Dear Mr. Robert Herz:

I was surprised to read in the financial press Wednesday morning that the Financial Accounting Standards Board has held closed-door meetings with representatives of the Big Four accounting firms, and without the benefit of public review and discussion, has agreed that the implementation of FAS 123R should include a literal interpretation of when a Company has communicated stock option grants to its employees.

The “grant date” interpretation was surprising to us. Besides the impractical nature of implementing the interpretation, we would make the following points:

- Most option grants aren’t, as a practical matter, negotiable by the employee-optionees (some, of course, are — e.g., new hires for senior positions), so the “mutual understanding” point does not, as a practical matter, mean much. (The employee can’t say: “I don’t want the options; give me cash instead.”)

- Regardless of when the “mutual understanding” point occurs, the actual exercise price will still be (or be based on) the stock price as of the date of the board meeting, and that date is really when the employer and the employee have a “contract.”

- There will now be a discrepancy between “grant date” for accounting purposes (date of communication) and “grant date” for tax purposes (usually, date of board meeting).

- Form 8-K has to be filed within four days of board authorization; the FASB staff interpretation muddles the waters on this issue, too.

- The FAS 123(R) definition of “grant date” can be interpreted in alternative ways.

- The staff interpretation represents a major shift from prior understandings and practice.
From a practical standpoint: Coach has historically calculated the value of a stock option grant on the date the Compensation Committee of the Board of Directors has authorized the grant, and then, managers communicate the details to each one of the 600 worldwide employees during their annual performance review over the next 10 business days. It is our experience as well, that most companies operate in the same way. Coach has, if anything, been extremely careful in valuing each employee’s grant on the various dates that our many employees are notified of their specific grant details (i.e., number of options, exercise price, vesting period, life of grant).

The timing of the interpretation is also problematic for Coach and other year-end companies who are actively filed under FASB 123R. Our Annual Board-Based Award Grants were approved by our Board’s Human Resources and Governance Committee on August 10, 2005.

I believe that the newspaper articles may very well have been an inaccurate report, and I so, I would appreciate it if you would consider that fact. I am certain that a number of the grants were appropriately recorded at fair value, and that all compensation, as part of their overall compensation strategy, will be looking for such continuation or additional compliance guidance.

Please do not hesitate to call me directly at any time.

Strictly,

Michael F. Dwyer, III
Sup & COO
Coach, Inc.

CC: Mr. Donald Nicholson, CFO
Mr. Lawrence Sinnott, PA