees shall accrue during such extension. The outstanding amount of the Loans as reflected on the Revolving Credit Note Records from time to time shall be considered correct and binding on the Borrower unless within five (5) Business Days after receipt of any notice by the Administrative Agent or any of the Lenders of such outstanding amount, the Administrative Agent or such Lender shall notify the Borrower to the contrary.

5.5. INABILITY TO DETERMINE EURODOLLAR RATE. In the event, prior to the commencement of any Interest Period relating to any Eurodollar Rate Loan, the Administrative Agent shall determine or be notified by the Required Lenders that adequate and reasonable methods do not exist for ascertaining the Eurodollar Rate that would otherwise determine the rate of interest to be applicable to any Eurodollar Rate Loan during any Interest Period, the Administrative Agent shall forthwith give notice of such determination (which shall be conclusive and binding on the Borrower and the Lenders) to the Borrower and the Lenders. In such event (a) any Loan Request or Conversion Request with respect to Eurodollar Rate Loans shall be automatically withdrawn and shall be deemed a request for Prime Rate Loans, (b) each Eurodollar Rate Loan will automatically, on the last day of the then current Interest Period relating thereto, become a Prime Rate Loan, and (c) the obligations of the Lenders to make Eurodollar Rate Loans shall be suspended until the Administrative Agent or the Required Lenders determine that the circumstances giving rise to such suspension no longer exist, whereupon the Administrative Agent or, as the case may be, the Administrative Agent upon the instruction of the Required Lenders, shall so notify the Borrower and the Lenders.

5.6. ILLEGALITY. Notwithstanding any other provisions herein, if any present or future law, regulation, treaty or directive or in the interpretation or application thereof shall make it unlawful for any Lender to make or maintain Eurodollar Rate Loans, such Lender shall forthwith give notice of such circumstances to the Borrower and the

other Lenders and thereupon (a) the commitment of such Lender to make Eurodollar Rate Loans or convert Prime Rate Loans to Eurodollar Rate Loans shall forthwith be suspended and (b) such Lender's Revolving Credit Loans then outstanding as Eurodollar Rate Loans, if any, shall be converted automatically to Prime Rate Loans on the last day of each Interest Period applicable to such Eurodollar Rate Loans or within such earlier period as may be required by law. The Borrower hereby agrees promptly to pay the Administrative Agent for the account of such Lender, upon demand by such Lender, any additional amounts necessary to compensate such Lender for any costs incurred by such Lender in making any conversion in accordance with this Section 5.6, including any interest or fees payable by such Lender to lenders of funds obtained by it in order to make or maintain its Eurodollar Rate Loans hereunder.

5.7. ADDITIONAL COSTS, ETC. If any present or future applicable law, which expression, as used herein, includes statutes, rules and regulations thereunder and interpretations thereof by any competent court or by any governmental or other regulatory body or official charged with the administration or the interpretation thereof and requests, directives,



instructions and notices at any time or from time to time hereafter made upon or otherwise issued to any Lender or the Administrative Agent by any central bank or other fiscal, monetary or other authority (whether or not having the force of law), shall:

(a) subject any Lender or the Administrative Agent to any tax, levy, impost, duty, charge, fee, deduction or withholding of any nature with respect to this Credit Agreement, the other Loan Documents, any Letters of Credit, such Lender's Commitment or the Loans (other than taxes based upon or measured by the income or profits of such Lender or the Administrative Agent), or

(b) materially change the basis of taxation (except for changes in taxes on income or profits) of payments to any Lender of the principal of or the interest on any Loans or any other amounts payable to any Lender or the Administrative Agent under this Credit Agreement or any of the other Loan Documents, or

(c) impose or increase or render applicable (other than to the extent specifically provided for elsewhere in this Credit Agreement) any special deposit, reserve, assessment, liquidity, capital adequacy or other similar requirements (whether or not having the force of law) against assets held by, or deposits in or for the account of, or loans by, or letters of credit issued by, or commitments of an office of any Lender, or

(d) impose on any Lender or the Administrative Agent any other conditions or requirements with respect to this Credit Agreement, the other Loan Documents, any Letters of Credit, the Loans, such Lender's Commitment, or any class of loans, letters of credit or commitments of which any of the Loans or such Lender's Commitment forms a part, and the result of any of the foregoing is

(i) to increase the cost to any Lender of making, funding, issuing, renewing, extending or maintaining any of the Loans or such Lender's Commitment or any Letter of Credit, or

(ii) to reduce the amount of principal, interest, Reimbursement Obligation or other amount payable to such Lender or the Administrative Agent hereunder on account of such Lender's Commitment, any Letter of Credit or any of the Loans, or

(iii) to require such Lender or the Administrative Agent to make any payment or to forego any interest or Reimbursement Obligation or other sum payable hereunder, the amount of which payment or foregone interest or Reimbursement Obligation or other sum is calculated by reference to the gross amount of any sum receivable or deemed received by such Lender or the Administrative Agent from the Borrower hereunder,

then, and in each such case, the Borrower will, upon demand made by such Lender or (as the case may be) the Administrative Agent at any time and from time to time and as often as the occasion therefor may arise, pay to such Lender or the Administrative Agent such additional amounts as will be sufficient to compensate such Lender or the Administrative Agent for such additional cost, reduction, payment or foregone interest or Reimbursement Obligation or other sum.

5.8. CAPITAL ADEQUACY. If after the date hereof any Lender or the Administrative Agent determines that (a) the adoption of or change in any law, governmental rule, regulation, policy, guideline or directive (whether or not having the force of law) regarding capital requirements for Lenders or Lender holding companies or any change in the interpretation or application thereof by a Governmental Authority with appropriate jurisdiction, or (b) compliance by such Lender or the Administrative Agent or any corporation controlling such Lender or the Administrative Agent with any law, governmental rule, regulation, policy, guideline or directive (whether or not having the force of law) of any such entity regarding capital adequacy, has the effect of reducing the return on such Lender's or the Administrative Agent's commitment with respect to any Loans to a level below that which such Lender or the

Administrative Agent could have achieved but for such adoption, change or compliance (taking into consideration such Lender's or the Administrative Agent's then existing policies with respect to capital adequacy and assuming full utilization of such entity's capital) by any amount deemed by such Lender or (as the case may be) the Administrative Agent to be material, then such Lender or the Administrative Agent may notify the Borrower of such fact. To the extent that the amount of such reduction in the return on capital is not reflected in the Prime Rate, the Borrower agrees to pay such Lender or (as the case may be) the Administrative Agent for the amount of such reduction in the return on capital as and when such reduction is determined upon presentation by such Lender or (as the case may be) the Administrative Agent of a certificate in accordance with Section 5.9 hereof. Each Lender shall allocate such cost increases among its customers in good faith and on an equitable basis.

5.9. CERTIFICATE. A certificate setting forth any additional amounts payable pursuant to Sections 5.7 or 5.8 and a brief explanation of such amounts which are due, submitted by any Lender or the Administrative Agent to the Borrower, shall be conclusive, absent manifest error, that such amounts are due and owing.

5.10. INDEMNITY. The Borrower agrees to indemnify each Lender and to hold each Lender harmless from and against any loss, cost or expense actually incurred (excluding loss of anticipated profits) that such Lender may sustain or incur as a consequence of (a) default by the Borrower in payment of the principal amount of or any interest on any Eurodollar Rate Loans or Fixed Rate Loans as and when due and payable, including any such loss or expense arising from interest or fees payable by such Lender to banks of funds obtained by it in order to maintain its Eurodollar Rate Loans or Fixed Rate Loans, (b) default by the Borrower in making a borrowing or conversion after the Borrower has given (or is deemed to have given) a Loan Request or a Conversion Request relating thereto in accordance with Section 2.6 or Section 2.7, or (c) the making of any payment of a Eurodollar Rate Loan or a Fixed Rate Loan or the making of any conversion of any such Loan which is not a Swing Line Loan or any such Fixed Rate Loan to a Prime Rate Loan on a day that is not the last day of the applicable Interest Period with respect thereto, including interest or fees payable by such Lender to lenders of funds obtained by it in order to maintain any such Loans.

#### 5.11. INTEREST AFTER DEFAULT.

5.11.1. OVERDUE AMOUNTS. Overdue principal and (to the extent permitted by applicable law) interest on the Loans and all other overdue amounts payable hereunder (including Unpaid Reimbursement Obligations) or under any of the other Loan Documents shall bear interest (or fees in the case of Unpaid Reimbursement Obligations) compounded monthly and payable on demand at a rate per annum equal to two percent (2.00%) above the rate of interest or Letter of Credit Fee (including the Applicable Margin) then applicable thereto (or, if no rate of interest is then applicable thereto, the Prime Rate) until such amount shall be paid in full (after as well as before judgment).

5.11.2. AMOUNTS NOT OVERDUE. During the continuance of a Default or an Event of Default, until such Default or Event of Default has been cured or remedied or such Default or Event of Default has been waived by the Lenders or the Required Lenders pursuant to Section 16.12, (a) the principal of the Revolving Credit Loans not overdue shall, bear interest at a rate per annum equal to two percent (2.00%) above the rate of interest otherwise applicable, and (b) the Applicable Margin applicable to Letter of Credit Fees shall be equal to two percent (2.00%) above the Letter of Credit Fee otherwise applicable.

#### 6. GUARANTIES.

6.1. GUARANTIES OF SIGNIFICANT SUBSIDIARIES. The Obligations shall also be guaranteed by the Significant Subsidiaries pursuant to the terms of the Guaranties.

#### 7. REPRESENTATIONS AND WARRANTIES.

The Borrower represents and warrants to the Lenders and the Administrative Agent as follows:

7.1. CORPORATE AUTHORITY.

7.1.1. INCORPORATION; GOOD STANDING. Each of the Borrower and its Subsidiaries (a) is a corporation (or similar business entity) duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation or formation except, solely with respect to Subsidiaries of the Borrower which are not Significant Subsidiaries, where a failure to be so organized, existing or formed would not have a Material Adverse Effect, (b) has all requisite corporate (or the equivalent entity) power to own its property and conduct its business as now conducted and as presently contemplated except, solely with respect to Subsidiaries of the Borrower which are not Significant Subsidiaries, where such a failure would not have a Material Adverse Effect, and (c) is in good standing as a foreign corporation (or similar business entity) and is duly authorized to do business in each jurisdiction where such qualification is necessary except, solely with respect to Subsidiaries of the Borrower which are not Significant Subsidiaries, where a failure to be so qualified would not have a Material Adverse Effect.

7.1.2. AUTHORIZATION. The execution, delivery and performance of this Credit Agreement and the other Loan Documents to which the Borrower or any of its Significant Subsidiaries is or is to become a party and the transactions contemplated hereby and thereby (a) are within the corporate (or the equivalent entity) authority of such Person, (b) have been duly authorized by all necessary corporate (or the equivalent entity) proceedings, (c) do not and will not conflict with or result in any breach or contravention of any provision of law, statute, rule or regulation to which the Borrower or any of its Significant Subsidiaries is subject or any judgment, order, writ, injunction, license or permit applicable to the Borrower or any of its Significant Subsidiaries and (d) do not conflict with any provision of the Governing Documents of, or any agreement or other instrument binding upon, the Borrower or any of its Significant Subsidiaries.

7.1.3. ENFORCEABILITY. The execution and delivery of this Credit Agreement and the other Loan Documents to which the Borrower or any of its Significant Subsidiaries is or is to become a party will result in valid and legally binding obligations of such Person enforceable against it in accordance with the respective terms and provisions hereof and thereof, except as enforceability is limited by bankruptcy, insolvency, reorganization, moratorium or other laws relating to or affecting generally the enforcement of creditors' rights and except to the extent that availability of the remedy of specific performance or injunctive relief is subject to the discretion of the court before which any proceeding therefor may be brought.

7.2. GOVERNMENTAL APPROVALS. The execution, delivery and performance by the Borrower and any of its Significant Subsidiaries of this Credit Agreement and the other Loan Documents to which the Borrower or any of its Significant Subsidiaries is

or is to become a party and the transactions contemplated hereby and thereby do not require the approval or consent of, or filing with, any governmental agency or authority other than those already obtained.

7.3. TITLE TO PROPERTIES. Except as indicated on Schedule 7.3 hereto, the Borrower and its Subsidiaries own all of the assets reflected in the consolidated and combined balance sheet of the Borrower and its Subsidiaries as at the Balance Sheet Date or acquired since that date (except property and assets sold or otherwise disposed of in the ordinary course of business since that date and Real Estate leased by the Borrower or its Subsidiaries), subject to no Liens or other rights of others, except Permitted Liens.

7.4. FINANCIAL STATEMENTS AND PROJECTIONS.

7.4.1. FISCAL YEAR. The Borrower and each of its Subsidiaries has a fiscal or financial year which is the twelve months ending on or about June 30 of each calendar year.

7.4.2. FINANCIAL STATEMENTS. There has been furnished to each of the Lenders an audited consolidated and combined balance sheet of the Borrower and its Subsidiaries as at the Balance Sheet Date, an audited consolidated and combined statement of income of the Borrower and its Subsidiaries for the fiscal year then ended, and an audited consolidated and combined cash flow statement for the fiscal year then ended. Such balance sheet and statements of income have been prepared in accordance with GAAP and fairly present the financial condition of the Borrower as at the close of business on the date thereof and the results of operations for the fiscal year then ended. There are no contingent liabilities of the Borrower or any of its Subsidiaries as of such date involving material amounts, known to the officers of the Borrower, which were not disclosed in such balance sheet and the notes related thereto.

7.4.3. PROJECTIONS. The projections of the income statements, balance sheets and cash flow statements of the Borrower and its Subsidiaries on a consolidated and combined basis for each of the next three (3) fiscal years ending on or about June 30, 2006, copies of which have been delivered to the Administrative Agent. To the best knowledge of the Borrower or any of its Subsidiaries at the time such projections were made, no facts exist that (individually or in the aggregate) would result in any material change in any of such projections. The projections are based upon estimates and assumptions that were reasonable at the time such estimates and assumptions were made, have been prepared on the basis of the assumptions stated therein and reflect the reasonable estimates of the Borrower and its Subsidiaries of the results of operations and other information projected therein.

7.5. NO MATERIAL ADVERSE CHANGES, ETC. Since the Balance Sheet Date there has been no event or occurrence which has had a Material Adverse Effect. Since the Balance Sheet Date, the Borrower has not made any Restricted Payment other than those permitted under Sections 9.4 (a) and (b).

7.6. FRANCHISES, PATENTS, COPYRIGHTS, ETC. The Borrower and each of its Subsidiaries possesses all franchises, patents, copyrights, trademarks, trade names, licenses and permits, and rights in respect of the foregoing, adequate for the conduct of its business substantially as now conducted without known conflict with any rights of others, except any franchises, patents, copyrights, trademarks, trade names, licenses and permits, and rights in respect of the foregoing, where the lack of such would not result in a Material Adverse Effect.

7.7. LITIGATION. Except as set forth in Schedule 7.7 hereto, there are no actions, suits, proceedings or investigations of any kind pending or, to the best knowledge of the Borrower and its Subsidiaries, threatened against the Borrower or any of its Subsidiaries before any Governmental Authority, that, (a) if adversely determined, might, either in any case or in the aggregate, (i) have a Material Adverse Effect or (ii) materially impair the right of the Borrower and its Subsidiaries, considered as a whole, to carry on business substantially as now conducted by them, or (b) which question the validity of this Credit Agreement or any of the other Loan Documents, or any action taken or to be taken pursuant hereto or thereto.

7.8. NO MATERIALLY ADVERSE CONTRACTS, ETC. Neither the Borrower nor any of its Subsidiaries (a) is in violation of any provision of, or subject to, any Governing Document, or any applicable judgment, decree, order, law, statute, license, rule or regulation in a manner that has or is expected in the future to have a Material Adverse Effect, or (b) is a party to any contract or agreement that has or is expected, in the judgment of the Borrower's officers, to have any Material Adverse Effect, or is in violation of any provision of any agreement or instrument to which it may be subject or by which it or any of its properties may be bound, in any of the foregoing cases in a manner that could have a Material Adverse Effect.

7.9. TAX STATUS. To the extent required, the Borrower and its Subsidiaries (a) have made or filed all federal, state and foreign income and all other tax returns, reports and declarations required by any jurisdiction to which any of them is subject, (b) have paid all taxes and other governmental assessments and charges shown or determined to be due on such returns, reports and declarations, except those being contested in good faith and by appropriate proceedings and (c) have, in the reasonable opinion of management, set aside on their books adequate reserves in accordance with GAAP for the payment of all taxes for periods subsequent to the periods to which such returns, reports or declarations apply. There are no unpaid taxes in any material amount claimed to be due by the taxing authority of any jurisdiction, and none of the officers of the Borrower know of any basis for any such claim.

7.10. NO EVENT OF DEFAULT. No Default or Event of Default has occurred and is continuing.

7.11. HOLDING COMPANY AND INVESTMENT COMPANY ACTS. Neither the Borrower nor any of its Subsidiaries is a "holding company", or a "subsidiary company" of a "holding company", or an "affiliate" of a "holding company", as such terms are defined in the Public Utility Holding Company Act of 1935; nor is it an "investment company",

or an "affiliated company" or a "principal underwriter" of an "investment company", as such terms are defined in the Investment Company Act of 1940.

7.12. ABSENCE OF FINANCING STATEMENTS, ETC. Except with respect to Permitted Liens, there is no financing statement, security agreement, chattel mortgage, real estate mortgage or other document filed or recorded with any filing records, registry or other public office, that purports to cover, affect or give notice of any present or possible future Lien on any assets or property of the Borrower or any of its Subsidiaries or any rights relating thereto.

7.13. CERTAIN TRANSACTIONS. To the best knowledge of the Borrower and its Subsidiaries, none of the officers, directors, or employees of the Borrower or any of its Subsidiaries is presently a party to any transaction with the Borrower or any of its Subsidiaries (other than for services as employees, officers and directors), including any contract, agreement or other arrangement providing for the furnishing of services to or by, providing for rental of real or personal property to or from, or otherwise requiring payments to or from any officer, director or such employee or, to the knowledge of the Borrower, any corporation, partnership, trust or other entity in which any officer, director, or any such employee has a substantial interest or is an officer, director, trustee or partner.

7.14. EMPLOYEE BENEFIT PLANS.

7.14.1. IN GENERAL. Each Employee Benefit Plan and each Guaranteed Pension Plan has been maintained and operated in compliance in all material respects with the provisions of ERISA and all Applicable Pension Legislation and, to the extent applicable, the Code, including but not limited to the provisions thereunder respecting prohibited transactions and the bonding of fiduciaries and other persons handling plan funds as required by Section 412 of ERISA, unless noncompliance could not, individually or in the aggregate, reasonably be expected to result in a Material Adverse Effect.

7.14.2. TERMINABILITY OF WELFARE PLANS. No Employee Benefit Plan, which is an employee welfare benefit plan within the meaning of Section 3(1) or Section 3(2)(B) of ERISA, provides benefit coverage subsequent to termination of employment, except as required by Title I, Part 6 of ERISA or the applicable state insurance laws. The Borrower may terminate, to the extent sponsored by it, each such Plan at any time (or at any time subsequent to the expiration of any applicable bargaining agreement) in the discretion of the Borrower without liability to any Person other than for claims arising prior to termination.

7.14.3. GUARANTEED PENSION PLANS. Except as could not,

individually or in the aggregate, reasonably be expected to result in a Material Adverse Effect, (a) each contribution required to be made to a Guaranteed Pension Plan, whether required to be made to avoid the incurrence of an accumulated funding deficiency, the notice or lien provisions of Section 302(f) of ERISA, or otherwise, has been timely made; and (b) no waiver of an accumulated funding deficiency or extension of amortization periods has been received with respect to any

Guaranteed Pension Plan, and neither the Borrower nor any ERISA Affiliate is obligated to or has posted security in connection with an amendment to a Guaranteed Pension Plan pursuant to Section 307 of ERISA or Section 401(a)(29) of the Code. Based on the latest valuation of each Guaranteed Pension Plan (which in each case occurred within twelve months of the date of this representation), and on the actuarial methods and assumptions employed for that valuation, the aggregate benefit liabilities of all such Guaranteed Pension Plans within the meaning of Section 4001 of ERISA did not exceed the aggregate value of the assets of all such Guaranteed Pension Plans, disregarding for this purpose the benefit liabilities and assets of any Guaranteed Pension Plan with assets in excess of benefit liabilities, except as could not, individually or in the aggregate, reasonably be expected to result in a Material Adverse Effect.

7.14.4. MULTIEMPLOYER PLANS. Except as could not, individually or in the aggregate, reasonably be expected to result in a Material Adverse Effect, neither the Borrower nor any ERISA Affiliate has incurred any liability (including secondary liability) to any Multiemployer Plan as a result of a complete or partial withdrawal from such Multiemployer Plan under Section 4201 of ERISA or as a result of a sale of assets described in Section 4204 of ERISA. After due inquiry, the Borrower is not aware that any Multiemployer Plan is in reorganization or insolvent under and within the meaning of Section 4241 or Section 4245 of ERISA or is at risk of entering reorganization or becoming insolvent, or that any Multiemployer Plan intends to terminate or has been terminated under Section 4041A of ERISA.

#### 7.15. USE OF PROCEEDS.

7.15.1. GENERAL. The proceeds of the Loans shall be used for working capital, stock repurchases and dividends permitted by Section 9.4 and general corporate purposes. The Borrower will obtain Letters of Credit solely for general corporate purposes.

7.15.2. REGULATIONS U AND X. No portion of any Loan is to be used, and no portion of any Letter of Credit is to be obtained, for the purpose of purchasing or carrying any "margin security" or "margin stock" as such terms are used in Regulations U and X of the Board of Governors of the Federal Reserve System, 12 C.F.R. Parts 221 and 224.

7.15.3. INELIGIBLE SECURITIES. No portion of the proceeds of any Loans is to be used, and no portion of any Letter of Credit is to be obtained, for the purpose of knowingly purchasing, or providing credit support for the purchase of, during the underwriting or placement period or within thirty (30) days thereafter, any Ineligible Securities underwritten or privately placed by a Financial Affiliate.

#### 7.16. ENVIRONMENTAL COMPLIANCE.

(a) None of the Borrower, its Subsidiaries or, to the best knowledge of the Borrower or any of its Subsidiaries, any operator of the Real Estate or any operations thereon is in violation, or has notice of an alleged violation, of any judgment, decree, order, law, license, rule or regulation pertaining to environmental matters, including without limitation, those arising under Environmental Laws, which violation would have a Material Adverse Effect;

(b) neither the Borrower nor any of its Subsidiaries has received written notice from any Governmental Authority, or, to the best of the Borrower's and any of its Subsidiaries' knowledge, any other third party, (i) that any one of them has been identified by the United States Environmental Protection Agency ("EPA") as a potentially responsible party under CERCLA with respect to a site listed on the National Priorities List, 40 C.F.R. Part 300 Appendix B; (ii) that any Hazardous Substances which any one of them has generated, transported or disposed of has been found at any site at which a Governmental Authority has conducted or has ordered that any Borrower or any of its Subsidiaries conduct a remedial investigation, removal or other response action pursuant to any Environmental Law; or (iii) that it is or shall be a named party to any claim, action, cause of action, complaint, or legal or administrative proceeding (in each case, contingent or otherwise), the result of which could have a Material Adverse Effect, arising out of any third party's incurrence of costs, expenses, losses or damages of any kind whatsoever in connection with the release of Hazardous Substances;

(c) except as set forth on Schedule 7.16 attached hereto, to the best of the Borrower's knowledge: (i) no underground tank or other underground storage receptacle for Hazardous Substances is located on any portion of the Real Estate in violation of applicable Environmental Laws; (ii) in the course of any activities conducted by the Borrower, its Subsidiaries or operators of its properties, no Hazardous Substances have been generated or are being used on the Real Estate except in accordance with applicable Environmental Laws; (iii) there have been no releases (i.e. any past or present releasing, spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, disposing or dumping) or threatened releases of Hazardous Substances on, upon, into or from the properties of the Borrower or its Subsidiaries, which releases would have a Material Adverse Effect; and (iv) any Hazardous Substances that have been generated on any of the Real Estate have been transported offsite only by carriers having an identification number issued by the EPA (or the equivalent thereof in any foreign jurisdiction), treated or disposed of only by treatment or disposal facilities maintaining valid permits as required under applicable Environmental Laws, which transporters and facilities have been and are, to the best of the Borrower's knowledge, operating in compliance with such permits and applicable Environmental Laws; and

(d) neither the Borrower nor any of its Subsidiaries has received written notice that it is required to conduct an environmental clean-up under any Environmental Law by virtue of the transactions set forth herein and contemplated hereby.

7.17. SUBSIDIARIES, ETC. Schedule 7.17 (as amended and in effect from time to time pursuant to Section 8.11) sets forth a complete and accurate list of all of the Subsidiaries of the Borrower. As of the Closing Date, none of the Subsidiaries of the Borrower is a Significant Subsidiary.

7.18. DISCLOSURE. None of this Credit Agreement or any of the other Loan Documents contains any untrue statement of a material fact or omits to state a material fact (known to the Borrower or any of its Subsidiaries in the case of any document or information not furnished by it or any of its Subsidiaries) necessary in order to make the statements herein or therein not misleading. There is no fact known to the Borrower or any of its Subsidiaries which has a Material Adverse Effect, or which is reasonably likely in the future to have a Material Adverse Effect, exclusive of effects resulting from changes in general economic conditions, legal standards or regulatory conditions.

7.19. FOREIGN ASSETS CONTROL REGULATIONS, ETC. None of the requesting or borrowing of the Loans, the requesting or issuance, extension or renewal of any Letters of Credit or the use of the proceeds of any thereof will violate the Trading With the Enemy Act (50 U.S.C. Sections 1 et seq., as amended) (the "Trading With the Enemy Act") or any of the foreign assets control regulations of the United States Treasury Department (31 CFR, Subtitle B, Chapter V, as amended) (the "Foreign Assets Control Regulations") or any enabling legislation or executive order relating thereto (which for the avoidance of doubt shall include,

but shall not be limited to (a) Executive Order 13224 of September 21, 2001 Blocking Property and Prohibiting Transactions With Persons Who Commit, Threaten to Commit, or Support Terrorism (66 Fed. Reg. 49079 (2001)) (the "Executive Order") and (b) the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (Public Law 107-56)). Furthermore, neither the Borrower nor any of its Subsidiaries or other Affiliates (a) is or will become a "blocked person" as described in the Executive Order, the Trading With the Enemy Act or the Foreign Assets Control Regulations or (b) engages or will engage in any dealings or transactions, or be otherwise associated, with any such "blocked person".

#### 8. AFFIRMATIVE COVENANTS.

The Borrower covenants and agrees that, so long as any Loan, Unpaid Reimbursement Obligation, Letter of Credit or Note is outstanding or any Lender has any obligation to make any Loans or the Issuing Lender has any obligation to issue, extend, amend or renew any Letters of Credit:

8.1. PUNCTUAL PAYMENT. Subject to the grace periods set forth in Section 13.1(b), the Borrower will duly and punctually pay or cause to be paid the principal and interest on the Loans, all Reimbursement Obligations, the Letter of Credit Fees, the commitment fees, the Administrative Agent's fee and all other amounts provided for in this Credit Agreement and the other Loan Documents to which the Borrower or any of its Subsidiaries is a party, all in accordance with the terms of this Credit Agreement and such other Loan Documents.

8.2. RECORDS AND ACCOUNTS. The Borrower will (a) keep, and cause each of its Subsidiaries to keep, true and accurate records and books of account in which full, true and correct entries will be made in accordance with GAAP, (b) maintain adequate accounts and reserves for all taxes (including income taxes), depreciation, depletion, obsolescence and amortization of its properties and the properties of its Subsidiaries, contingencies, and other reserves, and (c) at all times engage an independent certified public accountant.

8.3. FINANCIAL STATEMENTS, CERTIFICATES AND INFORMATION. The Borrower will deliver to each of the Lenders:

(a) as soon as practicable, but in any event not later than ninety (90) days after the end of each fiscal year of the Borrower, the consolidated and combined balance sheet of the Borrower and its Subsidiaries as at the end of such year, and the related consolidated and combined statement of income and consolidated and combined statement of cash flow for such year, each setting forth in comparative form the figures for the previous fiscal year and all such consolidated and combined statements to be in reasonable detail, prepared in accordance with GAAP, and audited by an independent certified public accountant;

(b) as soon as practicable, but in any event not later than forty-five (45) days after the end of each of the fiscal quarters of the Borrower, copies of the unaudited consolidated and combined balance sheet of the Borrower and its Subsidiaries as at the end of such quarter, and the related consolidated and combined statement of income and consolidated and combined statement of cash flow for the portion of the Borrower's fiscal year then elapsed, all in reasonable detail and prepared in accordance with GAAP, together with a certification by the chief financial officer or treasurer of the Borrower that the information contained in such financial statements fairly presents the financial position of the Borrower and its Subsidiaries on the date thereof (subject to year-end adjustments);

(c) simultaneously with the delivery of the financial statements referred to in subsections (a) and (b) above, a statement certified by the chief financial officer or treasurer of the Borrower in substantially the form of Exhibit C hereto (a "Compliance Certificate") and setting forth in reasonable detail computations evidencing compliance with the covenants contained in Section 10;



(d) as soon as practicable after the filing or mailing thereof, copies of all financial statements, disclosure statements, reports and proxies filed with the Securities and Exchange Commission or sent to the stockholders of the Borrower;

(e) as soon as practicable, but in any event not later than thirty (30) days after the filing of the 10K of the Borrower, annual income statements, balance sheets and cash flow statements for the immediately succeeding fiscal

year of the Borrower and its Subsidiaries delivered to the Administrative Agent; and

(f) from time to time such other additional information regarding the financial position of the Borrower and its Subsidiaries as the Administrative Agent may reasonably request.

#### 8.4. NOTICES.

8.4.1. DEFAULTS. The Borrower will promptly notify the Administrative Agent and each of the Lenders in writing of the occurrence of any Default or Event of Default, together with a reasonably detailed description thereof, and the actions the Borrower proposes to take with respect thereto. If any Person shall give any notice to the Borrower or any of its Affiliates or, to the best knowledge of the Borrower, take any other action in respect of a claimed default (whether or not constituting an Event of Default) under this Credit Agreement or any other note, evidence of indebtedness, indenture or other obligation to which or with respect to which the Borrower or any of its Subsidiaries is a party or obligor, whether as principal, guarantor, surety or otherwise, the Borrower shall forthwith give written notice thereof to the Administrative Agent and each of the Lenders, describing the notice or action and the nature of the claimed default.

8.4.2. ENVIRONMENTAL EVENTS. The Borrower will promptly give notice to the Administrative Agent (a) of any violation of any Environmental Law that the Borrower or any of its Subsidiaries reports in writing (or for which any written report supplemental to any oral report is made) to any Governmental Authority and (b) upon receipt of notice thereof, of any inquiry, proceeding, investigation, or other action, including a notice from any agency or any Governmental Authority of potential environmental liability, that could have a Material Adverse Effect.

8.4.3. NOTICE OF LITIGATION AND JUDGMENTS. The Borrower will, and will cause each of its Subsidiaries to, give notice to the Administrative Agent and each of the Lenders in writing promptly of becoming aware of any litigation or proceedings threatened in writing or any pending litigation and proceedings affecting the Borrower or any of its Subsidiaries or to which the Borrower or any of its Subsidiaries is or becomes a party involving an uninsured claim against the Borrower or any of its Subsidiaries that could reasonably be expected to have a Material Adverse Effect on the Borrower or any of its Subsidiaries and stating the nature and status of such litigation or proceedings. The Borrower will, and will cause each of its Subsidiaries to, give notice to the Administrative Agent and each of the Lenders, in writing, in form and detail reasonably satisfactory to the Administrative Agent, within ten (10) days of any judgment not covered by insurance, final or otherwise, against the Borrower or any of its Subsidiaries in an amount in excess of \$5,000,000.

8.4.4. ERISA EVENTS. The Borrower will (a) promptly upon receipt or dispatch, furnish to the Administrative Agent any notice, report or demand sent or received in respect of a Guaranteed Pension Plan under Sections 302, 4041, 4042, 4043, 4063, 4065, 4066 and 4068 of ERISA, or in respect of a Multiemployer Plan, under Sections 4041A, 4202, 4219, 4242, or 4245 of ERISA and (b) upon the request of the Administrative Agent, promptly furnish to the Administrative Agent a copy of all actuarial statements required to be submitted

under all Applicable Pension Legislation.

8.4.5. NOTICE OF CHANGE OF FISCAL YEAR END. The Borrower will, and will cause each of its Subsidiaries to, give notice to the Administrative Agent in writing thirty (30) days prior to any change of the date of the end of its fiscal or financial year from that set forth in Section 7.4.1.

8.5. LEGAL EXISTENCE; MAINTENANCE OF PROPERTIES. The Borrower will do or cause to be done all things reasonably necessary to preserve and keep in full force and effect its legal existence, rights and franchises and that of its Subsidiaries. It (i) will cause all of its properties and those of its Subsidiaries used or useful in the conduct of its business or the business of its Subsidiaries to be maintained and kept in good condition, repair and working order and supplied with all necessary equipment, (ii) will cause to be made all necessary repairs, renewals, replacements, betterments and improvements thereof, all as in the judgment of the Borrower may be necessary so that the business carried on in connection therewith may be properly and advantageously conducted at all times, and (iii) will, and will cause each of its Subsidiaries to, continue to engage primarily in the businesses now conducted by them and in related businesses; provided that nothing in this Section 8.5 shall prevent the Borrower from discontinuing the operation and maintenance of any of its properties or any of those of its Subsidiaries if such discontinuance is, in the judgment of the Borrower, desirable in the conduct of its or their business and that do not in the aggregate have a Material Adverse Effect.

8.6. INSURANCE. The Borrower will, and will cause each of its Subsidiaries to, maintain with financially sound and reputable insurers insurance with respect to its properties and business against such casualties and contingencies as shall be in accordance with the general practices of businesses engaged in similar activities in similar geographic areas and in amounts, containing such terms, in such forms and for such periods as may be reasonable and prudent.

8.7. TAXES. The Borrower will, and will cause each of its Subsidiaries to, duly pay and discharge, or cause to be paid and discharged, before the same shall become overdue, all taxes, assessments and other governmental charges imposed upon it and its Real Estate, sales and activities, or any part thereof, or upon the income or profits therefrom, as well as all claims for labor, materials, or supplies that if unpaid might by law become a Lien or charge upon any of its property; provided that any such tax, assessment, charge, levy or claim need not be paid if the validity or amount thereof shall currently be contested in good faith by appropriate proceedings and if the Borrower or such Subsidiary shall have set aside on its books adequate reserves with respect thereto; and provided further that the Borrower and each Subsidiary of the

Borrower will pay all such taxes, assessments, charges, levies or claims forthwith upon the commencement of proceedings to foreclose any Lien that may have attached as security therefor.

8.8. INSPECTION OF PROPERTIES AND BOOKS, ETC.

8.8.1. GENERAL. The Borrower will keep, and will cause each Subsidiary to keep, proper books of record and account in which full, true and correct entries shall be made of all dealings and transactions in relation to its business and activities; and will permit, and will cause each Subsidiary to permit, representatives of the Administrative Agent and any Lender (prior to the occurrence or continuation of a Default or an Event of Default, at the Administrative Agent's or such Lender's expense, as applicable, unless otherwise agreed to by the Administrative Agent or such Lender, as applicable, and the Borrower, and following the occurrence or continuation of a Default or an Event of Default, at the Borrower's expense) to visit and inspect any of their respective properties, to examine and make abstracts from any of their respective books and records and to discuss their respective affairs, finances and accounts with their respective officers, employees and independent public accountants, all at such reasonable times, upon reasonable notice and as often as may reasonably be

desired.

8.8.2. COMMUNICATIONS WITH ACCOUNTANTS. If a Default or Event of Default shall have occurred or be continuing, the Borrower authorizes the Administrative Agent and, if accompanied by the Administrative Agent, the Lenders to communicate directly with the Borrower's independent certified public accountants and authorizes such accountants to disclose to the Administrative Agent and the Lenders any and all financial statements and other supporting financial documents and schedules including copies of any management letter with respect to the business, financial condition and other affairs of the Borrower or any of its Subsidiaries.

8.9. COMPLIANCE WITH LAWS. The Borrower will, and will cause each of its Subsidiaries to, comply with (a) the applicable laws and regulations wherever its business is conducted, including all Environmental Laws, (b) the provisions of its Governing Documents, (c) all agreements and instruments by which it or any of its properties may be bound and (d) all applicable decrees, orders, and judgments.

8.10. USE OF PROCEEDS. The Borrower will use the proceeds of the Loans and obtain Letters of Credit solely for the purposes set forth in Section 7.15.1.

8.11. SUBSIDIARIES.

8.11.1. ADDITIONAL SUBSIDIARIES. If, after the Closing Date, the Borrower or any of its Subsidiaries creates or acquires, either directly or indirectly, any Subsidiary, (a) it will promptly notify the Administrative Agent of such creation or acquisition, as the case may be, and provide the Administrative Agent (for itself and the Lenders) with an updated Schedule 7.17, and (b)

contemporaneously with the formation of such Subsidiary, the Borrower shall, or shall cause such Subsidiary to, take all other action required by this Section 8.11.

8.11.2. NEW GUARANTORS. The Borrower will cause each Significant Subsidiary (including any Subsidiary which, on or after the Closing Date, becomes a Significant Subsidiary) created, acquired (including any Significant Subsidiary acquired pursuant to Section 9.5.1 hereof) or otherwise existing, on or after the Closing Date to promptly become a Guarantor and shall cause such Significant Subsidiary to execute and deliver to the Administrative Agent, for the benefit of the Administrative Agent and the Lenders, a Guaranty in the form of Exhibit E hereto and to comply with all conditions precedent set forth therein.

8.12. FURTHER ASSURANCES. The Borrower will, and will cause each of its Subsidiaries to, cooperate with the Lenders and the Administrative Agent and execute such further instruments and documents as the Lenders or the Administrative Agent shall reasonably request to carry out to their satisfaction the transactions contemplated by this Credit Agreement and the other Loan Documents.

9. CERTAIN NEGATIVE COVENANTS.

The Borrower covenants and agrees that, so long as any Loan, Unpaid Reimbursement Obligation, Letter of Credit or Note is outstanding or any Lender has any obligation to make any Loans or the Issuing Lender has any obligations to issue, extend, amend or renew any Letters of Credit:

9.1. RESTRICTIONS ON INDEBTEDNESS. The Borrower will not, and will not permit any of its Subsidiaries to, create, incur, assume, guarantee or be or remain liable, contingently or otherwise, with respect to any Indebtedness other than:

(a) Indebtedness to the Lenders, the Issuing Lender and the Administrative Agent arising under any of the Loan Documents;

(b) endorsements for collection, deposit or negotiation and warranties of products or services, in each case incurred in the ordinary course of business;

(c) Indebtedness existing on the date hereof and listed and described on Schedule 9.1 hereto;

(d) Indebtedness incurred in connection with guarantees and/or comfort letters issued by the Borrower in respect of obligations of its Subsidiaries, CJI or Minority Owned Joint Ventures, provided that the aggregate amount of such Indebtedness of the Borrower shall not exceed \$30,000,000 at any one time;

(e) Indebtedness in respect of derivative contracts described in clause (i) of the definition of the term "Indebtedness" consisting of foreign exchange

contracts entered into in the ordinary course of business and for non-speculative purposes;

(f) Indebtedness in respect of Capitalized Leases and Synthetic Leases, provided that the aggregate principal amount of such Indebtedness of the Borrower shall not exceed the aggregate amount of \$10,000,000 at any one time;

(g) Indebtedness in respect of letters of credit in the ordinary course of business (other than Letters of Credit);

(h) Indebtedness in respect of Investments permitted pursuant to Section 9.3(g) hereof;

(i) Indebtedness of the type described in clause (g) of the definition of "Indebtedness" in an aggregate amount not to exceed \$10,000,000 at any time; and

(j) other Indebtedness of the Borrower and its Subsidiaries, provided that the aggregate principal amount of such Indebtedness of the Borrower and its Subsidiaries shall not exceed the aggregate amount of \$15,000,000 at any one time.

## 9.2. RESTRICTIONS ON LIENS.

9.2.1. PERMITTED LIENS. The Borrower will not, and will not permit any of its Subsidiaries to, (a) create or incur or suffer to be created or incurred or to exist any Lien upon any of its property or assets of any character whether now owned or hereafter acquired, or upon the income or profits therefrom; (b) transfer any of such property or assets or the income or profits therefrom for the purpose of subjecting the same to the payment of Indebtedness or performance of any other obligation in priority to payment of its general creditors; (c) acquire, or agree or have an option to acquire, any property or assets upon conditional sale or other title retention or purchase money security agreement, device or arrangement; (d) suffer to exist for a period of more than thirty (30) days after the same shall have been incurred any Indebtedness or claim or demand against it that if unpaid might by law or upon bankruptcy or insolvency, or otherwise, be given any priority whatsoever over its general creditors; or (e) sell, assign, pledge or otherwise transfer any "receivables" as defined in clause (g) of the definition of the term "Indebtedness," with or without recourse; provided that the Borrower or any of its Subsidiaries may create or incur or suffer to be created or incurred or to exist:

(i) Liens in favor of the Borrower on all or part of the assets of Subsidiaries of the Borrower securing Indebtedness owing by Subsidiaries of the Borrower to the Borrower;

(ii) Liens to secure taxes, assessments and other government charges in respect of obligations not overdue or Liens on properties to secure claims for labor, material or supplies in respect of obligations not overdue;

(iii) deposits or pledges made in connection with, or to secure payment of, workmen's compensation, unemployment insurance, old age pensions or other social security obligations;

(iv) Liens on properties in respect of judgments or awards that have been in force for less than the applicable period for taking an appeal so long as execution is not levied thereunder or in respect of which the Borrower or such Subsidiary shall at the time in good faith be prosecuting an appeal or proceedings for review and in respect of which a stay of execution shall have been obtained pending such appeal or review;

(v) Liens of carriers, warehousemen, mechanics and materialmen, and other like Liens on properties, in respect of obligations not overdue or which the Borrower is diligently contesting in good faith;

(vi) encumbrances on Real Estate consisting of easements, rights of way, zoning restrictions, restrictions on the use of real property and defects and irregularities in the title thereto, landlord's or lessor's liens and other minor Liens, provided that none of such Liens (A) interferes materially with the use of the property affected in the ordinary conduct of the business of the Borrower and its Subsidiaries, and (B) individually or in the aggregate have a Material Adverse Effect;

(vii) Liens existing on the date hereof and listed on Schedule 9.2 hereto;

(viii) Liens to secure the performance of bids, tenders, contracts (other than contracts for the payment of Indebtedness), leases, statutory obligations, surety, customs, appeal, performance and payment bonds and other obligations of like nature, in each such case arising in the ordinary course of business;

(ix) Liens with respect to Indebtedness permitted under Sections 9.1(f) and (i) hereof; and

(x) other Liens not otherwise permitted hereunder, provided that such Liens do not secure more than Indebtedness in an aggregate amount outstanding or committed in excess of \$10,000,000, which Indebtedness is also permitted under Section 9.1 hereof.

9.2.2. RESTRICTIONS ON NEGATIVE PLEDGES AND UPSTREAM LIMITATIONS. The Borrower will not, nor will it permit any of its Subsidiaries to (a) enter into or permit to exist any arrangement or agreement (other than the Credit Agreement and the other Loan Documents) which directly or indirectly prohibits the Borrower or any of its Subsidiaries from creating, assuming or incurring any Lien upon its properties, revenues or assets or those of any of its Subsidiaries whether now owned or hereafter acquired, or (b) enter into any agreement, contract or arrangement (other than the Credit Agreement and the other Loan Documents) restricting the ability of any Subsidiary of the Borrower

to pay or make dividends or distributions in cash or kind to the Borrower, to make loans, advances or other payments of whatsoever nature to the Borrower, or to make transfers or distributions of all or any part of its assets to the Borrower, in each case other than customary anti-assignment provisions contained in leases and licensing agreements entered into by the Borrower or such Subsidiary in the ordinary course of its business.

9.3. RESTRICTIONS ON INVESTMENTS. The Borrower will not, and will not permit any of its Subsidiaries to, make or permit to exist or to remain outstanding any Investment except Investments in:

(a) marketable direct or guaranteed obligations of the United States of America that mature within one (1) year from the date of purchase by the Borrower;

(b) demand deposits, certificates of deposit, bank acceptances and time deposits of (i) United States banks having total assets in excess of \$1,000,000,000, (ii) any Lender or (iii) a commercial bank organized under the laws of any other country which is a member of the Organization for Economic Cooperation and Development (the

"OECD"), or a political subdivision of such country, and having total assets in excess of \$1,000,000,000; provided that such bank is acting through a branch or agency located in the country in which it is organized or another country which is a member of the OECD;

(c) securities commonly known as "commercial paper" issued by a corporation organized and existing under the laws of the United States of America or any state thereof that at the time of purchase have been rated and the ratings for which are not less than "P 1" if rated by Moody's, and not less than "A 1" if rated by S&P;

(d) repurchase obligations with a term of not more than seven (7) days for underlying securities of the types described in Sections 9.3(a) and (b);

(e) mutual funds which invest solely in the items described in Sections 9.3(a) - (d);

(f) Investments existing on the date hereof and listed on Schedule 9.3 hereto;

(g) (i) Investments consisting of the Guaranties, (ii) Investments by the Borrower in any Guarantor hereunder or by any Guarantor in the Borrower or any other Guarantor, (iii) Investments in Subsidiaries which are not Guarantors provided that the aggregate of such Investments of the Borrower in Subsidiaries (other than CJI) which are not Guarantors shall not exceed the aggregate amount of \$15,000,000, and (iv) Investments in Minority Owned Joint Ventures not to exceed \$15,000,000;

(h) Investments in CJI, provided that at the time of and after giving effect to any such Investment (i) no Default or Event of Default has occurred

and is continuing, and (ii) the Borrower provides the Administrative Agent with evidence of Borrower's Minimum Liquidity;

(i) Investments consisting of promissory notes received as proceeds of asset dispositions permitted by Section 9.5.2;

(j) Investments consisting of loans and advances to employees for moving, entertainment, travel and other similar expenses in the ordinary course of business not to exceed \$1,000,000 in the aggregate at any time outstanding;

(k) Investments in Permitted Acquisitions (other than Minority Owned Joint Ventures or CJI) permitted by Section 9.5.1(a) hereof; and

(l) other Investments of the Borrower and its Subsidiaries not to exceed the aggregate amount of \$10,000,000.

9.4. RESTRICTED PAYMENTS. The Borrower will not make any Restricted Payments; provided, however, that so long as no Default or Event of Default has occurred and is continuing or would exist as a result thereof, the Borrower shall be permitted to make repurchases of or pay dividends with respect to its Capital Stock, so long as (a) the aggregate amount of the consideration paid by the Borrower for all such Distributions does not exceed the sum of \$200,000,000 plus, on a cumulative basis, seventy-five percent (75%) of positive Consolidated Net Income for each fiscal quarter subsequent to September 27, 2003, and (b) at the time of and after giving effect to any Distribution (i) no Default or Event of Default has occurred and is continuing, and (ii) the Borrower provides the Administrative Agent with evidence of Borrower's Minimum Liquidity.

#### 9.5. MERGER, CONSOLIDATION AND DISPOSITION OF ASSETS.

9.5.1. MERGERS AND ACQUISITIONS. The Borrower will not, and will not permit any of its Subsidiaries to, become a party to any merger, amalgamation or consolidation, or agree to or effect any asset acquisition or stock acquisition (other than the acquisition of assets in the ordinary course of business consistent with past practices) except (a) the merger or consolidation of one or more of

the Subsidiaries of the Borrower with and into the Borrower; (b) the merger or consolidation of two or more Subsidiaries of the Borrower; and (c) any asset or stock or other equity interest acquisition by the Borrower or any of its Subsidiaries of Persons in the same or similar line of business as the Borrower (a "Permitted Acquisition") where (1) the Borrower has notified the Administrative Agent of such Permitted Acquisition; (2) the business to be acquired would not subject the Administrative Agent or the Lenders to any additional regulatory or third party approvals in connection with the exercise of its rights and remedies under this Credit Agreement or any other Loan Document; (3) no contingent liabilities will be incurred or assumed in connection with such Permitted Acquisition which could reasonably be expected to have a Material Adverse Effect, and any Indebtedness incurred or assumed

in connection with such Permitted Acquisition shall have been permitted to be incurred or assumed pursuant to Section 9.1 hereof; (4) the Borrower has provided the Administrative Agent with such other information as was reasonably requested by the Administrative Agent; (5) after the consummation of the Permitted Acquisition (other than with respect to a Minority Owned Joint Venture or CJI), to the extent such acquisition was a stock acquisition, the Person so acquired is merged with and into the Borrower or its Subsidiary, with the Borrower or such Subsidiary, as the case may be, being the survivor of such merger; (6) the aggregate amount of the purchase price for all Permitted Acquisitions (or series of related acquisitions) and Minority Owned Joint Ventures (other than CJI) shall not exceed \$50,000,000 in any fiscal year and shall not exceed \$75,000,000 (with the amount of the purchase price for all Minority Owned Joint Ventures and CJI in any fiscal year or over the life of this Credit Agreement not to exceed the Investment amounts permitted under Sections 9.3(g) and 9.3(h), respectively); (7) the board of directors and the shareholders (if required by applicable law), or the equivalent, of each of the Borrower and the Person to be acquired has approved such merger, consolidation or acquisition and such Permitted Acquisition is otherwise considered "friendly"; (8) if the Permitted Acquisition is of a Significant Subsidiary, the Borrower complies with the requirements of Section 8.11 hereof with respect to the Significant Subsidiary so acquired; and (9) the Borrower has delivered to the Administrative Agent and the Lenders a certificate of the chief financial officer or treasurer of the Borrower (A) to the effect that the Borrower and its Subsidiaries, on a consolidated and consolidating basis, will be solvent upon the consummation of the Permitted Acquisition; (B) certifying and attaching a pro forma Compliance Certificate evidencing compliance with Section 10 hereof immediately prior to and immediately after giving effect to such Permitted Acquisition, and fairly presenting the financial condition of the Borrower and its Subsidiaries as of the date thereof and after giving effect to such Permitted Acquisition; and (C) to the effect that no Default or Event of Default then exists or would result after giving effect to the Permitted Acquisition.

9.5.2. DISPOSITION OF ASSETS. The Borrower will not, and will not permit any of its Subsidiaries to, become a party to or agree to or effect any disposition of assets, other than (a) the sale of inventory, the licensing of intellectual property and the disposition of obsolete assets, in each case in the ordinary course of business consistent with past practices; (b) the disposition of individual stores in the ordinary course of business consistent with past practices; and (c) dispositions with respect to Indebtedness permitted under Section 9.1(i) hereof.

9.6. SALE AND LEASEBACK. The Borrower will not, and will not permit any of its Subsidiaries to, enter into any arrangement, directly or indirectly, whereby the Borrower or any Subsidiary of the Borrower shall sell or transfer any property owned by it in order then or thereafter to lease such property that the Borrower or any Subsidiary of the Borrower intends to use for substantially the same purpose as the property being sold or transferred.

9.7. COMPLIANCE WITH ENVIRONMENTAL LAWS. The Borrower will not, and will not permit any of its Subsidiaries to, in any manner that would violate any Environmental Law or bring such Real Estate in violation of any Environmental Law, (a) use any of the Real Estate or any portion thereof for the handling, processing, storage or disposal of Hazardous Substances, (b) cause or permit to be located on any of the Real Estate any underground tank or other underground storage receptacle for Hazardous Substances, (c) generate any Hazardous Substances on any of the Real Estate, (d) conduct any activity at any Real Estate or use any Real Estate in any manner so as to cause a release or threatened release of Hazardous Substances on, upon or into the Real Estate or (e) otherwise violate any Environmental Law or bring such Real Estate in violation of any Environmental Law, in each case which would have a Material Adverse Effect.

9.8. EMPLOYEE BENEFIT PLANS. Except as could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect, neither the Borrower nor any ERISA Affiliate will:

(a) engage in any "prohibited transaction" within the meaning of Section 406 of ERISA or Section 4975 of the Code which could result in a material liability for the Borrower or any of its Subsidiaries; or

(b) permit any Guaranteed Pension Plan to incur an "accumulated funding deficiency", as such term is defined in Section 302 of ERISA, whether or not such deficiency is or may be waived; or

(c) fail to contribute to any Guaranteed Pension Plan to an extent which, or terminate any Guaranteed Pension Plan in a manner which, could result in the imposition of a lien or encumbrance on the assets of the Borrower or any of its Subsidiaries pursuant to Section 302(f) or Section 4068 of ERISA; or

(d) amend any Guaranteed Pension Plan in circumstances requiring the posting of security pursuant to Section 307 of ERISA or Section 401(a)(29) of the Code;

(e) permit or take any action which would result in the aggregate benefit liabilities (with the meaning of Section 4001 of ERISA) of all Guaranteed Pension Plans exceeding the value of the aggregate assets of such Plans, disregarding for this purpose the benefit liabilities and assets of any such Plan with assets in excess of benefit liabilities; or

(f) permit or take any action which would contravene any Applicable Pension Legislation.

9.9. BUSINESS ACTIVITIES. The Borrower will not, and will not permit any of its Subsidiaries to, engage directly or indirectly (whether through Subsidiaries or otherwise) in any type of business other than the businesses conducted by them on the Closing Date and in related businesses.

9.10. TRANSACTIONS WITH AFFILIATES. The Borrower will not, and will not permit any of its Subsidiaries to, engage in any transaction with any Affiliate (other than for services as employees, officers and directors), including any contract, agreement or other arrangement providing for the furnishing of services to or by, providing for rental of real or personal property to or from, or otherwise requiring payments to or from any such Affiliate or, to the knowledge of the Borrower, any corporation, partnership, trust or other entity in which any such Affiliate has a substantial interest or is an officer, director, trustee or partner, on terms more favorable to such Person than would have been obtainable on an arm's-length basis in the ordinary course of business.

#### 10. FINANCIAL COVENANTS.

The Borrower covenants and agrees that, so long as any Loan, Unpaid Reimbursement Obligation, Letter of Credit or Note is outstanding or any Lender has any obligation to make any Loans or the Issuing Lender has any obligation to issue, extend, amend or renew any Letters of Credit:



10.1. FIXED CHARGE RATIO. The Borrower will not permit the Fixed Charge Ratio at the end of any Reference Period to be less than 2.50 to 1.

10.2. LEVERAGE RATIO. The Borrower will not permit the Leverage Ratio at the end of any Reference Period to be greater than 1.50 to 1.

#### 11. CLOSING CONDITIONS.

The obligations of the Lenders to make the initial Revolving Credit Loans and of the Issuing Lender to issue any initial Letters of Credit shall be subject to the satisfaction of the following conditions precedent on or prior to October 16, 2003:

11.1. LOAN DOCUMENTS. Each of the Loan Documents shall have been duly executed and delivered by the respective parties thereto, shall be in full force and effect and shall be in form and substance satisfactory to each of the Lenders. The Administrative Agent shall have received fully executed copies of each such document in sufficient quantities to deliver one (1) fully executed original of each such document to each Lender.

11.2. CERTIFIED COPIES OF GOVERNING DOCUMENTS. The Administrative Agent shall have received from the Borrower and each of the Guarantors copies, certified by a duly authorized officer of such Person to be true and complete on the Closing Date, of each of its Governing Documents as in effect on such date of certification.

11.3. CORPORATE OR OTHER ACTION. All corporate (or other) action necessary for the valid execution, delivery and performance by the Borrower and each of the Guarantors of this Credit Agreement and the other Loan Documents to which it is or is to become a party shall have been duly and effectively taken, and evidence thereof satisfactory to the Lenders shall have been provided to the Administrative Agent.

11.4. INCUMBENCY CERTIFICATE. The Administrative Agent shall have received from the Borrower and each of the Guarantors an incumbency certificate, dated as of

the Closing Date, signed by a duly authorized officer of the Borrower or such Guarantor, and giving the name and bearing a specimen signature of each individual who shall be authorized: (a) to sign, in the name and on behalf of each of the Borrower or such Guarantor, each of the Loan Documents to which the Borrower or such Guarantor is or is to become a party; (b) in the case of the Borrower, to make Loan Requests and Conversion Requests and to apply for Letters of Credit; and (c) to give notices and to take other action on its behalf under the Loan Documents.

11.5. CERTIFICATES OF LOCATION AND UCC SEARCH RESULTS. The Administrative Agent shall have received a completed and fully executed certificate of location and the results of UCC searches (and the equivalent thereof in all applicable foreign jurisdictions), indicating no Liens other than Permitted Liens and otherwise in form and substance satisfactory to the Administrative Agent.

11.6. CERTIFICATES OF INSURANCE. The Administrative Agent shall have received a certificate of insurance from an independent insurance broker dated on or before the Closing Date and/or such other evidence of insurance as is satisfactory to the Administrative Agent, identifying insurers, types of insurance, insurance limits, and policy terms, and otherwise describing the insurance obtained in accordance with the provisions of the Loan Documents.

11.7. OPINION OF COUNSEL. The Administrative Agent shall have received a favorable legal opinion addressed to the Lenders and the Administrative Agent, dated as of the Closing Date and in sufficient quantities to deliver one (1) original of each such opinion to each Lender, in form and substance satisfactory to the Administrative Agent, from:

(a) Latham & Watkins, counsel to the Borrower and the Guarantors; and

(b) Venable LLP, Maryland counsel to the Borrower.

11.8. PAYMENT OF FEES. The Borrower shall have paid to the Lenders or the Administrative Agent, as appropriate, the Fees pursuant to Sections 5.1 and 5.2.

11.9. TERMINATION OF EXISTING CREDIT FACILITY. The Administrative Agent shall have received evidence that the existing Revolving Credit Agreement by and among the Borrower, Fleet, the lenders thereto and Fleet, as administrative agent, dated as of February 27, 2001 has been terminated and all obligations thereunder have been discharged.

11.10. CLOSING CERTIFICATE. The Borrower shall have delivered to the Administrative Agent a certificate, dated as of the Closing Date, stating that, as of such date (a) the representations and warranties set forth herein or in any other Loan Document are true and correct, and (b) no Default or Event of Default has occurred and is continuing.

11.11. PRO FORMA COMPLIANCE CERTIFICATE. The Borrower shall have delivered to the Administrative Agent and each of the Lenders a statement certified by the chief

financial officer or treasurer of the Borrower in substantially the form of Exhibit C hereto (a "Compliance Certificate") and setting forth in reasonable detail computations evidencing pro forma compliance as of the Balance Sheet Date with the covenants contained in Section 10.

## 12. CONDITIONS TO ALL BORROWINGS.

The obligations of the Lenders to make any Loan and of the Issuing Lender to issue, extend, amend or renew any Letter of Credit, in each case whether on or after the Closing Date, shall also be subject to the satisfaction of the following conditions precedent:

12.1. REPRESENTATIONS TRUE; NO EVENT OF DEFAULT. Each of the representations and warranties of any of the Borrower and its Subsidiaries contained in this Credit Agreement, the other Loan Documents or in any document or instrument delivered pursuant to or in connection with this Credit Agreement shall be true as of the date as of which they were made and shall also be true at and as of the time of the making of such Loan or the issuance, extension, amendment or renewal of such Letter of Credit, with the same effect as if made at and as of that time (except to the extent of changes resulting from transactions contemplated or permitted by this Credit Agreement and the other Loan Documents and changes occurring in the ordinary course of business that singly or in the aggregate are not materially adverse, and to the extent that such representations and warranties relate expressly to an earlier date) and no Default or Event of Default shall have occurred and be continuing.

12.2. NO LEGAL IMPEDIMENT. No change shall have occurred in any law or regulations thereunder or interpretations thereof that in the reasonable opinion of any Lender would make it illegal for such Lender to make such Loan or to participate in the issuance, extension, amendment or renewal of such Letter of Credit or in the reasonable opinion of the Administrative Agent would make it illegal for the Issuing Lender to issue, extend, amend or renew such Letter of Credit.

12.3. PROCEEDINGS AND DOCUMENTS. All proceedings in connection with the transactions contemplated by this Credit Agreement, the other Loan Documents and all other documents incident thereto shall be satisfactory in substance and in form to the Lenders and to the Administrative Agent and the Administrative Agent's Special Counsel, and the Lenders, the Administrative Agent and such counsel shall have received all information and such counterpart originals or certified or other copies of such documents as the Administrative Agent may reasonably request.

## 13. EVENTS OF DEFAULT; ACCELERATION; ETC.

13.1. EVENTS OF DEFAULT AND ACCELERATION. If any of the following events ("Events of Default" or, if the giving of notice or the lapse of time or both is required, then, prior to such notice or lapse of time, "Defaults") shall occur:

(a) the Borrower shall fail to pay any principal of the Loans or any Reimbursement Obligation when the same shall become due and

payable (including, without limitation, under and pursuant to Section 3.2(a) and (b)),

whether at the stated date of maturity or any accelerated date of maturity or at any other date fixed for payment;

(b) the Borrower or any of its Subsidiaries shall fail to pay any interest on the Loans, any Fees, or other sums due hereunder or under any of the other Loan Documents, within three (3) Business Days after the same shall become due and payable, whether at the stated date of maturity or any accelerated date of maturity or at any other date fixed for payment;

(c) the Borrower shall fail to comply with any of its covenants contained in Section 8.1, the first sentence of Section 8.4.1, the first sentence of Section 8.5, Sections 9.1 - 9.6 or Section 10;

(d) the Borrower or any of its Subsidiaries shall fail to perform any term, covenant or agreement contained herein or in any of the other Loan Documents (other than those specified elsewhere in this Section 13.1) for thirty (30) days after written notice of such failure has been given to the Borrower by the Administrative Agent;

(e) any representation or warranty of the Borrower or any of its Subsidiaries (whether in this Credit Agreement or any of the other Loan Documents or in any other document or instrument delivered pursuant to or in connection with this Credit Agreement) shall prove to have been false in any material respect upon the date when made or deemed to have been made or repeated;

(f) the Borrower or any of its Subsidiaries shall fail to pay at maturity, or within any applicable period of grace, any obligation for borrowed money or credit received or in respect of any Capitalized Leases, in an aggregate principal amount in excess of \$5,000,000, or fail to observe or perform any material term, covenant or agreement contained in any agreement by which it is bound, evidencing or securing borrowed money or credit received or in respect of any Capitalized Leases, in an aggregate principal amount in excess of \$5,000,000, for such period of time as would permit (assuming the giving of appropriate notice if required) the holder or holders thereof or of any obligations issued thereunder to accelerate the maturity thereof, or any such holder or holders shall rescind or shall have a right to rescind the purchase of any such obligations;

(g) the Borrower or any of its Subsidiaries shall make an assignment for the benefit of creditors, or admit in writing its inability to pay or generally fail to pay its debts as they mature or become due, or shall petition or apply for the appointment of a trustee or other custodian, liquidator or receiver of the Borrower or any of its Subsidiaries or of any substantial part of the assets of the Borrower or any of its Subsidiaries or shall commence any case or other proceeding relating to the Borrower or any of its Subsidiaries under any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution or liquidation or similar law of any jurisdiction, now or hereafter in

effect, or shall take any action to authorize or in furtherance of any of the foregoing, or if any such petition or application shall be filed or any such case or other proceeding shall be commenced against the Borrower or any of its Subsidiaries and the Borrower or any of its Subsidiaries shall indicate its approval thereof, consent thereto or acquiescence therein or such petition or application shall not have been dismissed within sixty (60) days following the filing thereof;

(h) a decree or order is entered appointing any such trustee, custodian, liquidator or receiver or adjudicating the Borrower or any of its Subsidiaries bankrupt or insolvent, or approving a petition in any such case or other proceeding, or a decree or order

for relief is entered in respect of the Borrower or any Subsidiary of the Borrower in an involuntary case under federal bankruptcy laws as now or hereafter constituted;

(i) there shall remain in force, undischarged, unsatisfied and unstayed, for more than sixty days, whether or not consecutive, any final judgment against the Borrower or any of its Subsidiaries that, with other outstanding final judgments, undischarged, against the Borrower or any of its Subsidiaries exceeds in the aggregate \$5,000,000;

(j) if any of the Loan Documents shall be cancelled, terminated, revoked or rescinded, in each case otherwise than in accordance with the terms thereof or with the express prior written agreement, consent or approval of the Lenders, or any action at law, suit or in equity or other legal proceeding to cancel, revoke or rescind any of the Loan Documents shall be commenced by or on behalf of the Borrower or any of its Subsidiaries party thereto or any of their respective stockholders, or any court or any other governmental or regulatory authority or agency of competent jurisdiction shall make a determination that, or issue a judgment, order, decree or ruling to the effect that, any one or more of the Loan Documents is illegal, invalid or unenforceable in accordance with the terms thereof;

(k) the Borrower or any ERISA Affiliate incurs any liability to the PBGC or a Guaranteed Pension Plan pursuant to Title IV of ERISA in an aggregate amount exceeding \$5,000,000, or the Borrower or any ERISA Affiliate is assessed withdrawal liability pursuant to Title IV of ERISA by a Multiemployer Plan requiring aggregate annual payments exceeding \$5,000,000, or any of the following occurs with respect to a Guaranteed Pension Plan: (i) an ERISA Reportable Event, or a failure to make a required installment or other payment (within the meaning of Section 302(f)(1) of ERISA), provided that the Administrative Agent determines in its reasonable discretion that such event (A) could be expected to result in liability of the Borrower or any of its Subsidiaries to the PBGC or such Guaranteed Pension Plan in an aggregate amount exceeding \$5,000,000 and (B) could constitute grounds for the termination of such Guaranteed Pension Plan by the PBGC, for the appointment by the appropriate United States District Court of a trustee to administer such Guaranteed Pension Plan or for the imposition of a lien in

favor of such Guaranteed Pension Plan; or (ii) the appointment by a United States District Court of a trustee to administer such Guaranteed Pension Plan; or (iii) the institution by the PBGC of proceedings to terminate such Guaranteed Pension Plan;

(l) the Borrower or any of its Subsidiaries is obligated to repurchase \$5,000,000 or more of receivables of the type described in clause (g) of the definition of "Indebtedness" hereof, whether sold under a purchase facility or otherwise, or a termination event occurs in connection with any such sale or with respect to any such facility; or

(m) a Change of Control shall occur;

then, and in any such event, so long as the same may be continuing, the Administrative Agent may, and upon the request of the Required Lenders shall, by notice in writing to the Borrower declare all amounts owing with respect to this Credit Agreement, the Notes and the other Loan Documents and all Reimbursement Obligations to be, and they shall thereupon forthwith become, immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived by the Borrower; provided that in the event of any Event of Default specified in Sections 13.1(g) or 13.1(h), all such amounts shall become immediately due and payable automatically and without any requirement of notice from the Administrative Agent or any Lender.

13.2. TERMINATION OF COMMITMENTS. If any one or more of the Events of Default specified in Section 13.1(g) or Section 13.1(h) shall occur, any unused portion of the credit hereunder shall forthwith terminate and each of the Lenders shall be relieved of all further obligations to make

Loans to the Borrower and the Issuing Lender shall be relieved of all further obligations to issue, extend, amend or renew Letters of Credit. If any other Event of Default shall have occurred and be continuing, the Administrative Agent may and, upon the request of the Required Lenders, shall, by notice to the Borrower, terminate the unused portion of the credit hereunder, and upon such notice being given such unused portion of the credit hereunder shall terminate immediately and each of the Lenders shall be relieved of all further obligations to make Loans and the Issuing Lender shall be relieved of all further obligations to issue, extend, amend or renew Letters of Credit. No termination of the credit hereunder shall relieve the Borrower or any of its Subsidiaries of any of the Obligations.

13.3. REMEDIES. In case any one or more of the Events of Default shall have occurred and be continuing, and whether or not the Lenders shall have accelerated the maturity of the Loans pursuant to Section 13.1, each Lender, if owed any amount with respect to the Loans or the Reimbursement Obligations, may, with the consent of the Administrative Agent and the Required Lenders but not otherwise, proceed to protect and enforce its rights by suit in equity, action at law or other appropriate proceeding, whether for the specific performance of any covenant or agreement contained in this Credit Agreement and the other Loan Documents or any instrument pursuant to which the Obligations to such Lender are evidenced, including as permitted by applicable law the obtaining of the ex parte appointment of a receiver, and, if such amount shall have

become due, by declaration or otherwise, proceed to enforce the payment thereof or any other legal or equitable right of such Lender. No remedy herein conferred upon any Lender or the Administrative Agent or the holder of any Note or purchaser of any Letter of Credit Participation is intended to be exclusive of any other remedy and each and every remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing at law or in equity or by statute or any other provision of law.

#### 14. THE AGENT.

##### 14.1. AUTHORIZATION.

(a) The Administrative Agent is authorized to take such action on behalf of each of the Lenders and to exercise all such powers as are hereunder and under any of the other Loan Documents and any related documents delegated to the Administrative Agent, together with such powers as are reasonably incident thereto, provided that no duties or responsibilities not expressly assumed herein or therein shall be implied to have been assumed by the Administrative Agent.

(b) The relationship between the Administrative Agent and each of the Lenders is that of an independent contractor. The use of the term "Administrative Agent" is for convenience only and is used to describe, as a form of convention, the independent contractual relationship between the Administrative Agent and each of the Lenders. Nothing contained in this Credit Agreement nor the other Loan Documents shall be construed to create an agency, trust or other fiduciary relationship between the Administrative Agent and any of the Lenders.

(c) As an independent contractor empowered by the Lenders to exercise certain rights and perform certain duties and responsibilities hereunder and under the other Loan Documents, the Administrative Agent is nevertheless a "representative" of the Lenders, as that term is defined in Article 1 of the Uniform Commercial Code, for purposes of actions for the benefit of the Lenders and the Administrative Agent with respect to all cash collateral for Letters of Credit described in Sections 4.2(b) and (c) hereof and guaranties contemplated by the Loan Documents.

14.2. EMPLOYEES AND ADMINISTRATIVE AGENTS. The Administrative Agent may exercise its powers and execute its duties by or through employees or agents and shall be entitled to take, and to rely on, advice of counsel concerning all matters pertaining to its rights and duties under this Credit Agreement and the other Loan Documents. Prior to the existence of a

Default or an Event of Default, the Administrative Agent may utilize the services of such Persons as the Administrative Agent in consultation with the Borrower may reasonably determine, and all reasonable fees and expenses of any such Persons shall be paid by the Borrower. Following the occurrence and during the continuation of a Default or an Event of Default, the Administrative Agent may utilize the services of such Persons as the Administrative Agent in its sole discretion

may reasonably determine, and all reasonable fees and expenses of any such Persons shall be paid by the Borrower.

14.3. NO LIABILITY. Neither the Administrative Agent nor any of its shareholders, directors, officers or employees nor any other Person assisting them in their duties nor any agent or employee thereof, shall be liable for any waiver, consent or approval given or any action taken, or omitted to be taken, in good faith by it or them hereunder or under any of the other Loan Documents, or in connection herewith or therewith, or be responsible for the consequences of any oversight or error of judgment whatsoever, except that the Administrative Agent or such other Person, as the case may be, may be liable for losses due to its willful misconduct or gross negligence.

#### 14.4. NO REPRESENTATIONS.

14.4.1. GENERAL. The Administrative Agent shall not be responsible for the execution or validity or enforceability of this Credit Agreement, the Notes, the Letters of Credit, any of the other Loan Documents or any instrument at any time constituting, or intended to constitute, cash collateral for Letters of Credit described in Sections 4.2(b) and (c) hereof for the Notes, or for the value of any such cash collateral for Letters of Credit or for the validity, enforceability or collectability of any such amounts owing with respect to the Notes, or for any recitals or statements, warranties or representations made herein or in any of the other Loan Documents or in any certificate or instrument hereafter furnished to it by or on behalf of the Borrower or any of its Subsidiaries, or be bound to ascertain or inquire as to the performance or observance of any of the terms, conditions, covenants or agreements herein or in any instrument at any time constituting, or intended to constitute, cash collateral for Letters of Credit described in Sections 4.2(b) and (c) hereof for the Notes or to inspect any of the properties, books or records of the Borrower or any of its Subsidiaries. The Administrative Agent shall not be bound to ascertain whether any notice, consent, waiver or request delivered to it by the Borrower or any holder of any of the Notes shall have been duly authorized or is true, accurate and complete. The Administrative Agent has not made nor does it now make any representations or warranties, express or implied, nor does it assume any liability to the Lenders, with respect to the credit worthiness or financial conditions of the Borrower or any of its Subsidiaries. Each Lender acknowledges that it has, independently and without reliance upon the Administrative Agent or any other Lender, and based upon such information and documents as it has deemed appropriate, made its own credit analysis and decision to enter into this Credit Agreement.

14.4.2. CLOSING DOCUMENTATION, ETC. For purposes of determining compliance with the conditions set forth in Section 11, each Lender that has executed this Credit Agreement shall be deemed to have consented to, approved or accepted, or to be satisfied with, each document and matter either sent, or made available, by the Administrative Agent or the Arranger to such Lender for consent, approval, acceptance or satisfaction, or required thereunder to be to be

consent to or approved by or acceptable or satisfactory to such Lender, unless an officer of the Administrative Agent or the Arranger active upon the Borrower's account shall have received notice from such Lender prior to the Closing Date specifying such Lender's objection thereto and such objection shall not have been withdrawn by notice to the Administrative Agent or the Arranger to

such effect on or prior to the Closing Date.

#### 14.5. PAYMENTS.

14.5.1. PAYMENTS TO ADMINISTRATIVE AGENT. A payment by the Borrower to the Administrative Agent hereunder or any of the other Loan Documents for the account of any Lender shall constitute a payment to such Lender. The Administrative Agent agrees promptly to distribute to each Lender such Lender's pro rata share of payments received by the Administrative Agent for the account of the Lenders except as otherwise expressly provided herein or in any of the other Loan Documents.

14.5.2. DISTRIBUTION BY ADMINISTRATIVE AGENT. If in the opinion of the Administrative Agent the distribution of any amount received by it in such capacity hereunder, under the Notes or under any of the other Loan Documents might involve it in liability, it may refrain from making distribution until its right to make distribution shall have been adjudicated by a court of competent jurisdiction. If a court of competent jurisdiction shall adjudge that any amount received and distributed by the Administrative Agent is to be repaid, each Person to whom any such distribution shall have been made shall either repay to the Administrative Agent its proportionate share of the amount so adjudged to be repaid or shall pay over the same in such manner and to such Persons as shall be determined by such court.

14.5.3. DELINQUENT LENDERS. Notwithstanding anything to the contrary contained in this Credit Agreement or any of the other Loan Documents, any Lender that fails (a) to make available to the Administrative Agent its pro rata share of any Loan or to purchase any Letter of Credit Participation or (b) to comply with the provisions of Section 16.1 with respect to making dispositions and arrangements with the other Lenders, where such Lender's share of any payment received, whether by setoff or otherwise, is in excess of its pro rata share of such payments due and payable to all of the Lenders, in each case as, when and to the full extent required by the provisions of this Credit Agreement, shall be deemed delinquent (a "Delinquent Lender") and shall be deemed a Delinquent Lender until such time as such delinquency is satisfied. A Delinquent Lender shall be deemed to have assigned any and all payments due to it from the Borrower, whether on account of outstanding Loans, Unpaid Reimbursement Obligations, interest, fees or otherwise, to the remaining nondelinquent Lenders for application to, and reduction of, their respective pro rata shares of all outstanding Loans and Unpaid Reimbursement

Obligations. The Delinquent Lender hereby authorizes the Administrative Agent to distribute such payments to the nondelinquent Lenders in proportion to their respective pro rata shares of all outstanding Loans and Unpaid Reimbursement Obligations. A Delinquent Lender shall be deemed to have satisfied in full a delinquency when and if, as a result of application of the assigned payments to all outstanding Loans and Unpaid Reimbursement Obligations of the nondelinquent Lenders, the Lenders' respective pro rata shares of all outstanding Loans and Unpaid Reimbursement Obligations have returned to those in effect immediately prior to such delinquency and without giving effect to the nonpayment causing such delinquency.

14.6. HOLDERS OF NOTES. The Administrative Agent may deem and treat the payee of any Note or the purchaser of any Letter of Credit Participation as the absolute owner or purchaser thereof for all purposes hereof until it shall have been furnished in writing with a different name by such payee or by a subsequent holder, assignee or transferee.

14.7. INDEMNITY. The Lenders ratably agree hereby to indemnify and hold harmless the Administrative Agent and its affiliates from and against any and all claims, actions and suits (whether groundless or otherwise), losses, damages, costs, expenses (including any expenses for which the Administrative Agent or such affiliate has not been reimbursed by the Borrower as required by Section 16.2), and liabilities of every nature and character arising out of or related to this Credit Agreement, the Notes,

or any of the other Loan Documents or the transactions contemplated or evidenced hereby or thereby, or the Administrative Agent's actions taken hereunder or thereunder, except to the extent that any of the same shall be directly caused by the Administrative Agent's willful misconduct or gross negligence.

14.8. ADMINISTRATIVE AGENT AS LENDER. In its individual capacity, Fleet shall have the same obligations and the same rights, powers and privileges in respect to its Commitment and the Loans made by it, and as the holder of any of the Notes and as the purchaser of any Letter of Credit Participations, as it would have were it not also the Administrative Agent.

14.9. RESIGNATION. The Administrative Agent may resign at any time by giving sixty (60) days prior written notice thereof to the Lenders and the Borrower. Upon any such resignation, the Required Lenders shall have the right to appoint a successor Administrative Agent. Unless a Default or Event of Default shall have occurred and be continuing, such successor Administrative Agent shall be reasonably acceptable to the Borrower. If no successor Administrative Agent shall have been so appointed by the Required Lenders and shall have accepted such appointment within thirty (30) days after the retiring Administrative Agent's giving of notice of resignation, then the retiring Administrative Agent may, on behalf of the Lenders, appoint a successor Administrative Agent, which shall be a financial institution having a rating of not less than A or its equivalent by S&P. Upon the acceptance of any appointment as Administrative Agent hereunder by a successor Administrative Agent, such successor Administrative Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the retiring Administrative Agent, and the retiring Administrative Agent shall be discharged from its duties and obligations hereunder. After any retiring Administrative Agent's resignation, the provisions of this Credit Agreement and the other Loan Documents shall continue in effect for its

benefit in respect of any actions taken or omitted to be taken by it while it was acting as Administrative Agent.

14.10. NOTIFICATION OF DEFAULTS AND EVENTS OF DEFAULT. Each Lender hereby agrees that, upon learning of the existence of a Default or an Event of Default, it shall promptly notify the Administrative Agent thereof. The Administrative Agent hereby agrees that upon receipt of any notice under this Section 14.10 it shall promptly notify the other Lenders of the existence of such Default or Event of Default.

#### 15. ASSIGNMENT AND PARTICIPATION.

15.1. CONDITIONS TO ASSIGNMENT BY LENDERS. Except as provided herein, each Lender may assign to one or more Eligible Assignees, all or a portion of its interests, rights and obligations under this Credit Agreement (including all or a portion of its Commitment Percentage and Commitment and the same portion of the Loans at the time owing to it, the Notes held by it and its participating interest in the risk relating to any Letters of Credit); provided that (a) each of the Administrative Agent and, unless a Default or Event of Default shall have occurred and be continuing, the Borrower shall have given its prior written consent to such assignment, which consent, in the case of the Borrower, will not be unreasonably withheld; except that the consent of the Borrower or the Administrative Agent shall not be required in connection with any assignment by a Lender to (i) an existing Lender or (ii) a Lender Affiliate of such Lender, (b) each assignment (or, in the case of assignments by a Lender to its Lender Affiliates, the aggregate holdings of such Lender and its Lender Affiliates after giving effect to such assignments), shall be in an amount which, if less than all of such assigning Lender's rights and obligations under this Credit Agreement, is a whole multiple of \$5,000,000 or a lesser amount agreed to by the Administrative Agent, the Borrower and such assigning Lender, and (c) the parties to such assignment shall execute and deliver to the Administrative Agent, for recording in the Register (as hereinafter defined), an Assignment and Acceptance, substantially in the form of Exhibit D hereto (an "Assignment and Acceptance"), together with any Notes subject to such assignment. Upon such execution, delivery, acceptance and recording, from and after the effective date specified in each Assignment and Acceptance, which effective date shall be at least five (5) Business Days after the



execution thereof, (y) the assignee thereunder shall be a party hereto and, to the extent provided in such Assignment and Acceptance, have the rights and obligations of a Lender hereunder, and (z) the assigning Lender shall, to the extent provided in such assignment and upon payment to the Administrative Agent of the registration fee referred to in Section 15.3, be released from its obligations under this Credit Agreement.

15.2. CERTAIN REPRESENTATIONS AND WARRANTIES; LIMITATIONS; COVENANTS. By executing and delivering an Assignment and Acceptance, the parties to the assignment thereunder confirm to and agree with each other and the other parties hereto that the representations and warranties and agreements set forth in Section 3 of the Assignment and Acceptance are true and correct as of the date such Assignment and Acceptance is executed.

15.3. REGISTER. The Administrative Agent shall maintain a copy of each Assignment and Acceptance delivered to it and a register or similar list (the "Register") for the recordation of the names and addresses of the Lenders and the Commitment Percentage of, and principal amount of the Revolving Credit Loans owing to and Letter of Credit Participations purchased by, the Lenders from time to time. The entries in the Register shall be conclusive, in the absence of manifest error, and the Borrower, the Administrative Agent and the Lenders may treat each Person whose name is recorded in the Register as a Lender hereunder for all purposes of this Credit Agreement. The Register shall be available for inspection by the Borrower and the Lenders at any reasonable time and from time to time upon reasonable prior notice. Upon each such recordation, the assigning Lender agrees to pay to the Administrative Agent a registration fee in the sum of \$3,500.

15.4. NEW NOTES. Upon its receipt of an Assignment and Acceptance executed by the parties to such assignment, together with each Note subject to such assignment, the Administrative Agent shall record the information contained therein in the Register. Promptly upon the request of the assignee or the assignor thereunder, the Borrower, at its own expense, shall execute and deliver to the Administrative Agent, in exchange for each surrendered Note, a new Note to the order of such assignee in an amount equal to the amount assumed by such assignee pursuant to such Assignment and Acceptance and, if the assigning Lender has retained some portion of its obligations hereunder, a new Note to the order of the assigning Lender in an amount equal to the amount retained by it hereunder. Such new Notes shall provide that they are replacements for the surrendered Note(s), shall be in an aggregate principal amount equal to the aggregate principal amount of the surrendered Note(s), shall be dated the effective date of such Assignment and Acceptance and shall otherwise be in substantially the form of the assigned Notes. The surrendered Note(s) shall be cancelled and returned to the Borrower.

15.5. PARTICIPATIONS. Each Lender may sell participations to one or more Lenders or other entities in all or a portion of such Lender's rights and obligations under this Credit Agreement and the other Loan Documents; provided that (a) each such participation shall be in an amount of not less than \$2,500,000, (b) any such sale or participation shall not affect the rights and duties of the selling Lender hereunder to the Borrower and (c) the only rights granted to the participant pursuant to such participation arrangements with respect to waivers, amendments or modifications of the Loan Documents shall be the rights to approve waivers, amendments or modifications that would reduce the principal of or the interest rate on any Loans, extend the term or increase the amount of the Commitment of such Lender as it relates to such participant, reduce the amount of any Commitment Fee or Letter of Credit Fees to which such participant is entitled or extend any regularly scheduled payment date for principal or interest.

15.6. ASSIGNEE OR PARTICIPANT AFFILIATED WITH THE BORROWER. If any assignee Lender is an Affiliate of the Borrower, then any such assignee Lender shall have no right to vote as a Lender hereunder or under any of the other Loan Documents for purposes of granting consents or waivers or for purposes of agreeing to amendments or other modifications to any of the Loan Documents or for purposes of making requests

to the Administrative Agent pursuant to Section 13.1 or Section 13.2, and the determination of the Required Lenders shall for all purposes of this Credit Agreement and the other Loan Documents be made without regard to such assignee Lender's interest in any of the Loans or Reimbursement Obligations. If any Lender sells a participating interest in any of the Loans or Reimbursement Obligations to a participant, and such participant is the Borrower or an Affiliate of the Borrower, then such transferor Lender shall promptly notify the Administrative Agent of the sale of such participation. A transferor Lender shall have no right to vote as a Lender hereunder or under any of the other Loan Documents for purposes of granting consents or waivers or for purposes of agreeing to amendments or modifications to any of the Loan Documents or for purposes of making requests to the Administrative Agent pursuant to Section 13.1 or Section 13.2 to the extent that such participation is beneficially owned by the Borrower or any Affiliate of the Borrower, and the determination of the Required Lenders shall for all purposes of this Credit Agreement and the other Loan Documents be made without regard to the interest of such transferor Lender in the Loans or Reimbursement Obligations to the extent of such participation.

15.7. MISCELLANEOUS ASSIGNMENT PROVISIONS. Any assigning Lender shall retain its rights to be indemnified pursuant to Section 16.3 with respect to any claims or actions arising prior to the date of such assignment. If any assignee Lender is not incorporated under the laws of the United States of America or any state thereof, it shall, prior to the date on which any interest or fees are payable hereunder or under any of the other Loan Documents for its account, deliver to the Borrower and the Administrative Agent certification satisfactory in form and substance to the Administrative Agent as to its exemption from deduction or withholding of any United States federal income taxes. If any Reference Lender transfers all of its interest, rights and obligations under this Credit Agreement, the Administrative Agent shall, in consultation with the Borrower and with the consent of the Borrower and the Required Lenders, appoint another Lender to act as a Reference Lender hereunder. Anything contained in this Section 15 to the contrary notwithstanding, any Lender may at any time pledge or assign a security interest in all or any portion of its interest and rights under this Credit Agreement (including all or any portion of its Notes) to secure obligations of such Lender, including any pledge or assignment to secure obligations to any of the twelve Federal Reserve Banks organized under Section 4 of the Federal Reserve Act, 12 U.S.C. Section 341. Any foreclosure or similar action by any Person in respect of such pledge or assignment shall be subject to the other provisions of this Section 15. No such pledge or the enforcement thereof shall release the pledgor Lender from its obligations hereunder or under any of the other Loan Documents, provide any voting rights hereunder to the pledgee thereof, or affect any rights or obligations of the Borrower or Administrative Agent hereunder.

15.8. ASSIGNMENT BY BORROWER. The Borrower shall not assign or transfer any of its rights or obligations under any of the Loan Documents without the prior written consent of each of the Lenders.

#### 16. PROVISIONS OF GENERAL APPLICATION.

16.1. SETOFF. Regardless of the adequacy of any cash collateral for Letters of Credit described in Sections 4.2(b) and (c) hereof, following the occurrence and during the continuation of an Event of Default, any deposits or other sums credited by or due from any of the Lenders to the Borrower in the possession of such Lender may be applied to or set off against the payment of Obligations of the Borrower to such Lender. Each of the Lenders agree with each other Lender that (a) if an amount to be set off is to be applied to Indebtedness of the Borrower to such Lender, other than Indebtedness evidenced by the Notes held by such Lender or constituting Reimbursement Obligations owed to such Lender, such amount shall be applied ratably to such other Indebtedness and to the Indebtedness evidenced by all such Notes held by such Lender or constituting Reimbursement Obligations owed to such Lender, and (b) if such Lender shall receive from the Borrower, whether by voluntary payment, exercise of the right of setoff, counterclaim, cross action, enforcement of the claim evidenced by the Notes held by, or constituting Reimbursement Obligations owed to, such Lender by proceedings against the Borrower at law or in equity or by proof thereof in bankruptcy, reorganization, liquidation, receivership or similar proceedings, or otherwise, and shall

retain and apply to the payment of the Note or Notes held by, or Reimbursement Obligations owed to, such Lender any amount in excess of its ratable portion of the payments received by all of the Lenders with respect to the Notes held by, and Reimbursement Obligations owed to, all of the Lenders, such Lender will make such disposition and arrangements with the other Lenders with respect to such excess, either by way of distribution, pro tanto assignment of claims, subrogation or otherwise as shall result in each Lender receiving in respect of the Notes held by it or Reimbursement Obligations owed it, its proportionate payment as contemplated by this Credit Agreement; provided that if all or any part of such excess payment is thereafter recovered from such Lender, such disposition and arrangements shall be rescinded and the amount restored to the extent of such recovery, but without interest.

16.2. EXPENSES. The Borrower agrees to pay (a) any taxes (including any interest and penalties in respect thereto) payable by the Administrative Agent, any Issuing Lender, the Swing Line Lender or any of the Lenders (other than taxes based upon or measured by the income or profits of the Administrative Agent, any Issuing Lender, the Swing Line Lender or any Lender) on or with respect to the transactions contemplated by this Credit Agreement (the Borrower hereby agreeing to indemnify the Administrative Agent, each Issuing Lender, the Swing Line Lender and each Lender with respect thereto), (b) the reasonable fees, expenses and disbursements of the Administrative Agent's Special Counsel or any local counsel to the Administrative Agent incurred in connection with the preparation, syndication or administration of the Loan Documents and other instruments mentioned herein, each closing hereunder, any amendments, modifications, approvals, consents or waivers hereto or hereunder, or the cancellation of any Loan Document upon payment in full in cash of all of the Obligations or pursuant to any terms of such Loan Document for providing for such cancellation, (c) the reasonable fees, expenses and disbursements of the Administrative Agent or any of its Affiliates incurred by the Administrative Agent or such Affiliate in connection with the preparation, syndication, administration or interpretation of the Loan Documents and other instruments mentioned herein and subject to the limitations contained in the Fee Letter, (d) all reasonable out-of-pocket expenses (including without limitation reasonable attorneys' fees and costs, which attorneys

may be employees of any Lender, any Issuing Lender, the Swing Line Lender or the Administrative Agent, and reasonable consulting, accounting, appraisal, investment bankruptcy and similar professional fees and charges) incurred by any Lender, any Issuing Lender, the Swing Line Lender or the Administrative Agent in connection with (i) the enforcement of or preservation of rights under any of the Loan Documents against the Borrower or any of its Subsidiaries or the administration thereof after the occurrence of a Default or Event of Default and (ii) any litigation, proceeding or dispute whether arising hereunder or otherwise, in any way related to any Lender's, any Issuing Lender's, the Swing Line Lender's or the Administrative Agent's relationship with the Borrower or any of its Subsidiaries, except, in each case, to the extent resulting solely from the bad faith, willful misconduct or gross negligence of such party. The covenants contained in this Section 16.2 shall survive payment or satisfaction in full of all Obligations.

16.3. INDEMNIFICATION. The Borrower agrees to indemnify and hold harmless the Administrative Agent, the Arranger, their affiliates, the Issuing Lender(s), the Swing Line Lender and the Lenders from and against any and all claims, actions and suits whether groundless or otherwise, and from and against any and all liabilities, losses, damages and expenses of every nature and character arising out of this Credit Agreement or any of the other Loan Documents or the transactions contemplated hereby including, without limitation, (a) any actual or proposed use by the Borrower or any of its Subsidiaries of the proceeds of any of the Loans or Letters of Credit, (b) the Borrower or any of its Subsidiaries entering into or performing this Credit Agreement or any of the other Loan Documents or (c) with respect to the Borrower and its Subsidiaries and their respective properties and assets, the violation of any Environmental Law or laws related to Hazardous Substances or any action, suit, proceeding or investigation in relation thereto, in each case including, without limitation, the reasonable fees and disbursements of counsel incurred in connection with any such investigation, litigation or other proceeding, except to the extent resulting from the bad faith, willful

misconduct or gross negligence of such indemnified party. In litigation, or the preparation therefor, the Lenders, the Issuing Lender(s), the Swing Line Lender and the Administrative Agent and its affiliates shall be entitled to select their own counsel and, in addition to the foregoing indemnity, the Borrower agrees to pay promptly the reasonable fees and expenses of such counsel. If, and to the extent that the obligations of the Borrower under this Section 16.3 are unenforceable for any reason, the Borrower hereby agrees to make the maximum contribution to the payment in satisfaction of such obligations which is permissible under applicable law. The covenants contained in this Section 16.3 shall survive payment or satisfaction in full of all other Obligations.

#### 16.4. TREATMENT OF CERTAIN CONFIDENTIAL INFORMATION.

16.4.1. CONFIDENTIALITY. Each of the Lenders, the Issuing Lender(s), the Swing Line Lender and the Administrative Agent agrees, on behalf of itself and each of its affiliates, directors, officers, employees and representatives, to use reasonable precautions to keep confidential, in accordance with their customary procedures for handling confidential information of the same nature and in accordance with safe and sound banking practices, any non-public information

supplied to it by the Borrower or any of its Subsidiaries pursuant to this Credit Agreement that is identified by such Person as being confidential at the time the same is delivered to the Lenders, the Issuing Lender(s), the Swing Line Lender or the Administrative Agent, provided that nothing herein shall limit the disclosure of any such information (a) after such information shall have become public other than through a violation of this Section 16, (b) to the extent required by statute, rule, regulation or judicial process, (c) to counsel for any of the Lenders, any Issuing Lender, the Swing Line Lender or the Administrative Agent, (d) to bank examiners or any other regulatory authority having jurisdiction over any Lender, any Issuing Lender, the Swing Line Lender or the Administrative Agent, or to auditors or accountants, (e) to the Administrative Agent, any Issuing Lender, the Swing Line Lender, any Lender or any Financial Affiliate, (f) in connection with any litigation to which any one or more of the Lenders, any Issuing Lender, the Swing Line Lender, the Administrative Agent or any Financial Affiliate is a party, or in connection with the enforcement of rights or remedies hereunder or under any other Loan Document, (g) to a Lender Affiliate or a Subsidiary of the Administrative Agent, or (h) with the consent of the Borrower. Notwithstanding anything herein to the contrary, the Administrative Agent, each Lender and the respective Affiliates of each of the foregoing (and the respective partners, directors, officers, employees, agents, advisors and other representatives of the aforementioned Persons), and any other party, may disclose to any and all Persons, without limitation of any kind (a) any information with respect to the U.S. federal and state income tax treatment of the transactions contemplated hereby and any facts that may be relevant to understanding the U.S. federal or state income tax treatment of such transactions ("tax structure"), which facts shall not include for this purpose the names of the parties or any other Person named herein, or information that would permit identification of the parties or such other Persons, or any pricing terms or other nonpublic business or financial information that is unrelated to such tax treatment or tax structure, and (b) all materials of any kind (including opinions or other tax analyses) that are provided to the Borrowers, the Administrative Agent or such Lender relating to such tax treatment or tax structure.

16.4.2. PRIOR NOTIFICATION. Unless specifically prohibited by applicable law or court order, each of the Lenders, the Issuing Lender(s), the Swing Line Lender, the Financial Affiliate(s) and the Administrative Agent shall notify the Borrower of any request for disclosure of any such non-public information by any governmental agency or representative thereof (other than any such request in connection with an examination of the financial condition of such Lender by such governmental agency) or pursuant to legal process; provided, however, that in the event such disclosure is required pursuant to such order of a court or the order, request or demand of any administrative or regulatory agency or authority, such Lender,

such Issuing Lender, the Swing Line Lender, such Financial Affiliate and the Administrative Agent will provide the Borrower with notice prior to its disclosure of the same in order to allow (to the extent practicable) sufficient time for the Borrower to respond to or defend such order, request or demand.

16.4.3. OTHER. In no event shall any Lender, any Issuing Lender, the Swing Line Lender or the Administrative Agent be obligated or required to return any materials furnished to it or any Financial Affiliate by the Borrower or any of its Subsidiaries. The obligations of each Lender under this Section 16 shall supersede and replace the obligations of such Lender under any confidentiality letter in respect of this financing signed and delivered by such Lender to the Borrower prior to the date hereof and shall be binding upon any assignee of, or purchaser of any participation in, any interest in any of the Loans or Reimbursement Obligations from any Lender.

16.5. SURVIVAL OF COVENANTS, ETC. All covenants, agreements, representations and warranties made herein, in the Notes, in any of the other Loan Documents or in any documents or other papers delivered by or on behalf of the Borrower or any of its Subsidiaries pursuant hereto shall be deemed to have been relied upon by the Lenders, the Issuing Lender(s), the Swing Line Lender and the Administrative Agent, notwithstanding any investigation heretofore or hereafter made by any of them, and shall survive the making by the Lenders of any of the Loans and the issuance, extension, amendment or renewal of any Letters of Credit, as herein contemplated, and shall continue in full force and effect so long as any Letter of Credit or any amount due under this Credit Agreement or the Notes or any of the other Loan Documents remains outstanding or any Lender has any obligation to make any Loans or the Issuing Lender has any obligation to issue, extend, amend or renew any Letter of Credit, and for such further time as may be otherwise expressly specified in this Credit Agreement.

16.6. NOTICES. Except as otherwise expressly provided in this Credit Agreement, all notices and other communications made or required to be given pursuant to this Credit Agreement or the Notes or any Letter of Credit Applications shall be in writing and shall be delivered in hand, mailed by United States registered or certified first class mail, postage prepaid, sent by overnight courier, or sent by telegraph, telecopy, facsimile or telex and confirmed by delivery via courier or postal service, addressed as follows:

(a) if to the Borrower, at 516 West 34th Street, New York, New York 10001, Attention: Nancy Walsh, Treasurer, with a copy to the General Counsel of the Borrower, or at such other address for notice as the Borrower shall last have furnished in writing to the Person giving the notice;

(b) if to the Administrative Agent, at 40 Broad Street, Boston, Massachusetts 02110, USA, Attention: Linda Alto, Director, or such other address for notice as the Administrative Agent shall last have furnished in writing to the Person giving the notice; and

(c) if to any Lender, at such Lender's address set forth on Schedule 1 hereto, or such other address for notice as such Lender shall have last furnished in writing to the Person giving the notice.

Any such notice or demand shall be deemed to have been duly given or made and to have become effective (i) if delivered by hand, overnight courier or facsimile to a responsible officer of the party to which it is directed, at the time of the receipt thereof by such officer or the sending of such facsimile and (ii) if sent by registered or certified first-class mail, postage prepaid, on the third Business Day following the mailing thereof. Any notice or other communication to be made hereunder or under the Notes or any Letter of Credit Applications, even if otherwise required to be in writing under other provisions of this Credit Agreement, the Notes or any Letter of Credit Applications, may alternatively be made in an electronic record transmitted electronically under such authentication and other procedures as the parties hereto may from time to time agree in writing (but not an electronic record), and such electronic

transmission shall be effective at the time set forth in such procedures. Unless otherwise expressly provided in such procedures, such an electronic record shall be equivalent to a writing under the other provisions of this Credit Agreement, the Notes or any Letter of Credit Applications, and such authentication, if made in compliance with the procedures so agreed by the parties hereto in writing (but not an electronic record), shall be equivalent to a signature under the other provisions of this Credit Agreement, the Notes or any Letter of Credit Applications.

16.7. GOVERNING LAW. THIS CREDIT AGREEMENT AND, EXCEPT AS OTHERWISE SPECIFICALLY PROVIDED THEREIN, EACH OF THE OTHER LOAN DOCUMENTS ARE CONTRACTS UNDER THE LAWS OF THE STATE OF NEW YORK AND SHALL FOR ALL PURPOSES BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF SAID STATE OF NEW YORK (EXCLUDING THE LAWS APPLICABLE TO CONFLICTS OR CHOICE OF LAW OTHER THAN GENERAL OBLIGATIONS LAW SECTION 5-1401 AND SECTION 5-1402). THE BORROWER AGREES THAT ANY SUIT FOR THE ENFORCEMENT OF THIS CREDIT AGREEMENT OR ANY OF THE OTHER LOAN DOCUMENTS MAY BE BROUGHT IN THE COURTS OF THE STATE OF NEW YORK OR ANY FEDERAL COURT SITTING THEREIN AND CONSENTS TO THE NONEXCLUSIVE JURISDICTION OF SUCH COURT AND SERVICE OF PROCESS IN ANY SUCH SUIT BEING MADE UPON THE BORROWER BY MAIL AT THE ADDRESS SPECIFIED IN SECTION 16.6. THE BORROWER HEREBY WAIVES ANY OBJECTION THAT IT MAY NOW OR HEREAFTER HAVE TO THE VENUE OF ANY SUCH SUIT OR ANY SUCH COURT OR THAT SUCH SUIT IS BROUGHT IN AN INCONVENIENT COURT.

16.8. HEADINGS. The captions in this Credit Agreement are for convenience of reference only and shall not define or limit the provisions hereof.

16.9. COUNTERPARTS. This Credit Agreement and any amendment hereof may be executed in several counterparts and by each party on a separate counterpart, each of which when executed and delivered shall be an original, and all of which together shall constitute one instrument. In proving this Credit Agreement it shall not be necessary to produce or account for more than one such counterpart signed by the party against whom enforcement is sought. Delivery by facsimile by any of the parties hereto of an executed counterpart hereof or of any amendment or waiver hereto shall be as effective as an original executed counterpart hereof or of such amendment or waiver and shall

be considered a representation that an original executed counterpart hereof or such amendment or waiver, as the case may be, will be delivered.

16.10. ENTIRE AGREEMENT, ETC. The Loan Documents and any other documents executed in connection herewith or therewith express the entire understanding of the parties with respect to the transactions contemplated hereby. Neither this Credit Agreement nor any term hereof may be changed, waived, discharged or terminated, except as provided in Section 16.12.

16.11. WAIVER OF JURY TRIAL. EACH OF THE PARTIES HERETO HEREBY WAIVES ITS RIGHT TO A JURY TRIAL WITH RESPECT TO ANY ACTION OR CLAIM ARISING OUT OF ANY DISPUTE IN CONNECTION WITH THIS CREDIT AGREEMENT, THE NOTES OR ANY OF THE OTHER LOAN DOCUMENTS, ANY RIGHTS OR OBLIGATIONS HEREUNDER OR THEREUNDER OR THE PERFORMANCE OF SUCH RIGHTS AND OBLIGATIONS OR ANY COURSE OF CONDUCT, COURSE OF DEALINGS, STATEMENTS (WHETHER VERBAL OR WRITTEN) OR ACTIONS OF ANY PARTY, INCLUDING ANY COURSE OF CONDUCT, COURSE OF DEALINGS, STATEMENTS OR ACTIONS OF THE ADMINISTRATIVE AGENT, ANY ISSUING LENDER, THE SWING LINE LENDER OR ANY LENDER RELATING TO THE ADMINISTRATION OF THE LOANS OR ENFORCEMENT OF THE LOAN DOCUMENTS AND AGREES THAT IT WILL NOT SEEK TO CONSOLIDATE ANY SUCH ACTION WITH ANY OTHER ACTION IN WHICH A JURY TRIAL CANNOT BE OR HAS NOT BEEN WAIVED. Except as prohibited by law, each party hereto hereby waives any right it may have to claim or recover in any litigation referred to in the preceding sentence any special, exemplary, punitive or consequential damages or any damages other than, or in addition to, actual damages. The Borrower acknowledges and agrees that the Administrative Agent, the Issuing Lender(s), the Swing Line Lender and the Lenders have been induced to enter into this Credit Agreement and the other Loan Documents to which it is a party by, among other things, the waivers and certifications contained herein and that no representative, agent or attorney of any such party has represented to the Borrower that such party would not, in the event of litigation, seek to enforce the foregoing waivers.

16.12. CONSENTS, AMENDMENTS, WAIVERS, ETC. Any consent or approval

required or permitted by this Credit Agreement to be given by the Lenders may be given, and any term of this Credit Agreement, the other Loan Documents or any other instrument related hereto or mentioned herein may be amended, and the performance or observance by the Borrower or any of its Subsidiaries of any terms of this Credit Agreement, the other Loan Documents or such other instrument or the continuance of any Default or Event of Default may be waived (either generally or in a particular instance and either retroactively or prospectively) with, but only with, the written consent of the Borrower and the written consent of the Required Lenders. Notwithstanding the foregoing, no amendment, modification or waiver shall:

(a) without the written consent of the Borrower and each Lender directly affected thereby:

(i) reduce or forgive the principal amount of any Loans or Reimbursement Obligations, or reduce the rate of interest on the Notes or the amount of the Commitment Fee or Letter of Credit Fees, including, for purposes of calculation of the Applicable Margin, as a result of a change in the definition of Fixed Charge Ratio or any of the components thereof or the method of calculation thereto (it being understood that any change to the definition of Fixed Charge Ratio or any of the components thereof or the method of calculation thereto for purposes of calculating the covenants in Section 10 hereof shall only require the written consent of the Borrower and the Required Lenders), but excluding interest accruing pursuant to Section 5.11.2 following the effective date of any waiver by the Required Lenders of the Default or Event of Default relating thereto;

(ii) increase the amount of such Lender's Commitment or extend the expiration date of such Lender's Commitment; and

(iii) postpone or extend the Revolving Credit Loan Maturity Date or any other regularly scheduled dates for payments of principal of, or interest on, the Loans or Reimbursement Obligations or any Fees or other amounts payable to such Lender (it being understood that (A) a waiver of the application of the default rate of interest pursuant to Section 5.11.2, (B) any vote to rescind any acceleration made pursuant to Section 13.1 of amounts owing with respect to the Loans and other Obligations and (C) any modifications of the provisions relating to amounts, timing or application of prepayments of Loans and other Obligations shall require only the approval of the Required Lenders);

(b) without the written consent of all of the Lenders, amend or waive this Section 16.12 or the definition of Required Lenders;

(c) without the written consent of the Administrative Agent, amend or waive Section 14, the amount or time of payment of the Administrative Agent's Fee payable for the Administrative Agent's account or any other provision applicable to the Administrative Agent; and

(d) without the written consent of the Swing Line Lender, amend or waive Section 2.6.2, the amount or time of payment of the Swing Line Loans or any other provision applicable to the Swing Line Lender; and

(e) without the written consent of the Issuing Lender, amend or waive any Letter of Credit Fees payable for the Issuing Lender's account or any other provision applicable to the Issuing Lender.

No waiver shall extend to or affect any obligation not expressly waived or impair any right consequent thereon. No course of dealing or delay or omission on the part of the Administrative Agent, any Issuing Lender, the Swing Line Lender or any Lender in exercising any right shall operate as a waiver thereof or otherwise be prejudicial

thereto. No notice to or demand upon the Borrower shall entitle the Borrower to other or further notice or demand in similar or other circumstances.

16.13. SEVERABILITY. The provisions of this Credit Agreement are severable and if any one clause or provision hereof shall be held invalid or unenforceable in whole or in part in any jurisdiction, then such invalidity or unenforceability shall affect only such clause or provision, or part thereof, in such jurisdiction, and shall not in any manner affect such clause or provision in any other jurisdiction, or any other clause or provision of this Credit Agreement in any jurisdiction.

IN WITNESS WHEREOF, the undersigned have duly executed this Credit Agreement as of the date first set forth above.

COACH, INC.

By: \_\_\_\_\_  
Name: Nancy Walsh  
Title: Vice President and Treasurer

Coach, Inc.  
Signature Page to Revolving Credit Agreement

FLEET NATIONAL BANK, individually and as  
Administrative Agent

By: \_\_\_\_\_  
Name: Linda Alto  
Title: Director

[Lenders--To be determined]



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 International Holdings, Inc. (Cayman Islands)
10. Coach International Limited (Hong Kong)
11. Coach Manufacturing Limited (Hong Kong)
12. Coach Japan, Inc. (Japan) (50% owned)

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in this Registration Statement No. 333-51706 and No. 333-82102 on Form S-8 of Coach, Inc., of our reports dated September 15, 2004, relating to the consolidated financial statements and financial statement schedule of Coach, Inc., appearing in this Annual Report on Form 10-K of Coach, Inc. for the year ended July 3, 2004.

/s/ DELOITTE & TOUCHE LLP

New York, New York  
September 15, 2004

I, Lew Frankfort, certify that:

1. I have reviewed this Annual Report on Form 10-K of Coach, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 16, 2004

By: /s/ LEW FRANKFORT

Name: Lew Frankfort

Title: Chairman and Chief Executive Officer

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I, Michael F. Devine III, certify that:

1. I have reviewed this Annual Report on Form 10-K of Coach, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 16, 2004

By: /s/ MICHAEL F. DEVINE, III

Name: Michael F. Devine, III

Title: Senior Vice President and Chief Financial Officer

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

(i) the accompanying Annual Report on Form 10-K of the Company for the fiscal year ended July 3, 2004 (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 16, 2004

By: /s/ LEW FRANKFORT

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Name: Lew Frankfort

Title: Chairman and Chief Executive Officer

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

(i) the accompanying Annual Report on Form 10-K of the Company for the fiscal year ended July 3, 2004 (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 16, 2004

By: /s/ MICHAEL F. DEVINE, III

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Name: Michael F. Devine, III

Title: Senior Vice President and Chief Financial Officer