

June 27, 2011

Leslie F. Seidman
Chairman of the Financial Accounting Standards Board
Reference: Leases Topic 840
401 Merritt 7, P.O. Box 5116
Norwalk, CT 06856-5116

Re: Leases, Topic 840

Dear Ms. Seidman,

I would like to thank you for the Financial Accounting Standards Board's consideration given to the numerous comment letters submitted on the subject of Leases, Topic 840. I submitted a comment letter on behalf of Coach, Inc. (Comment Letter No. 474, submitted on December 15, 2010, copy attached) and am writing this letter to comment further on recent developments. Coach is a leading American marketer of fine accessories and gifts for women and men, with directly operated stores in North America, Japan, Hong Kong, Macau and mainland China. We currently have over 650 retail leases, and as you would expect, the Lease Exposure Draft is of extreme importance to our Company, given the significant potential impact to our reported financial results of operations.

I was pleased with the Board's tentative decision to include only those variable lease payments that depend on an index or are in-substance fixed lease payments structured as variable lease payments. Coach has a significant number of leases with a contingent component based on store sales and, given the current macroeconomic environment, our ability to predict sales over a ten year lease term would have been overly burdensome and subject to significant volatility. In addition, the cost of predicting contingent rental payments ten years into the future (or longer) at each reporting period would have been an excessive burden to companies such as ours with a large number of individual leases. The volatility resulting from imprecise, highly judgmental, assumptions could have been potentially significant and would have greatly diluted the usefulness of financial information for leases.

In addition, I appreciated the Board's tentative decision to include only those lease term options to extend a lease when there is a significant economic incentive. The use of the longest "more likely than not" term would have been subjective and extremely difficult to predict in an uncertain retail environment where a number of factors, such as customer traffic and buying patterns, demographics, and the decisions of other retailers in the proximity, can significantly impact decisions to renew extensions or to exercise termination options. Similar to my comment on contingent lease payments, I believe that the original position of the Board on term options would have required highly judgmental assumptions, with the potential for significant volatility.

However, I am surprised and disappointed with recent published comments noting that the Board is considering reverting back to its original position on expense recognition using the "effective interest" method. As noted in our

original comment letter, and reiterated by many other respondents, the effective interest method will result in greater expense in the earlier periods of the lease term as compared to the later periods of the lease term (i.e. the controversial front-loading impact). I strongly contend that a front-loaded expense recognition pattern does not correspond to the economic reality of a retail lease. In one of our typical store leases, the revenue generated is expected to grow over the course of the lease term. With all other factors kept equal (such as macroeconomic factors, customer traffic and buying patterns, demographics, and the decisions of other retailers in the proximity) we would project the revenues generated from a lease to increase through factors within our control (such as pricing, merchandising, and improved conversion). Under the currently proposed model, the expense allocated to the earlier periods will be the highest during the lease term, while the revenue recognition will be at its lowest, and vice versa. It is clear that this model simply does not reflect, in any way whatsoever, the underlying economic substance of the lease dynamic. I strongly encourage the Board to reconsider a straight-line expense recognition pattern to avoid a gross mismatch of revenue generation and expense recognition. This proposed expense recognition model clearly violates one of the most fundamental, critical elements at the very core of accounting theory, the matching concept.

Thank you again for the opportunity to comment on the proposed accounting treatment of Leases. I sincerely hope that the Board will reconsider the expense recognition method prior to issuing the final Accounting Standards Update.

Sincerely,



Michael F. Devine, III
Executive Vice President and Chief Financial Officer
Principal Financial Officer and Principal Accounting Officer of Coach, Inc.

December 15, 2010

Technical Director
Financial Accounting Standards Board
File Reference No. 1850-100: Leases (Topic 840)
401 Merritt 7, P.O. Box 5116
Norwalk, CT 06856-5116

Dear Board Members and Staff:

Thank you for the invitation to comment on the Proposed Accounting Standards Update regarding *File Reference No. 1850-100: Leases (Topic 840)*. On behalf of a leading American marketer of fine accessories and gifts for women and men, with directly operated stores in North America, Japan, Hong Kong, Macau and mainland China with over 650 retail leases, we would like to offer the following comments to questions noted in the aforementioned Proposed Accounting Standards Update.

Question 1: Lessees

(a) Do you agree that a lessee should recognize a right-of-use asset and a liability to make lease payments? Why or why not? If not, what alternative model would you propose and why?

Response

Although we appreciate the Board's desire to improve comparability of lease accounting across companies, we respectfully disagree with the proposal that a lessee should recognize a "right-of-use asset" and a liability to make lease payments. One of the primary objectives of the Conceptual Framework for Financial Reporting is usefulness of information to stakeholders. It is our opinion that the current lease literature is well understood by the average financial statement user. The disclosure requirements of Accounting Standards Codification ("ASC") Topic 840 provide significant quantitative and qualitative information. Current lease disclosures include rental expense, with separate disclosure of the amounts for minimum rentals, contingent rentals, and sublease rentals. Additionally, the current guidance requires disclosure of future minimum rental payments required and payments to be received for each of the five succeeding fiscal years. These disclosures taken together provide stakeholders with information to reasonably model both the income statement and the statement of cash flows. Should the changes be made as currently proposed, the right of use model for lease accounting will result in the front-loading of expense in the earlier years of a lease. We believe this effect distorts the income statement and cash flows, and deviates from the true economic impact of an operating lease to a company's financial statements. Additionally, the balance sheet will be distorted to recognize a foreign concept of "right-of-use asset" and offsetting "future lease payment liabilities (discounted net present value)," which is neither readily understandable nor useful to stakeholders. We believe the current minimum rental payments disclosure provides enough transparency into the off-balance sheet lease arrangement. As an alternative we would propose the current standard with enhanced disclosures, such as providing the net present value of all contractual obligations excluding assumptions for contingent rentals and lease extension options.

Question 8: Lease term

Do you agree that a lessee or a lessor should determine the lease term as the longest possible term that is more likely than not to occur taking into account the effect of any options to extend or terminate the lease? Why or why not? If not, how do you propose that a lessee or a lessor should determine the lease term and why?

Response

We respectfully disagree with the proposal that both lessee and lessor should determine the lease term as the longest more likely than not term. We believe that it would be proper to include optional extension periods only in instances in which it is absolutely certain they will be exercised. If the exercise of the option is uncertain and therefore the related future lease payment obligations are uncertain, we do not believe the fundamental definition of an asset or liability is met, and it would be improper to include the option in the calculation of the “right-of-use asset” and corresponding lease payment liability. Additionally, in an uncertain retail environment, factors such as customer traffic and buying patterns, demographics, and the decisions of other retailers in the proximity can significantly impact decisions to renew extensions or to exercise termination options. With so many tentative and subjective considerations determining the more likely than not lease term, the term becomes extremely subjective and less certain, which further reduces the usefulness of the information to stakeholders. We believe that using the contractual lease term as defined in the current literature is useful to decision makers and results in consistent application between companies and greater comparability over the more likely than not approach. There is significantly greater subjectivity in the proposed model that would result in differing conclusions when determining lease terms for leases that are, for all intents and purposes, relatively identical. The subjectivity will impact comparability between companies and also across business units of a multinational company, such as ours. Of our over 650 retail leases, extensions will be evaluated by local teams across North America, Japan and China.

Furthermore, considerations of lease extension and termination options will impact current earnings and the balance sheet for future expense or income that is uncertain. This introduces the possibility of significant volatility for even the best assumption on the more likely than not lease term, if unforeseen circumstances arise and change the facts surrounding the lease plans. Simple, common changes will cause recognition of an impairment loss on the “right-of-use asset,” partially offset by the gain on termination of the “future lease payment liabilities (discounted net present value).” The penalty for such volatility is not limited to a financial impact to the company; recognition of the aforementioned impairment and gain may potentially expose management and auditors to unnecessary litigation.

Question 9: Lease payments

Do you agree that contingent rentals and expected payments under term option penalties and residual value guarantees that are specified in the lease should be included in the measurement of assets and liabilities arising from a lease using an expected outcome technique? Why or why not? If not, how do you propose that a lessee or a lessor should account for contingent rentals and expected payments under term option penalties and residual value guarantees and why?

Do you agree that lessors should only include contingent rentals and expected payments under term option penalties and residual value guarantees in the measurement of the right to receive lease payments if they can be reliably measured? Why or why not?

Response

We respectfully disagree that the lessee should consider contingent rentals in determining the “right-of-use asset” and corresponding “future lease payment liability (discounted net present value).” Our Company currently has a significant number of leases with a contingency component based on store sales. The current macroeconomic environment presents a challenging retail market in which consumers, notably in some of our key markets of North America and Japan, remain cautious. One’s confidence in the ability to predict sales for a single store over a five to ten year lease term at the inception of a lease is not high. The situation is exacerbated when the exercise is performed across our over 650 directly operated stores, and we believe this will pose a significant challenge. The cost of predicting contingent rental expense out to a five or ten year (or longer) horizon regularly at each reporting period will excessively burden companies with a large number of individual leases. As previously discussed in our response to Question 8, the resulting volatility for inaccurate assumptions will potentially be significant and further dilute the usefulness of the financial information for leases. Additionally, as discussed in our response to Question 1, implementation of the right of use model for lease accounting will result in the front-loading of expense in the earlier years of a lease, and the inclusion of contingent payments exacerbates the front-loading issue.

Question 10: Reassessment

Do you agree that lessees and lessors should remeasure assets and liabilities arising under a lease when changes in facts or circumstances indicate that there is a significant change in the liability to make lease payments or in the right to receive lease payments arising from changes in the lease term or contingent payments (including expected payments under term option penalties and residual value guarantees) since the previous reporting period? Why or why not? If not, what other basis would you propose for reassessment and why?

Response

We respectfully disagree with the proposal that reassessments should be made when circumstances change. We suggest that the only circumstance that would require reassessment should be a decision to terminate the lease early or to exercise a lease extension. Reassessment more frequently would cause an unreasonable burden, as we assess over 650 retail leases. Given the current fluid economic and retail environment, expectations of contingent payments can change quarterly or even monthly, which may trigger a required reassessment under the proposed changes. A minor change to contingent expectations in current years could trigger significant changes in outlying years. This will provide for the opportunity for earnings management through manipulation of the reassessment process on a quarterly and annual basis. We believe this directly conflicts with the intended goal of consistent application and comparability between companies.

Question 15: Disclosure

Do you agree that lessees and lessors should disclose quantitative and qualitative information that:
(a) identifies and explains the amounts recognized in the financial statements arising from leases; and
(b) describes how leases may affect the amount, timing and uncertainty of the entity's future cash flows?
(paragraphs 70–86 and BC168–BC183)? Why or why not? If not, how would you amend the objectives and why?

Response

We agree lessees and lessors should disclose both quantitative and qualitative information. We believe that if the current operating and capital lease guidance is to be improved upon through revision, the focus should be on enhanced disclosure requirements rather than recognition of a “right-of-use asset” and corresponding “liability for future lease payments (discounted net present value).” We agree that enhanced disclosures that identify and explain the amounts recognized in the financial statements arising from leases, and describe how leases may affect the amount, timing and uncertainty of the entity’s future cash flows, may be useful to stakeholders. Expanded disclosures as described are a much more practical solution for transparency for organizations with a significant number of leases.

Question 17: Benefits and costs

Paragraphs BC200–BC205 set out the boards' assessment of the costs and benefits of the proposed requirements. Do you agree with the boards' assessment that the benefits of the proposals would outweigh the costs? Why or why not?

Response

We respectfully disagree with the assessment that the benefits outweigh the costs. We disagree with the perceived benefits identified in BC204 related to the adjustments made by the financial statement users and the inclusion of contingent and optional periods. As the current operating lease and capital lease guidance is written, comparability is achieved for the vast majority of operating leases and capital leases. In an effort to improve the comparability of the few leases that approach the bright lines in ASC 840, the new exposure draft will create inconsistent application and inhibit comparability for the remaining operating and capital leases that are currently comparable under current guidance. Uniformity already exists across the vast majority of organizations with primarily only operating leases. As such the adjustments currently being made by a financial statements user are uniform for any company in which the adjustment is applied. Essentially the adjustments already being made by financial statement users are being pushed down to a larger number of individuals with different professional judgments on the most likely lease term and assumptions on contingent rentals. The goal of comparability, in our opinion, is not achieved by the current exposure draft as the guidance relies significantly on judgment and opens the door to earnings management. The costs identified in BC203 related to the requirements to continually reassess and predict lease terms and contingent rentals into the far, outlying years adds unnecessary cost when applying the requirements across our over 650 retail leases in terms of systems, headcount, and time, which could be better used to drive our business’s growth.

Other comments

Question 18

Do you have any other comments on the proposals?

Response

The current ASC 840 (and previously FAS 13) has remained substantially unchanged for decades and has provided a sufficient, clear understanding of the qualifications of operating leases and capital leases. The accounting is clear and easy to apply for the vast majority of leases. Attempting to resolve the grey area within lease accounting (capital lease vs. operating lease treatment) should not come at the expense of the rest of the leases that are clearly and consistently accounted for across companies and understood by stakeholders.

In addition, the proposal could negatively impact companies that take advantage of beneficial market opportunities for longer leases. As a result, we believe that a significant number of lessees will elect not to pursue renewal options and opt for shorter leases with sub-optimal industry terms. The shorter sub-optimal leases will lessen both the front loading impact to the income statement and the amount capitalized on the balance sheet. In the earlier years of a lease, companies that elect to make optimal business decisions will have such decisions reflect poorly in their financial statements when compared to companies that choose sub-optimal leases.

Thank you again for the opportunity to comment on the Proposed Accounting Standards Update to the accounting treatment of leases.

Sincerely,

/s/ Michael F. Devine, III

Michael F. Devine, III

Executive Vice President and Chief Financial Officer

Principal Financial Officer and Principal Accounting Officer if Coach, Inc.