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

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**FORM 10-Q**

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

**For the Quarterly Period Ended October 1, 2016**

or

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

Commission file number: 1-16153

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**Coach, Inc.**

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

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**Maryland**

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

**52-2242751**

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

**10 Hudson Yards, New York, NY 10001**

*(Address of principal executive offices); (Zip Code)*

**(212) 594-1850**

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

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 whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer

Accelerated Filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller Reporting Company

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

On October 28, 2016 the Registrant had 280,365,188 outstanding shares of common stock, which is the Registrant's only class of common stock.

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*In this Form 10-Q, references to "we," "our," "us," "Coach" and the "Company" refer to Coach, Inc., including consolidated subsidiaries. Unless the context requires otherwise, references to the "Coach brand" do not include the Stuart Weitzman brand and references to the "Stuart Weitzman brand" do not include the Coach brand.*

### **SPECIAL NOTE ON FORWARD-LOOKING INFORMATION**

This document, and the documents incorporated by reference in this document, in our press releases and in oral statements made from time to time by us or on our behalf, contain certain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, and are based on management's current expectations, that involve risks and uncertainties that could cause our actual results to differ materially from our current expectations. These forward-looking statements can be identified by the use of forward-looking terminology such as "believes," "may," "will," "should," "expect," "confidence," "trends," "intend," "estimate," "on track," "are positioned to," "on course," "opportunity," "continue," "project," "guidance," "target," "forecast," "anticipated," "plan," "potential," the negative of these terms or comparable terms. Our actual results could differ materially from the results contemplated by these forward-looking statements due to a number of important factors, including but not limited to: (i) our ability to successfully execute our growth strategies, including our efforts to expand internationally into a global lifestyle brand; (ii) our ability to successfully execute and achieve efficiencies and other benefits related to our multi-year transformation plan and operational efficiency initiatives; (iii) the effect of existing and new competition in the market; (iv) our exposure to international risks, including currency fluctuations and changes in economic or political conditions in the markets where we sell and source our product; (v) our ability to retain the value of the Coach brand and the Stuart Weitzman brand and to respond to changing fashion trends in a timely manner; (vi) our ability to control costs; (vii) the effect of seasonal and quarterly fluctuations in our sales or operating results; (viii) our ability to protect against infringement of our trademarks and other proprietary rights; (ix) our ability to achieve intended benefits, cost savings and synergies from acquisitions; and such other risk factors as set forth in Part II, Item 1A. "Risk Factors" and elsewhere in this report and in the Company's Annual Report on Form 10-K for the fiscal year ended July 2, 2016. Coach, Inc. assumes no obligation to revise or update any such forward-looking statements for any reason, except as required by law.

### **WHERE YOU CAN FIND MORE INFORMATION**

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

Coach, Inc. maintains its 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 our periodic filings with the Securities and Exchange Commission (the "SEC").

### **INFORMATION REGARDING HONG KONG DEPOSITORY RECEIPTS**

Coach, Inc.'s Hong Kong Depositary Receipts are traded on The Stock Exchange of Hong Kong Limited under the symbol 6388. Neither the Hong Kong Depositary Receipts nor the Hong Kong Depositary Shares evidenced thereby have been or will be registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"), and may not be offered or sold in the United States or to, or for the account of, a U.S. Person (within the meaning of Regulation S under the Securities Act), absent registration or an applicable exemption from the registration requirements. Hedging transactions involving these securities may not be conducted unless in compliance with the Securities Act.

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

	<b>October 1, 2016</b>	<b>July 2, 2016</b>
	<b>(millions) (unaudited)</b>	
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and cash equivalents . . . . .	\$ 1,000.0	\$ 859.0
Short-term investments . . . . .	533.2	460.4
Trade accounts receivable, less allowances of \$2.2 and \$2.2, respectively . . . . .	245.1	245.2
Inventories . . . . .	546.8	459.2
Prepaid expenses . . . . .	66.1	58.0
Other current assets . . . . .	114.0	91.1
<b>Total current assets</b> . . . . .	<b>2,505.2</b>	<b>2,172.9</b>
Property and equipment, net . . . . .	774.6	919.5
Long-term investments . . . . .	74.4	558.6
Goodwill . . . . .	505.9	502.4
Intangible assets . . . . .	345.1	346.8
Deferred income taxes . . . . .	248.8	248.8
Other assets . . . . .	130.6	143.7
<b>Total assets</b> . . . . .	<b>\$ 4,584.6</b>	<b>\$ 4,892.7</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities:</b>		
Accounts payable . . . . .	\$ 173.5	\$ 186.7
Accrued liabilities . . . . .	523.7	625.0
Current debt . . . . .	—	15.0
<b>Total current liabilities</b> . . . . .	<b>697.2</b>	<b>826.7</b>
Long-term debt . . . . .	591.4	861.2
Other liabilities . . . . .	567.5	521.9
<b>Total liabilities</b> . . . . .	<b>1,856.1</b>	<b>2,209.8</b>
See Note 12 on commitments and contingencies		
<b>Stockholders' Equity:</b>		
Preferred stock: (authorized 25.0 million shares; \$0.01 par value per share) none issued. . . . .	—	—
Common stock: (authorized 1,000.0 million shares; \$0.01 par value per share) issued and outstanding 280.3 million and 278.5 million shares, respectively . . . . .	2.8	2.8
Additional paid-in-capital . . . . .	2,874.6	2,857.1
Accumulated deficit . . . . .	(81.3)	(104.1)
Accumulated other comprehensive loss . . . . .	(67.6)	(72.9)
<b>Total stockholders' equity</b> . . . . .	<b>2,728.5</b>	<b>2,682.9</b>
<b>Total liabilities and stockholders' equity</b> . . . . .	<b>\$ 4,584.6</b>	<b>\$ 4,892.7</b>

*See accompanying Notes.*

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

	<b>Three Months Ended</b>	
	<b>October 1, 2016</b>	<b>September 26, 2015</b>
	(millions, except per share data) (unaudited)	
<b>Net sales</b> .....	<b>\$ 1,037.6</b>	\$ 1,030.3
Cost of sales .....	<b>322.9</b>	333.8
<b>Gross profit</b> .....	<b>714.7</b>	696.5
Selling, general and administrative expenses .....	<b>548.8</b>	555.1
<b>Operating income</b> .....	<b>165.9</b>	141.4
Interest expense, net .....	<b>5.7</b>	6.7
Income before provision for income taxes .....	<b>160.2</b>	134.7
Provision for income taxes .....	<b>42.8</b>	38.3
<b>Net income</b> .....	<b>\$ 117.4</b>	\$ 96.4
<b>Net income per share:</b>		
<b>Basic</b> .....	<b>\$ 0.42</b>	\$ 0.35
<b>Diluted</b> .....	<b>\$ 0.42</b>	\$ 0.35
Shares used in computing net income per share:		
Basic .....	<b>279.5</b>	277.1
Diluted .....	<b>281.9</b>	278.3
<b>Cash dividends declared per common share</b> .....	<b>\$ 0.3375</b>	\$ 0.3375

*See accompanying Notes.*

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

	<b>Three Months Ended</b>	
	<b>October 1, 2016</b>	<b>September 26, 2015</b>
	<b>(millions)</b>	
	<b>(unaudited)</b>	
<b>Net income</b> .....	<b>\$ 117.4</b>	<b>\$ 96.4</b>
<b>Other comprehensive income (loss), net of tax:</b>		
Unrealized gains (losses) on cash flow hedging derivatives, net. ....	2.9	(3.3)
Unrealized (losses) on available-for-sale investments, net .....	(0.5)	(0.5)
Foreign currency translation adjustments .....	2.9	(21.6)
<b>Other comprehensive income (loss), net of tax</b> .....	<b>5.3</b>	<b>(25.4)</b>
<b>Comprehensive income</b> .....	<b>\$ 122.7</b>	<b>\$ 71.0</b>

*See accompanying Notes.*

**COACH, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

**Three Months Ended**

	<b>October 1, 2016</b>	<b>September 26, 2015</b>
	<b>(millions)</b>	
	<b>(unaudited)</b>	
<b>CASH FLOWS (USED IN) PROVIDED BY OPERATING ACTIVITIES</b>		
Net income	\$ 117.4	\$ 96.4
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	52.3	54.4
Provision for bad debt	—	(0.3)
Share-based compensation	16.0	22.9
Excess tax effect from share-based compensation	(0.4)	8.2
Restructuring activities	3.0	5.4
Deferred income taxes	4.8	20.2
Other non-cash charges, net	3.4	(4.6)
Changes in operating assets and liabilities:		
Trade accounts receivable	0.6	(29.3)
Inventories	(86.1)	(95.5)
Accounts payable	(8.0)	(7.0)
Accrued liabilities	(114.3)	(65.0)
Other liabilities	(13.9)	(17.0)
Other balance sheet changes, net	(12.9)	19.2
<b>Net cash (used in) provided by operating activities</b>	<b>(38.1)</b>	<b>8.0</b>
<b>CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>		
Hudson Yards sale of investments	680.6	—
Purchases of investments	(204.2)	(205.6)
Proceeds from maturities and sales of investments	153.6	106.1
Purchases of property and equipment	(67.6)	(69.5)
Acquisition of lease rights	(6.8)	—
Acquisition of interest in equity method investment	—	(51.4)
<b>Net cash provided by (used in) investing activities</b>	<b>555.6</b>	<b>(220.4)</b>
<b>CASH FLOWS (USED IN) FINANCING ACTIVITIES</b>		
Dividend payments	(94.0)	(93.3)
Repayment of debt	(285.0)	—
Proceeds from share-based awards	20.7	2.9
Taxes paid to net settle share-based awards	(19.5)	(12.1)
Excess tax effect from share-based compensation	0.4	(8.2)
<b>Net cash (used in) financing activities</b>	<b>(377.4)</b>	<b>(110.7)</b>
Effect of exchange rate changes on cash and cash equivalents	0.9	(2.7)
<b>Increase (decrease) in cash and cash equivalents</b>	<b>141.0</b>	<b>(325.8)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>859.0</b>	<b>1,291.8</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 1,000.0</b>	<b>\$ 966.0</b>
<b>Supplemental information:</b>		
Cash paid for income taxes, net	\$ 75.1	\$ 1.9
Cash paid for interest	\$ 13.2	\$ 1.2
Noncash investing activity - property and equipment obligations	\$ 52.4	\$ 41.4

*See accompanying Notes.*

**Notes to Condensed Consolidated Financial Statements**  
**(In millions, except per share data)**  
**(Unaudited)**

**1. Nature of Operations**

Coach, Inc. (the "Company") is a leading New York design house of modern luxury accessories and lifestyle brands. The Company's primary product offerings, manufactured by third-party suppliers, include women's and men's bags, small leather goods, footwear, business cases, ready-to-wear including outerwear, watches, weekend and travel accessories, scarves, sunwear, fragrance, jewelry, travel bags and other lifestyle products. Coach branded products are primarily sold through its North America and International reportable segments. The North America segment includes sales to North American consumers through Coach-operated stores (including the Internet), and sales to wholesale customers and distributors. The International segment includes sales to consumers through *Coach-branded* stores and concession shop-in-shops in Japan, mainland China, Hong Kong, Macau, Singapore, Taiwan, Malaysia, South Korea, the United Kingdom, France, Ireland, Spain, Portugal, Germany, Italy, Austria, Belgium, the Netherlands and Switzerland. Additionally, International includes sales to consumers through the Internet in Japan, mainland China, the United Kingdom and South Korea, as well as sales to wholesale customers and distributors in approximately 55 countries. The Stuart Weitzman segment includes worldwide sales generated by the Stuart Weitzman brand, primarily through department stores in North America and international locations, within numerous independent third party distributors and within Stuart Weitzman operated stores (including the Internet) in the United States, Canada and Europe. The Company also records sales of Coach brand products generated in licensing and disposition channels.

**2. Basis of Presentation and Organization**

***Interim Financial Statements***

These interim condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the SEC and are unaudited. In the opinion of management, such condensed consolidated financial statements contain all normal and recurring adjustments necessary to present fairly the consolidated financial position, income, comprehensive income and cash flows of the Company for the interim periods presented. In addition, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the U.S. ("U.S. GAAP") have been condensed or omitted from this report as is permitted by the SEC's rules and regulations. However, the Company believes that the disclosures provided herein are adequate to prevent the information presented from being misleading. This report should be read in conjunction with the audited consolidated financial statements and notes thereto, included in the Company's Annual Report on Form 10-K filed with the SEC for the year ended July 2, 2016.

The results of operations, cash flows and comprehensive income for the three months ended October 1, 2016 are not necessarily indicative of results to be expected for the entire fiscal year, which will end on July 1, 2017 ("fiscal 2017").

***Fiscal Periods***

The Company utilizes a 52-53 week fiscal year ending on the Saturday closest to June 30. Fiscal 2017 will be a 52-week period. Fiscal 2016 ended on July 2, 2016 and was a 53-week period ("fiscal 2016"). The first quarter of fiscal 2017 ended on October 1, 2016 and was a 13-week period. The first quarter of fiscal 2016 ended on September 26, 2015 and was also a 13-week period.

***Use of Estimates***

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and footnotes thereto. Actual results could differ from estimates in amounts that may be material to the financial statements.

Significant estimates inherent in the preparation of the condensed consolidated financial statements include reserves for the realizability of inventory; customer returns, end-of-season markdowns and operational chargebacks; reserves for litigation and other contingencies; useful lives and impairments of long-lived tangible and intangible assets; accounting for income taxes and related uncertain tax positions; the valuation of stock-based compensation awards and related estimated forfeiture rates; reserves for restructuring; and accounting for business combinations, amongst others.

***Principles of Consolidation***

These unaudited interim condensed consolidated financial statements include the accounts of the Company and all 100% owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.



**Notes to Condensed Consolidated Financial Statements (continued)****3. Recent Accounting Pronouncements***Recently Issued Accounting Pronouncements Not Yet Adopted*

In August 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2016-15, "Classification of Certain Cash Receipts and Cash Payments (Topic 230)," which provides guidance about the classification of certain cash receipts and payments within the statement of cash flows, including debt prepayment or extinguishment costs, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims and policies, and distributions received from equity method investments. The requirements of the new standard will be effective for annual reporting periods beginning after December 15, 2017, including interim periods within those annual reporting periods, which for the Company is the first quarter of fiscal 2019. Early adoption is permitted. The adoption of this guidance is not expected to have a material effect on the Company's consolidated financial statements or notes thereto.

In March 2016, the FASB issued ASU No. 2016-09, "Improvements to Employee Share-Based Payment Accounting (Topic 718)," which simplifies several aspects of the accounting for share-based payment transactions, including the accounting for income taxes, forfeitures and statutory tax withholding requirements, as well as classification in the statement of cash flows. Most notably, the Company will be required to recognize all excess tax benefits and shortfalls as income tax expense or benefit in the income statement within the reporting period in which they occur. The requirements of the new standard will be effective for annual reporting periods beginning after December 15, 2016, including interim periods within those annual reporting periods, which for the Company is the first quarter of fiscal 2018. Early adoption is permitted. The Company is in the process of determining the impact of the adoption of this guidance on its consolidated financial statements or notes thereto.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)," which is intended to increase transparency and comparability among companies that enter into leasing arrangements. This ASU requires recognition of lease assets and lease liabilities on the balance sheet for nearly all leases (other than short-term leases), as well as a retrospective recognition and measurement of existing impacted leases. The requirements of the new standard will be effective for annual reporting periods beginning after December 15, 2018, and interim periods within those annual periods, which for the Company is the first quarter of fiscal 2020. Early adoption is permitted. The new standard is required to be applied with a modified retrospective approach to each prior reporting period with various optional practical expedients. The Company is in the process of determining the impact of the adoption of this guidance on its consolidated financial statements or notes thereto, however it does anticipate that the new guidance will have a significant impact on its consolidated financial statements given its portfolio of lease arrangements. This guidance is not expected, however, to have a material impact on the Company's liquidity.

In January 2016, the FASB issued ASU No. 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities." Under the ASU, equity investments not accounted for under the equity method of accounting or consolidation accounting must be measured at fair value with changes in fair value recognized in net income. The ASU also requires public entities to use the exit price notion when measuring fair value for disclosure. Financial assets and liabilities must be presented separately by measurement category and form on the balance sheet or within the notes to the financial statements. Additionally, public entities no longer have to disclose the methods and assumptions used to estimate fair value for assets measured at amortized cost. The requirements of the new standard will be effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, which for the Company is the first quarter of fiscal 2019. Early adoption is permitted. The adoption of this guidance is not expected to have a material effect on the Company's consolidated financial statements or notes thereto.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers," which provides a single, comprehensive revenue recognition model for all contracts with customers, and contains principles to determine the measurement of revenue and timing of when it is recognized. The requirements of the new standard will be effective for annual reporting periods beginning after December 15, 2017, and interim periods within those annual periods, which for the Company is the first quarter of fiscal 2019. Early adoption will be permitted for annual reporting periods beginning after December 15, 2016, including interim periods within those annual periods. The Company is in the process of determining the impact of the adoption of this guidance on its consolidated financial statements or notes thereto.

**4. Restructuring Activities***Operational Efficiency Plan*

On April 26, 2016, the Company announced a plan (the "Operational Efficiency Plan") to enhance organizational efficiency, update core technology platforms, and streamline its supply chain network. The Operational Efficiency Plan was adopted as a result of a strategic review of the Company's corporate structure which focused on creating an agile and scalable business model.

During the three months ended October 1, 2016, the Company incurred operational efficiency related charges within selling, general and administrative ("SG&A") expenses of \$7.1 million (\$5.6 million after-tax, or \$0.02 per diluted share), primarily due to organizational efficiency costs and, to a lesser extent, network optimization costs. Total cumulative charges incurred under the

## Notes to Condensed Consolidated Financial Statements (continued)

Operational Efficiency Plan to date are \$51.0 million. Additional actions under our Operational Efficiency Plan will continue through fiscal 2017, with expected incremental charges estimated between \$20 million to \$35 million.

A summary of charges and related liabilities under the Company's Operational Efficiency Plan are as follows:

	Organizational Efficiency <sup>(1)</sup>	Technology Infrastructure <sup>(2)</sup>	Network Optimization <sup>(3)</sup>	Total
	(millions)			
Liability as of July 2, 2016 .....	\$ 22.2	\$ —	\$ 3.2	\$ 25.4
<b>Fiscal 2017 charges</b> .....	<b>6.3</b>	<b>0.1</b>	<b>0.7</b>	<b>7.1</b>
<b>Cash payments</b> .....	<b>(9.8)</b>	<b>(0.1)</b>	<b>(3.2)</b>	<b>(13.1)</b>
<b>Non-cash charges</b> .....	<b>(2.3)</b>	<b>—</b>	<b>(0.7)</b>	<b>(3.0)</b>
<b>Liability as of October 1, 2016</b> .....	<b>\$ 16.4</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 16.4</b>

(1) Organizational efficiency charges, recorded within SG&A expenses, primarily related to severance and related costs of corporate employees, consulting fees related to process and organizational optimization and accelerated depreciation associated with the retirement of information technology systems.

(2) Technology infrastructure costs, recorded within SG&A expenses, related to the initial costs of replacing and updating the Company's core technology platforms.

(3) Network optimization costs, recorded within SG&A expenses, related to lease termination costs.

The balance as of October 1, 2016 is included within Accrued liabilities on the Company's Consolidated Balance Sheets. The above charges were recorded as corporate unallocated expenses within the Company's Consolidated Statements of Income. See Note 13, "Segment Information," for further information.

### Transformation Plan

During the fourth quarter of fiscal year ended June 28, 2014 ("fiscal 2014"), the Company announced a multi-year strategic plan to transform the Coach brand and reinvigorate growth. This multi-faceted, multi-year transformation plan (the "Transformation Plan"), which continued through the end of fiscal 2016, included key operational and cost measures. Refer to Note 3 of our Annual Report on Form 10-K for the fiscal year ended July 2, 2016 for additional information about the Transformation Plan.

Total cumulative charges incurred under the Transformation Plan through July 2, 2016 were \$321.5 million. The fourth quarter of fiscal 2016 was the last reporting period in which charges were incurred under this plan.

During the three months ended September 26, 2015, the Company incurred transformation-related charges within SG&A expenses of \$12.6 million (\$8.5 million after-tax, or \$0.03 per diluted share), primarily due to organizational efficiency costs and accelerated depreciation as a result of store renovations, within North America and select International stores.

A summary of liabilities under the Company's Transformation Plan are as follows:

	Organizational Efficiency <sup>(1)</sup>	Total
	(millions)	
Liability as of July 2, 2016 .....	\$ 5.5	\$ 5.5
<b>Cash payments</b> .....	<b>(3.8)</b>	<b>(3.8)</b>
<b>Liability as of October 1, 2016</b> .....	<b>\$ 1.7</b>	<b>\$ 1.7</b>

(1) Organizational efficiency charges, recorded within SG&A expenses, primarily related to severance and related costs of employees.

The remaining balance as of October 1, 2016 and July 2, 2016 is included within Accrued liabilities on the Company's Condensed Consolidated Balance Sheets.

Notes to Condensed Consolidated Financial Statements (continued)

5. Goodwill and Other Intangible Assets

The change in the carrying amount of the Company's goodwill is as follows:

	International	Stuart Weitzman	Total
	(millions)		
Balance at July 2, 2016	\$ 346.9	\$ 155.5	\$ 502.4
Foreign exchange impact	3.8	(0.3)	3.5
<b>Balance at October 1, 2016</b>	<b>\$ 350.7</b>	<b>\$ 155.2</b>	<b>\$ 505.9</b>

*Other Intangible Assets*

Other intangible assets consist of the following:

	October 1, 2016			July 2, 2016		
	Gross Carrying Amount	Accum. Amort.	Net	Gross Carrying Amount	Accum. Amort.	Net
	(millions)					
Intangible assets subject to amortization:						
Customer relationships	\$ 54.7	\$ (6.9)	\$ 47.8	\$ 54.7	\$ (5.8)	\$ 48.9
Favorable lease rights, net	24.7	(4.2)	20.5	24.7	(3.6)	21.1
Total intangible assets subject to amortization	79.4	(11.1)	68.3	79.4	(9.4)	70.0
Intangible assets not subject to amortization:						
Trademarks and trade names	276.8	—	276.8	276.8	—	276.8
Total intangible assets	<b>\$ 356.2</b>	<b>\$ (11.1)</b>	<b>\$ 345.1</b>	<b>\$ 356.2</b>	<b>\$ (9.4)</b>	<b>\$ 346.8</b>

*Amortization*

Based on the balance of the Company's intangible assets subject to amortization as of October 1, 2016, the expected amortization expense for each of the next five fiscal years and thereafter is as follows:

	Amortization Expense
	(millions)
Remainder of Fiscal 2017	\$ 5.3
Fiscal 2018	6.6
Fiscal 2019	6.5
Fiscal 2020	6.2
Fiscal 2021	6.0
Fiscal 2022	5.4
Fiscal 2023 and thereafter	32.3
Total	<b>\$ 68.3</b>

The expected future amortization expense above reflects remaining useful lives of 13.6 years for customer relationships and the remaining lease terms ranging from approximately 6 months to 9 years for favorable lease rights.

## Notes to Condensed Consolidated Financial Statements (continued)

## 6. Stockholders' Equity

A reconciliation of stockholders' equity is presented below:

	Shares of Common Stock	Common Stock	Additional Paid-in- Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	(millions, except per share data)					
Balance at June 27, 2015	276.6	\$ 2.8	\$ 2,754.4	\$ (189.6)	\$ (77.7)	\$ 2,489.9
Net income	—	—	—	96.4	—	96.4
Other comprehensive loss	—	—	—	—	(25.4)	(25.4)
Shares issued for stock options and employee benefit plans	0.9	—	(8.5)	—	—	(8.5)
Share-based compensation	—	—	22.9	—	—	22.9
Excess tax effect from share-based compensation	—	—	(8.2)	—	—	(8.2)
Dividends declared (\$0.3375 per share)	—	—	—	(93.6)	—	(93.6)
Balance at September 26, 2015	<u>277.5</u>	<u>\$ 2.8</u>	<u>\$ 2,760.6</u>	<u>\$ (186.8)</u>	<u>\$ (103.1)</u>	<u>\$ 2,473.5</u>
<b>Balance at July 2, 2016</b>	<b>278.5</b>	<b>\$ 2.8</b>	<b>\$ 2,857.1</b>	<b>\$ (104.1)</b>	<b>\$ (72.9)</b>	<b>\$ 2,682.9</b>
Net income	—	—	—	117.4	—	117.4
Other comprehensive income	—	—	—	—	5.3	5.3
Shares issued for stock options and employee benefit plans	1.8	—	1.1	—	—	1.1
Share-based compensation	—	—	16.0	—	—	16.0
Excess tax effect from share-based compensation	—	—	0.4	—	—	0.4
Dividends declared (\$0.3375 per share)	—	—	—	(94.6)	—	(94.6)
Balance at October 1, 2016	<u>280.3</u>	<u>\$ 2.8</u>	<u>\$ 2,874.6</u>	<u>\$ (81.3)</u>	<u>\$ (67.6)</u>	<u>\$ 2,728.5</u>

## Notes to Condensed Consolidated Financial Statements (continued)

The components of accumulated other comprehensive loss ("AOCI"), as of the dates indicated, are as follows:

	Unrealized Gains (Losses) on Cash Flow Hedges <sup>(1)</sup>	Unrealized Losses on Available- for-Sale Debt Securities	Cumulative Translation Adjustment	Other <sup>(2)</sup>	Total
	(millions)				
Balances at June 27, 2015 .....	\$ 4.4	\$ 0.5	\$ (81.7)	\$ (0.9)	\$ (77.7)
Other comprehensive (loss) before reclassifications ..	(0.9)	(0.5)	(21.6)	—	(23.0)
Less: gains reclassified from accumulated other comprehensive income to earnings .....	2.4	—	—	—	2.4
Net current-period other comprehensive (loss) .....	(3.3)	(0.5)	(21.6)	—	(25.4)
Balances at September 26, 2015 .....	<u>\$ 1.1</u>	<u>\$ —</u>	<u>\$ (103.3)</u>	<u>\$ (0.9)</u>	<u>\$ (103.1)</u>
<b>Balances at July 2, 2016 .....</b>	<b>\$ (8.8)</b>	<b>\$ 0.3</b>	<b>\$ (62.9)</b>	<b>\$ (1.5)</b>	<b>\$ (72.9)</b>
<b>Other comprehensive income (loss) before reclassifications .....</b>	<b>0.1</b>	<b>(0.5)</b>	<b>2.9</b>	<b>—</b>	<b>2.5</b>
<b>Less: (losses) reclassified from accumulated other comprehensive income to earnings .....</b>	<b>(2.8)</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(2.8)</b>
<b>Net current-period other comprehensive income (loss) .....</b>	<b>2.9</b>	<b>(0.5)</b>	<b>2.9</b>	<b>—</b>	<b>5.3</b>
<b>Balances at October 1, 2016 .....</b>	<b><u>\$ (5.9)</u></b>	<b><u>\$ (0.2)</u></b>	<b><u>\$ (60.0)</u></b>	<b><u>\$ (1.5)</u></b>	<b><u>\$ (67.6)</u></b>

<sup>(1)</sup> The ending balances of AOCI related to cash flow hedges are net of tax of \$3.0 million and (\$0.8) million as of October 1, 2016 and September 26, 2015, respectively. The amounts reclassified from AOCI are net of tax of \$1.4 million and (\$1.2) million as of October 1, 2016 and September 26, 2015, respectively.

<sup>(2)</sup> As of October 1, 2016 and September 26, 2015, Other represents the accumulated loss on the Company's minimum pension liability adjustment. The balances at October 1, 2016 and September 26, 2015 are net of tax of \$0.8 million and \$0.5 million, respectively.

## 7. Earnings per Share

Basic net income per share is calculated by dividing net income by the weighted-average number of shares outstanding during the period. Diluted net income per share is calculated similarly but includes potential dilution from the exercise of stock options and restricted stock units and any other potentially dilutive instruments, only in the periods in which such effects are dilutive under the treasury stock method.

## Notes to Condensed Consolidated Financial Statements (continued)

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

	<b>Three Months Ended</b>	
	<b>October 1, 2016</b>	September 26, 2015
	(millions, except per share data)	
Net income .....	<b>\$ 117.4</b>	\$ 96.4
Total weighted-average basic shares outstanding .....	<b>279.5</b>	277.1
Dilutive securities:		
Effect of dilutive securities .....	<b>2.4</b>	1.2
Total weighted-average diluted shares .....	<b>281.9</b>	278.3
Net income per share:		
Basic .....	<b>\$ 0.42</b>	\$ 0.35
Diluted .....	<b>\$ 0.42</b>	\$ 0.35

Earnings per share amounts have been calculated based on unrounded numbers. Options to purchase shares of the Company's common stock at an exercise price greater than the average market price of the common stock during the reporting period are anti-dilutive and therefore not included in the computation of diluted net income per common share. In addition, the Company has outstanding restricted stock unit awards that are issuable only upon the achievement of certain performance goals. Performance-based restricted stock unit awards are included in the computation of diluted shares only to the extent that the underlying performance conditions (and any applicable market condition modifiers) (i) are satisfied as of the end of the reporting period or (ii) would be considered satisfied if the end of the reporting period were the end of the related contingency period and the result would be dilutive under the treasury stock method. As of October 1, 2016 and September 26, 2015, there were approximately 9.1 million and 15.8 million, respectively, of additional shares issuable upon exercise of anti-dilutive options and contingent vesting of performance-based restricted stock unit awards, which were excluded from the diluted share calculations.

### 8. Share-based Compensation

The following table shows the total compensation cost charged against income for share based compensation plans and the related tax benefits recognized in the condensed consolidated statements of income for the periods indicated:

	<b>Three Months Ended</b>	
	<b>October 1, 2016</b>	September 26, 2015 <sup>(1)</sup>
	(millions)	
Share-based compensation expense .....	<b>\$ 16.0</b>	\$ 22.9
Income tax benefit related to share-based compensation expense .....	<b>4.7</b>	6.9

## Notes to Condensed Consolidated Financial Statements (continued)

*Stock Options*

A summary of stock option activity during the three months ended October 1, 2016 is as follows:

	Number of Options Outstanding	Weighted- Average Exercise Price per Option
	(millions)	
<b>Outstanding at July 2, 2016</b> .....	15.1	\$ 40.18
Granted .....	3.2	39.86
Exercised .....	(0.7)	40.76
Forfeited or expired .....	(0.6)	40.44
<b>Outstanding at October 1, 2016</b> .....	<u>17.0</u>	40.09
<b>Vested and expected to vest at October 1, 2016</b> .....	<u>16.4</u>	41.98
<b>Exercisable at October 1, 2016</b> .....	<u>10.1</u>	43.69

At October 1, 2016, \$35.9 million of total unrecognized compensation cost related to non-vested stock option awards is expected to be recognized over a weighted-average period of 1.3 years.

The weighted-average grant-date fair value of options granted during the three months ended October 1, 2016 and September 26, 2015 was \$7.29 and \$5.60, respectively. The total intrinsic value of options exercised during the three months ended October 1, 2016 and September 26, 2015 was \$5.7 million and \$0.1 million, respectively. The total cash received from option exercises was \$20.7 million for the three months ended October 1, 2016 and \$2.5 million for the three months ended September 26, 2015, and the cash tax benefit realized for the tax deductions from these option exercises was approximately \$2.1 million and \$0.1 million, respectively.

*Service-based Restricted Stock Unit Awards ("RSUs")*

A summary of service-based RSU activity during the three months ended October 1, 2016 is as follows:

	Number of Non-vested RSUs	Weighted- Average Grant- Date Fair Value per RSU
	(millions)	
<b>Non-vested at July 2, 2016</b> .....	3.7	\$ 49.06
Granted .....	1.7	39.88
Vested .....	(1.6)	39.24
Forfeited .....	(0.2)	33.63
<b>Non-vested at October 1, 2016</b> .....	<u>3.6</u>	49.89

At October 1, 2016, \$90.4 million of total unrecognized compensation cost related to non-vested share awards is expected to be recognized over a weighted-average period of 1.3 years.

The weighted-average grant-date fair value of share awards granted during the three months ended October 1, 2016 and September 26, 2015 was \$39.88 and \$31.51, respectively. The total fair value of shares vested during the three months ended October 1, 2016 and September 26, 2015 was \$62.1 million and \$36.1 million, respectively.

## Notes to Condensed Consolidated Financial Statements (continued)

*Performance-based Restricted Stock Unit Awards ("PRSU")*

A summary of PRSU activity during the three months ended October 1, 2016 is as follows:

	Number of Non-vested PRSUs (millions)	Weighted- Average Grant- Date Fair Value per PRSU
<b>Non-vested at July 2, 2016</b> .....	1.4	\$ 38.67
Granted .....	0.3	39.92
Change due to performance condition achievement .....	(0.1)	53.19
Vested <sup>(1)</sup> .....	—	39.72
Forfeited .....	(0.1)	40.63
<b>Non-vested at October 1, 2016</b> .....	<u>1.5</u>	<u>37.83</u>

<sup>(1)</sup> During the first three months ended October 1, 2016, less than 0.1 million PRSU shares vested.

At October 1, 2016, \$18.2 million of total unrecognized compensation cost related to non-vested PRSU awards is expected to be recognized over a weighted-average period of 1.2 years.

Included in the non-vested amount at October 1, 2016 are approximately 0.6 million PRSU awards that are based on performance criteria which compares the Company's total stockholder return over the performance period to the total stockholder return of the companies included in the Standard and Poor's 500 Index. There were no awards granted during the three months ended October 1, 2016 with this performance criteria. The remaining 0.9 million PRSU awards included in the non-vested amount are based on certain Company-specific productivity, strategic and sales metrics.

The weighted-average grant-date fair value per share of PRSU awards granted during the three months ended October 1, 2016 and September 26, 2015 was \$39.92 and \$31.56, respectively. The total fair value of awards that vested during the three months ended October 1, 2016 and September 26, 2015 was \$0.9 million and \$0.9 million, respectively.

In the three months ended October 1, 2016 and September 26, 2015, the cash tax benefit realized for the tax deductions from all RSUs (service and performance-based) was \$18.3 million and \$11.4 million, respectively.

**9. Debt**

The following table summarizes the components of the Company's outstanding debt:

	October 1, 2016	July 2, 2016
	(millions)	
<b>Current Debt:</b>		
Term Loan .....	\$ —	\$ 15.0
<b>Total Current Debt</b>	<u>\$ —</u>	<u>\$ 15.0</u>
<b>Long-Term Debt:</b>		
Term Loan .....	\$ —	\$ 270.0
4.250% Senior Notes .....	600.0	600.0
<b>Total Long-Term Debt</b>	<u>600.0</u>	<u>870.0</u>
Less: Unamortized Discount and Debt Issuance Costs on 4.250% Senior Notes .....	(8.6)	(8.8)
<b>Total Long-Term Debt, net</b>	<u>\$ 591.4</u>	<u>\$ 861.2</u>

During the three months ended October 1, 2016 and September 26, 2015, the Company recognized interest expense related to its debt of \$7.4 million and \$8.0 million, respectively.



**Notes to Condensed Consolidated Financial Statements (continued)*****Amended and Restated Credit Agreement***

In March 2015, the Company amended and restated its existing \$700.0 million revolving credit facility (the "Revolving Facility") with certain lenders and JP Morgan Chase Bank, N.A. as the administrative agent, to provide for a five-year senior unsecured \$300.0 million term loan (the "Term Loan") and to extend the maturity date to March 18, 2020 (the "Amended and Restated Credit Agreement"). As of October 1, 2016, there were no borrowings under the Revolving Facility. The Company prepaid its outstanding borrowings under the Term Loan facility on August 3, 2016. The Revolving Facility will continue to be used for general corporate purposes of the Company and its subsidiaries.

Borrowings under the Amended and Restated Credit Agreement bear interest at a rate per annum equal to, at the Company's option, either (a) a rate based on the rates applicable for deposits in the interbank market for U.S. dollars or the applicable currency in which the loans are made plus an applicable margin or (b) an alternate base rate (which is a rate equal to the greatest of (i) the Prime Rate in effect on such day, (ii) the Federal Funds Effective Rate in effect on such day plus ½ of 1% or (iii) the Adjusted LIBO Rate for a one month Interest Period on such day plus 1%). Additionally, the Company pays a commitment fee on the average daily unused amount of the Revolving Facility. At October 1, 2016, there were no borrowings on the Revolving Facility and the commitment fee was 0.150%.

***4.250% Senior Notes***

In March 2015, the Company issued \$600.0 million aggregate principal amount of 4.250% senior unsecured notes due April 1, 2025 at 99.445% of par (the "4.250% Senior Notes"). Interest is payable semi-annually on April 1 and October 1 beginning October 1, 2015. Prior to January 1, 2025 (90 days prior to the scheduled maturity date), the Company may redeem the 4.250% Senior Notes in whole or in part, at its option at any time or from time to time, at a redemption price equal to the greater of (1) 100% of the principal amount of the 4.250% Senior Notes to be redeemed or (2) the sum of the present values of the remaining scheduled payments of principal and interest thereon that would have been payable in respect of the 4.250% Senior Notes calculated as if the maturity date of the 4.250% Senior Notes was January 1, 2025 (not including any portion of payments of interest accrued to the date of redemption), discounted to the redemption date on a semi-annual basis at the Adjusted Treasury Rate (as defined in the indenture for the 4.250% Senior Notes) plus 35 basis points, plus, in the case of each of (1) and (2), accrued and unpaid interest to the redemption date. On and after January 1, 2025 (90 days prior to the scheduled maturity date), the Company may redeem the 4.250% Senior Notes in whole or in part, at its option at any time or from time to time, at a redemption price equal to 100% of the principal amount of the 4.250% Senior Notes to be redeemed, plus accrued and unpaid interest to the redemption date.

At October 1, 2016 and July 2, 2016, the fair value of the 4.250% Senior Notes was approximately \$632 million and \$622 million, respectively, based on external pricing data, including available quoted market prices of these instruments, and consideration of comparable debt instruments with similar interest rates and trading frequency, among other factors, and is classified as a Level 2 measurement within the fair value hierarchy.

**10. Fair Value Measurements**

The Company categorizes its assets and liabilities, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy as set forth below. The three levels of the hierarchy are defined as follows:

Level 1 — Unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 — Observable inputs other than quoted prices included in Level 1. Level 2 inputs include quoted prices for identical assets or liabilities in non-active markets, quoted prices for similar assets or liabilities in active markets, and inputs other than quoted prices that are observable for substantially the full term of the asset or liability.

Level 3 — Unobservable inputs reflecting management's own assumptions about the input used in pricing the asset or liability.

COACH, INC.

Notes to Condensed Consolidated Financial Statements (continued)

The following table shows the fair value measurements of the Company's financial assets and liabilities at October 1, 2016 and July 2, 2016:

	Level 1		Level 2		Level 3	
	October 1, 2016	July 2, 2016	October 1, 2016	July 2, 2016	October 1, 2016	July 2, 2016
	(millions)					
<b>Assets:</b>						
Cash equivalents <sup>(1)</sup>	\$ 266.2	\$ 197.9	\$ 100.4	\$ 0.4	\$ —	\$ —
<u>Short-term investments:</u>						
Time deposits <sup>(2)</sup>	—	—	0.6	0.6	—	—
Commercial paper <sup>(2)</sup>	—	—	77.8	54.8	—	—
Government securities - U.S. <sup>(2)</sup>	175.7	119.9	—	11.8	—	—
Corporate debt securities - U.S. <sup>(2)</sup>	—	—	152.6	161.4	—	—
Corporate debt securities - non U.S. <sup>(2)</sup>	—	—	124.7	111.5	—	—
Other	—	—	1.8	\$ 0.4	—	—
<u>Long-term investments:</u>						
Corporate debt securities - U.S. <sup>(3)</sup>	—	—	52.0	64.2	—	—
Corporate debt securities - non U.S. <sup>(3)</sup>	—	—	22.4	33.9	—	—
<u>Derivative Assets:</u>						
Inventory-related hedges <sup>(4)</sup>	—	—	0.6	0.2	—	—
Intercompany loan hedges <sup>(4)</sup>	—	—	—	0.4	—	—
<b>Liabilities:</b>						
Contingent earnout obligation	\$ —	\$ —	\$ —	\$ —	\$ 30.7	\$ 28.4
<u>Derivative liabilities:</u>						
Inventory-related hedges <sup>(4)</sup>	—	—	5.2	11.0	—	—
Intercompany loan hedges <sup>(4)</sup>	—	—	0.2	0.1	—	—

(1) Cash equivalents consist of money market funds and time deposits with maturities of three months or less at the date of purchase. Due to their short term maturity, management believes that their carrying value approximates fair value.

(2) Short-term available-for-sale investments are recorded at fair value, which approximates their carrying value, and are primarily based upon quoted vendor or broker priced securities in active markets.

(3) Fair value is primarily determined using vendor or broker priced securities in active markets. These securities have maturity dates in calendar years 2017 and 2018.

(4) The fair value of these hedges is primarily based on the forward curves of the specific indices upon which settlement is based and includes an adjustment for the counterparty's or Company's credit risk.

Refer to Note 9, "Debt," for the fair value of the Company's outstanding debt instruments.

## Notes to Condensed Consolidated Financial Statements (continued)

The following table presents a reconciliation of the liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the periods ended October 1, 2016 and July 2, 2016. Level 3 liabilities consisted of the contingent earnout obligation related to the Stuart Weitzman acquisition.

	October 1, 2016	July 2, 2016
	(millions)	
Balance, beginning of period	\$ 28.4	\$ 19.4
Increase to contingent earnout obligation	2.3	9.0
Balance, end of period	<u>\$ 30.7</u>	<u>\$ 28.4</u>

**Non-Financial Assets and Liabilities**

The Company's non-financial instruments, which primarily consist of goodwill, intangible assets and property and equipment, are not required to be measured at fair value on a recurring basis and are reported at carrying value. However, on a periodic basis whenever events or changes in circumstances indicate that their carrying value may not be fully recoverable (and at least annually for goodwill and indefinite-lived intangible assets), non-financial instruments are assessed for impairment and, if applicable, written-down to and recorded at fair value, considering market participant assumptions.

**11. Investments**

The following table summarizes the Company's U.S. dollar-denominated investments, recorded within the condensed consolidated balance sheets as of October 1, 2016 and July 2, 2016:

	October 1, 2016			July 2, 2016		
	Short-term	Long-term	Total	Short-term	Long-term	Total
	(millions)					
<b>Available-for-sale investments:</b>						
Commercial paper <sup>(1)</sup>	\$ 77.8	\$ —	\$ 77.8	\$ 54.8	\$ —	\$ 54.8
Government securities - U.S. <sup>(2)</sup>	175.7	—	175.7	131.7	—	131.7
Corporate debt securities - U.S. <sup>(2)</sup>	152.6	52.0	204.6	161.4	64.2	225.6
Corporate debt securities - non-U.S. <sup>(2)</sup>	124.7	22.4	147.1	111.5	33.9	145.4
<b>Available-for-sale investments, total</b>	<u>\$ 530.8</u>	<u>\$ 74.4</u>	<u>\$ 605.2</u>	<u>\$ 459.4</u>	<u>\$ 98.1</u>	<u>\$ 557.5</u>
<b>Other:</b>						
Time deposits <sup>(1)</sup>	0.6	—	0.6	0.6	—	0.6
Other <sup>(3)</sup>	1.8	—	1.8	0.4	460.5	460.9
<b>Total Investments</b>	<u>\$ 533.2</u>	<u>\$ 74.4</u>	<u>\$ 607.6</u>	<u>\$ 460.4</u>	<u>\$ 558.6</u>	<u>\$ 1,019.0</u>

<sup>(1)</sup> These securities have original maturities greater than three months and are recorded at fair value.

<sup>(2)</sup> The securities as of October 1, 2016 have maturity dates between calendar years 2016 and 2018 and are recorded at fair value.

<sup>(3)</sup> Long-term Other as of July 2, 2016 relates to the equity method investment in an entity formed during fiscal 2013 for the purpose of developing a new office tower in Manhattan (the "Hudson Yards joint venture"), with the Company owning less than 43% of the joint venture. Refer to Note 14, "Sale of Interest and Lease Transaction," for further information.

There were no material gross unrealized gains or losses on available-for-sale securities during the periods ended October 1, 2016 and July 2, 2016.

## Notes to Condensed Consolidated Financial Statements (continued)

## 12. Commitments and Contingencies

*Letters of Credit*

The Company had standby letters of credit totaling \$7.4 million and \$7.5 million outstanding at October 1, 2016 and July 2, 2016, respectively. The letters of credit, which expire at various dates through calendar 2017, primarily collateralize the Company's obligation to third parties for insurance claims, leases and materials used in product manufacturing. The Company pays certain fees with respect to letters of credit that are issued.

*Other*

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

## 13. Segment Information

In fiscal 2017, the Company has three reportable segments based on its business activities and organization:

- North America, which is composed of Coach brand sales to North American consumers through stores, including the Internet, and sales to wholesale customers.
- International, which is composed of Coach brand sales to consumers through stores and concession shop-in-shops in Japan, mainland China, Hong Kong, Macau, Singapore, Taiwan, Malaysia, South Korea, the United Kingdom, France, Ireland, Spain, Portugal, Germany, Italy, Austria, Belgium, the Netherlands and Switzerland. Additionally, International includes Coach brand sales to consumers through the Internet in Japan, mainland China, the United Kingdom and South Korea, as well as sales to wholesale customers and distributors in approximately 55 countries.
- Stuart Weitzman, which includes worldwide sales generated by the Stuart Weitzman brand, primarily through department stores in North America and international locations, within numerous independent third party distributors and within Stuart Weitzman operated stores (including the Internet) in the United States, Canada and Europe.

The following table summarizes segment performance for the three months ended October 1, 2016 and September 26, 2015:

	North America	International	Other <sup>(1)</sup>	Corporate Unallocated <sup>(2)</sup>	Stuart Weitzman	Total
	(millions)					
<b><u>Three Months Ended October 1, 2016</u></b>						
Net sales . . . . .	\$ 545.3	\$ 395.5	\$ 9.3	\$ —	\$ 87.5	\$ 1,037.6
Gross profit . . . . .	341.2	298.1	8.1	16.2	51.1	714.7
Operating income (loss) . . . . .	164.2	113.3	6.1	(122.8)	5.1	165.9
Income (loss) before provision for income taxes . . . . .	164.2	113.3	6.1	(128.5)	5.1	160.2
Depreciation and amortization expense <sup>(3)</sup> . . . . .	17.6	18.5	—	15.4	3.8	55.3
Additions to long-lived assets . . . . .	17.1	25.3	—	16.1	9.1	67.6
<b><u>Three Months Ended September 26, 2015</u></b>						
Net sales . . . . .	\$ 561.0	\$ 369.0	\$ 12.8	\$ —	\$ 87.5	\$ 1,030.3
Gross profit . . . . .	348.9	282.2	8.4	7.3	49.7	696.5
Operating income (loss) . . . . .	171.7	107.2	6.1	(151.3)	7.7	141.4
Income (loss) before provision for income taxes . . . . .	171.7	107.2	6.1	(158.0)	7.7	134.7
Depreciation and amortization expense <sup>(3)</sup> . . . . .	15.8	16.8	—	17.1	7.5	57.2
Additions to long-lived assets . . . . .	21.8	31.4	—	14.6	1.7	69.5

<sup>(1)</sup> Other, which is not a reportable segment, consists of Coach brand sales and expenses generated in licensing and disposition channels.

## Notes to Condensed Consolidated Financial Statements (continued)

- (2) Corporate unallocated expenses include certain centrally managed Coach brand inventory-related costs (such as production variances), advertising, marketing, design, administration and information systems, as well as distribution and consumer service expenses. Furthermore, operational efficiency and transformation-related charges incurred by the Company as described in Note 4, "Restructuring Activities" and charges associated with contingent earn out payments of the May 2015 Stuart Weitzman acquisition and other integration-related activities, are also included as unallocated corporate expenses.
- (3) Depreciation and amortization expense includes \$3.0 million of operational efficiency plan charges for the three months ended October 1, 2016, and \$2.8 million of transformation-related charges for the three months ended September 26, 2015, respectively. These charges are recorded as corporate unallocated expenses.

The following is a summary of all costs not allocated in the determination of segment operating income performance:

	<b>Three Months Ended</b>	
	<b>October 1, 2016</b>	September 26, 2015
	(millions)	
Inventory-related costs <sup>(1)</sup> .....	\$ 16.2	\$ 7.3
Advertising, marketing and design <sup>(2)</sup> .....	(55.9)	(63.1)
Administration and information systems <sup>(2)(3)</sup> .....	(69.2)	(80.3)
Distribution and customer service <sup>(2)</sup> .....	(13.9)	(15.2)
<b>Total corporate unallocated</b> .....	<b>\$ (122.8)</b>	<b>\$ (151.3)</b>

(1) Inventory-related costs consist of production variances, and are recorded within cost of sales.

(2) Costs recorded within SG&A expenses.

(3) During the three months ended October 1, 2016, operational efficiency charges recorded within SG&A expenses were (\$7.1) million. Furthermore, during the three months ended October 1, 2016, (\$2.4) million of charges related to the Stuart Weitzman contingent earn out payments and other integration-related activities were recorded within corporate unallocated costs. During the three months ended September 26, 2015, transformation-related costs recorded within SG&A expenses were (\$12.6) million. The Company also recorded approximately (\$3.6) million in acquisition-related expenses for the three months ended September 26, 2015.

#### 14. Sale of Interest and Lease Transaction

On August 1, 2016, the Company announced the sale of its investments in 10 Hudson Yards, in New York City, and the lease of its new global headquarters. The Company sold its equity investment in the Hudson Yards joint venture as well as net fixed assets related to the design and build-out of the space. The Company received a purchase price of approximately \$707 million (net of approximately \$77 million due to the developer of Hudson Yards) before transaction costs of \$26 million, resulting in a gain of \$28.8 million, which will be amortized through SG&A expenses over the lease term of 20 years, as discussed below.

The Company has simultaneously entered into a 20-year lease, accounted for as an operating lease, for the headquarters space in the building, comprised of approximately 694,000 square feet. Under the lease, the Company has the right to expand its premises to portions of the 24<sup>th</sup> and 25<sup>th</sup> floors of the building and has a right of first offer with respect to available space on the 26<sup>th</sup> floor of the building. The total commitment related to this lease is approximately \$1.05 billion, with minimum lease payments of \$41.4 million due in fiscal 2017, \$45.1 million due each year from fiscal 2018 through fiscal 2021, and \$825.5 million total due for years subsequent to 2021. In addition to its fixed rent obligations, the Company is obligated to pay its percentage share for customary escalations for operating expenses attributable to the building and the Hudson Yards development, taxes and tax related payments. The Company is not obligated to pay any amount of contingent rent.

## ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion of the Company's financial condition and results of operations should be read together with the Company's condensed consolidated financial statements and notes to those statements, included elsewhere in this document. When used herein, the terms "Company," "Coach," "we," "us" and "our" refer to Coach, Inc., including consolidated subsidiaries. Unless the context requires otherwise, references to the "Coach brand" do not include the Stuart Weitzman brand, and references to the "Stuart Weitzman brand" do not include the Coach brand.

### EXECUTIVE OVERVIEW

Coach, Inc. is a leading New York design house of modern luxury accessories and lifestyle brands. The Coach brand was established in New York City in 1941, and has a rich heritage of pairing exceptional leathers and materials with innovative design. Coach, Inc. acquired Stuart Weitzman, a leader in women's designer footwear, during the fourth quarter of fiscal 2015.

Coach, Inc. operates in three segments: North America (Coach brand), International (Coach brand), and Stuart Weitzman. The North America segment includes sales of Coach brand products to North American customers through Coach-operated stores (including the Internet) and sales to North American wholesale customers. The International segment includes sales of Coach brand products to customers through Coach-operated stores and concession shop-in-shops in Japan, mainland China, Hong Kong, Macau, Singapore, Taiwan, Malaysia, South Korea, the United Kingdom, France, Ireland, Spain, Portugal, Germany, Italy, Austria, Belgium, the Netherlands and Switzerland. Additionally, International includes sales to consumers through the Internet in Japan, mainland China, the United Kingdom and South Korea, as well as sales to wholesale customers and distributors in approximately 55 countries. The Stuart Weitzman segment includes worldwide sales generated by the Stuart Weitzman brand, primarily through department stores in North America and international locations, within numerous independent third party distributors and within Stuart Weitzman operated stores (including the Internet) in the United States, Canada and Europe. Other, which is not a reportable segment, consists of sales and expenses generated by the Coach brand in licensing and disposition channels. As the Company's business model is based on multi-channel and brand global distribution, our success does not depend solely on the performance of a single channel or geographic area.

We are focused on driving long-term growth and best in class profitability through the following key initiatives:

#### Drive brand relevance

- Transform the Coach brand into a modern luxury brand by continuing to evolve across the key consumer touchpoints of product, stores and marketing.
- Reinvigorate growth and brand relevance through our differentiated positioning, which combines our history of heritage and craftsmanship with Stuart Weitzman's modern creative vision.
- Raise brand awareness and increase market share for the Stuart Weitzman brand globally, building upon the company's strong momentum and core brand equities of fusing fashion with fit.

#### Grow our business internationally

- Continue to increase the Coach brand's penetration internationally, most notably in mainland China and Europe.
- Support the development of the Stuart Weitzman brand, particularly in Asia.

#### Harness the power of the digital world

- Continue to accelerate the development of our digital programs and capabilities world-wide, reflecting the change in consumer shopping behavior globally.

#### Build an infrastructure to support future growth initiatives

- Create an agile and scalable business model to support sustainable/future growth for Coach, Inc.

### **Transformation Plan**

During the fourth quarter of fiscal 2014, Coach, Inc. announced a multi-year strategic plan with the objective of transforming the Coach brand and reinvigorating growth, which we believe will enable the Company to return to 'best-in-class' profitability. This Transformation Plan was built on the core brand equities of quality and craftsmanship with the aim of evolving our competitive value proposition. We believe our strategy offers significant growth opportunities in handbags and accessories, as well as in the broader set of lifestyle categories that we have operated in for some time but have historically been less developed, including footwear and ready-to-wear. This strategy requires an integrated holistic approach, across product, stores and marketing and promotional activities, and entails the roll-out of carefully crafted aspirational marketing campaigns to define the Coach brand and to deliver a fuller and more consistent brand expression.

Key operational and cost measures of the Transformation Plan included: (i) the investment in capital improvements in our stores and wholesale locations to drive comparable sales improvement; (ii) the optimization and streamlining of our organizational model as well as the closure of underperforming stores in North America, and select International stores; (iii) the realignment of inventory levels and mix to reflect our elevated product strategy and consumer preferences; (iv) the investment in incremental advertising costs to elevate consumer perception of our Coach brand, drive sales growth and promote our new strategy, which started in fiscal 2015; and (v) the significant scale-back of our promotional cadence in an increased global promotional environment, particularly within our outlet Internet sales site, which began in fiscal 2014. The Company's execution of these key operational and cost measures was concluded during fiscal 2016, and we believe that long-term growth will be realized through these transformational efforts over time. For further discussion of charges incurred in connection with the Transformation Plan, see "GAAP to Non-GAAP Reconciliation," herein.

### ***Operational Efficiency Plan***

On April 26, 2016, the Company announced a series of operational efficiency initiatives focused on creating an agile and scalable business model (the "Operational Efficiency Plan"). The significant majority of the charges under this plan will be recorded within SG&A expenses, and will be substantially complete by the end of fiscal 2017. These charges are associated with organizational efficiencies, primarily related to the reduction of corporate staffing levels globally, as well as accelerated depreciation, mainly associated with information systems retirement, technology infrastructure charges related to the initial costs of replacing and updating our core technology platforms, and international supply chain and office location optimization. Refer to Note 4, "Restructuring Activities," and "GAAP to Non-GAAP Reconciliation" for further information.

### **Current Trends and Outlook**

Global consumer retail traffic remains relatively weak and inconsistent, which has led to a more promotional environment in the fragmented retail industry due to increased competition and a desire to offset traffic declines with increased levels of conversion. While certain developed geographic regions are withstanding these pressures better than others, the level of consumer travel and spending on discretionary items remains constrained due to the economic uncertainty.

Political and economic instability or changing macroeconomic conditions that exist in our major markets have further contributed to this uncertainty, including the potential impact of (1) new policies that may be implemented by the incoming U.S. president or (2) the United Kingdom ("U.K.") voting to leave the European Union ("E.U.") in its referendum on June 23, 2016, commonly known as "Brexit." Although the terms of the U.K.'s future relationship with the E.U. are still unknown, it is possible that there will be increased regulatory and legal complexities, including potentially divergent national laws and regulations between the U.K. and E.U. Brexit may also cause disruption and create uncertainty surrounding our business, including affecting our relationship with our existing and future customers, suppliers and employees.

Additional macroeconomic events including foreign exchange rate volatility in various parts of the world, recent and evolving impacts of economic and geopolitical events in Hong Kong, Macau and mainland China ("Greater China"), the impact of terrorist acts (particularly in Europe), disease epidemics and a slowdown in emerging market growth (particularly in Asia) have contributed to this uncertainty. Our results have been positively impacted by foreign exchange rate fluctuations, and will continue to fluctuate with future volatility.

Certain of our wholesale customers, particularly those located in the U.S., have become highly promotional and have aggressively marked down their merchandise. Despite our planned reduction in markdown allowances during fiscal 2017 and our strategic actions in the wholesale channel discussed below, such promotional activity could negatively impact our brands, which could affect our business, results of operations, and financial condition. Over the remainder of fiscal 2017, we expect to continue investing in the elevation of shop-in-shop environments, and rationalizing the distribution footprint in the North America wholesale channel by closing about 25% of doors from fiscal 2016 year-end levels.

Certain limited and recent factors within the U.S., including an improvement in the labor and housing markets and modest growth in overall consumer spending, suggest a potential moderate strengthening in the U.S. economic outlook. It is still, however, too early to understand what kind of sustained impact this will have on consumer discretionary spending. If the global macroeconomic environment remains volatile or worsens, the constrained level of worldwide consumer spending and modified consumption behavior may continue to have a negative effect on our outlook. As a result of these factors, several organizations that monitor the world's economy, including the International Monetary Fund, have modestly decreased overall global growth forecasts for the remainder of calendar 2016 and calendar 2017.

We will continue to monitor these trends and evaluate and adjust our operating strategies and cost management opportunities to mitigate the related impact on our results of operations, while remaining focused on the long-term growth of our business and protecting the value of our brands.

For a detailed discussion of significant risk factors that have the potential to cause our actual results to differ materially from our expectations, see Part I, Item 1A. "Risk Factors" disclosed in our Annual Report on Form 10-K for the fiscal year ended July 2, 2016.

## FIRST QUARTER FISCAL 2017 COMPARED TO FIRST QUARTER FISCAL 2016

The following table summarizes results of operations for the first quarter of fiscal 2017 compared to the first quarter of fiscal 2016. All percentages shown in the table below and the discussion that follows have been calculated using unrounded numbers.

	Three Months Ended					
	October 1, 2016		September 26, 2015		Variance	
	(millions, except per share data)					
	Amount	% of net sales	Amount	% of net sales	Amount	%
Net sales	\$ 1,037.6	100.0%	\$ 1,030.3	100.0%	\$ 7.3	0.7%
Gross profit	714.7	68.9	696.5	67.6	18.2	2.6
SG&A expenses	548.8	52.9	555.1	53.9	(6.3)	(1.1)
Operating income	165.9	16.0	141.4	13.7	24.5	17.3
Interest expense, net	5.7	0.5	6.7	0.6	(1.0)	NM
Provision for income taxes	42.8	4.1	38.3	3.7	4.5	11.8
Net income	117.4	11.3	96.4	9.4	21.0	21.7
Net income per share:						
Basic	\$ 0.42		\$ 0.35		\$ 0.07	20.6%
Diluted	\$ 0.42		\$ 0.35		\$ 0.07	20.2%

NM - Not meaningful

### GAAP to Non-GAAP Reconciliation

The Company's reported results are presented in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The reported results during the first quarter of fiscal 2017 and fiscal 2016 reflect the impact of the Operational Efficiency Plan, Acquisition-Related Costs and the Transformation Plan, as noted in the following tables. Refer to page 27 for further discussion on the Non-GAAP Measures.

	Three Months Ended October 1, 2016				
	GAAP Basis (As Reported)	Transformation and Other Actions	Operational Efficiency Plan	Acquisition-Related Costs	Non-GAAP Basis (Excluding Items)
	(millions, except per share data)				
Gross profit	\$ 714.7	\$ —	\$ —	\$ (0.4)	\$ 715.1
SG&A expenses	548.8	—	7.1	3.4	538.3
Operating income	165.9	—	(7.1)	(3.8)	176.8
Provision for income taxes	42.8	—	(1.5)	(0.8)	45.1
Net income	117.4	—	(5.6)	(3.0)	126.0
Diluted net income per share	0.42	—	(0.02)	(0.01)	0.45



Three Months Ended September 26, 2015

	GAAP Basis (As Reported)	Transformation and Other Actions	Operational Efficiency Plan	Acquisition- Related Costs	Non-GAAP Basis (Excluding Items)
	(millions, except per share data)				
Gross profit . . . . .	\$ 696.5	\$ —	\$ —	\$ (0.9)	\$ 697.4
SG&A expenses . . . . .	555.1	12.6	—	10.1	532.4
Operating income . . . . .	141.4	(12.6)	—	(11.0)	165.0
Provision for income taxes . . . . .	38.3	(4.1)	—	(2.8)	45.2
Net income . . . . .	96.4	(8.5)	—	(8.2)	113.1
Diluted net income per share . . . . .	0.35	(0.03)	—	(0.03)	0.41

First Quarter Fiscal 2017 Items

In the first quarter of fiscal 2017, the Company incurred pre-tax charges, as follows:

- *Operational Efficiency Plan* - \$7.1 million primarily related to organizational efficiency costs and, to a lesser extent, network optimization costs; and
- *Acquisition-Related Costs* - \$3.8 million total charges related to the acquisition of Stuart Weitzman Holdings LLC, of which \$3.2 million is primarily related to charges attributable to contingent payments and integration-related activities (of which \$2.4 million is recorded within unallocated corporate expenses within the Coach brand and \$0.8 million is recorded within the Stuart Weitzman segment), and \$0.6 million is related to the limited life impact of purchase accounting, primarily due to the amortization of the inventory step-up and distributor relationships, all recorded within the Stuart Weitzman segment.

Total Operational Efficiency Plan and Acquisition-Related Costs taken together increased the Company's SG&A expenses by \$10.5 million and cost of sales by \$0.4 million, negatively impacting net income by \$8.6 million, or \$0.03 per diluted share. Refer to the "Executive Overview" herein and Note 4, "Restructuring Activities," for further information regarding this plan.

Additional actions under our Operational Efficiency Plan will continue through fiscal 2017, with expected incremental charges estimated between \$20 million to \$35 million (which will primarily relate to the costs of replacing and updating the Company's core technology platforms, as well as office location and supply chain consolidations). Furthermore, the Company expects to incur additional aggregate Stuart Weitzman pre-tax Acquisition-Related Costs of around \$20 million in fiscal 2017, which will primarily include the impact of contingent payments, and to a lesser extent, office lease termination charges.

First Quarter Fiscal 2016 Items

In the first quarter of fiscal 2016, the Company incurred charges as follows:

- *Transformation and Other Actions* - \$12.6 million under our Coach brand Transformation Plan primarily due to organizational efficiency costs and accelerated depreciation as a result of store renovations, within North America and select International stores;
- *Acquisition-Related Costs* - \$11.0 million total acquisition-related costs, of which \$5.9 million primarily related to charges attributable to contingent earn out payments and other integration-related activities (of which \$3.6 million is recorded within unallocated corporate expenses within the Coach brand, and \$2.3 million is recorded within the Stuart Weitzman segment), and \$5.1 million related to the short-term impact of purchase accounting, primarily due to the amortization of the fair value of the order backlog asset and inventory step-up, all recorded within the Stuart Weitzman segment.

Total Transformation Plan and Acquisition-Related Costs taken together increased the Company's SG&A expenses by \$22.7 million and cost of sales by \$0.9 million, negatively impacting net income by \$16.7 million, or \$0.06 per diluted share.

**Summary – First Quarter of Fiscal 2017**

Net sales in the first quarter of fiscal 2017 increased 0.7% to \$1,037.6 million, due to increased revenues from the Coach brand International business, partially offset by decreased revenues from the Coach brand North America business. Excluding the effects of foreign currency, net sales decreased 0.6%. Our gross profit increased by 2.6% to \$714.7 million during the first quarter of fiscal 2017. SG&A expenses decreased by 1.1% to \$548.8 million in the first quarter of fiscal 2017. Excluding non-GAAP adjustments as described in the "GAAP to non-GAAP Reconciliation" herein, SG&A expenses increased by 1.1% to \$538.3 million.

Net income increased 21.7% in the first quarter of fiscal 2017 as compared to the first quarter of fiscal 2016, primarily due to an increase in operating income of \$24.5 million, partially offset by an increase of \$4.5 million in our provision for income

taxes. Net income per diluted share increased 20.2% primarily due to higher net income. Excluding non-GAAP adjustments, net income and net income per diluted share increased 11.4% and 10.0%, respectively.

### Currency Fluctuation Effects

The change in net sales for the first quarter of fiscal 2017 compared to fiscal 2016 has been presented both including and excluding currency fluctuation effects.

### Net Sales

Net sales increased 0.7% or \$7.3 million to \$1.04 billion in the first quarter of fiscal 2017. Excluding the effects of foreign currency, net sales decreased 0.6% or \$6.3 million. The \$6.3 million decrease was primarily driven by lower net sales in the North America business, partially offset by higher net sales in the International business.

The following table presents net sales by reportable segment for the first quarter of fiscal 2017 compared to the first quarter of fiscal 2016:

	Three Months Ended				
	Total Net Sales		Rate of Change	Percentage of Total Net Sales	
	October 1, 2016	September 26, 2015		October 1, 2016	September 26, 2015
	(dollars in millions)				
North America	\$ 545.3	\$ 561.0	(2.8)%	52.6%	54.5%
International	395.5	369.0	7.2	38.1	35.8
Other <sup>(1)</sup>	9.3	12.8	(27.3)	0.9	1.2
Coach brand	\$ 950.1	\$ 942.8	0.8	91.6%	91.5%
Stuart Weitzman	87.5	87.5	—	8.4	8.5
Total net sales	\$ 1,037.6	\$ 1,030.3	0.7	100.0%	100.0%

<sup>(1)</sup> Net sales in the Other category, which is not a reportable segment, consists of sales generated in licensing and disposition channels.

Net sales for the Coach brand, which includes the North America and International segments, as well as sales in the Other category, increased 0.8% or \$7.3 million to \$950.1 million, as described below. Excluding the favorable impact of foreign currency, net sales decreased 0.7%.

*North America Net Sales* decreased 2.8% or \$15.7 million to \$545.3 million in the first quarter of fiscal 2017, which was not materially impacted by changes in foreign currency. This decrease was primarily driven by lower sales to wholesale customers of \$15.9 million due to the Company's deliberate and strategic decision to elevate the Coach brand's positioning in the channel by limiting participation in promotional events and closing approximately 25% of its wholesale doors by the end of fiscal 2017. Comparable store sales increased by \$9.3 million or 1.9% primarily due to increased transaction size and conversion in stores. Excluding the negative impact of the Internet business on comparable store sales, primarily due to a lower number of transactions, comparable store sales increased 3.6%. Comparable store sales measure sales performance at stores that have been open for at least 12 months, and includes sales from the Internet. Coach excludes new locations from the comparable store base for the first twelve months of operation. Comparable store sales have not been adjusted for store expansions. North America comparable store sales are presented for the 13-weeks ending October 1, 2016 versus the analogous 13-weeks ended October 3, 2015 for comparability. Non-comparable store sales decreased by \$9.1 million primarily due to the calendar shift that resulted from the 53rd week of fiscal 2016 and the net impact of store openings and closures, partially offset by the positive impact of reduced store return reserves. Since the end of the first quarter of fiscal 2016, Coach closed one net outlet store and closed 30 retail stores.

*International Net Sales* increased 7.2% or \$26.5 million to \$395.5 million in the first quarter of fiscal 2017. Excluding the favorable impact of foreign currency, net sales increased \$12.4 million or 3.4%. This constant currency change is primarily due to an increase in net sales in the international wholesale channel of \$7.6 million due to higher shipments, an increase in Europe of \$6.2 million due to an expanded wholesale and store distribution network, and an increase in Greater China of \$6.4 million due to the impact of net new stores and positive comparable store sales in mainland China, partially offset by declines in Hong Kong and Macau due to a continued slowdown in inbound tourist traffic. These increases were partially offset by a decrease in Japan of \$8.3 million primarily due to decreased traffic related to unusually high tourism in the prior year. Since the end of the first

quarter of fiscal 2016, we opened 10 net new stores, with six net new stores in mainland China, Hong Kong and Macau and Japan, and four net new stores in the other regions.

*Stuart Weitzman Net Sales* remained even at \$87.5 million in the first quarter of fiscal 2017, which was not materially impacted by changes in foreign currency. The acquisition of the Stuart Weitzman Canadian retail distributor in the fourth quarter of fiscal 2016 resulted in increased net sales of \$4.6 million. Stuart Weitzman retail and outlet stores in the United States had a \$1.9 million increase in net sales due to positive comparable store sales and store openings. These increases were offset by lower sales into the wholesale channel of \$6.3 million, primarily due to the timing of shipments. Since the end of the first quarter of fiscal 2016, Stuart Weitzman opened a net 7 new stores and acquired 14 stores associated with the acquisition of the Canadian distributor.

### **Gross Profit**

Gross profit increased 2.6% or \$18.2 million to \$714.7 million in the first quarter of fiscal 2017 from \$696.5 million in the first quarter of fiscal 2016. Gross margin for the first quarter of fiscal 2017 was 68.9% as compared to 67.6% in the first quarter of fiscal 2016. This gross margin increase of 130 basis points is primarily due to more favorable product mix and lower costs in the Coach brand as well as a more favorable channel mix in the Stuart Weitzman segment.

Gross profit for the Coach brand, which includes the North America and International segments, as well as Other and Corporate Unallocated results, increased 2.6% or \$16.8 million to \$663.6 million in the first quarter of fiscal 2017. Furthermore, gross margin for the Coach brand increased 120 basis points from 68.6% in the first quarter of fiscal 2016 to 69.8% in the first quarter of fiscal 2017, inclusive of an unfavorable 60 basis point change in the foreign currency impact of each period, as described below.

*North America Gross Profit* decreased 2.2% or \$7.7 million to \$341.2 million in the first quarter of fiscal 2017. Gross margin increased 40 basis points from 62.2% in the first quarter of fiscal 2016 to 62.6% in the first quarter of fiscal 2017. The increase in gross margin is attributable to higher initial mark-ups, primarily due to lower average product costs in our outlet stores, and an improved mix of elevated product sales, favorably impacting gross margin by 220 basis points. The strategic decision to close select doors in the wholesale channel resulted in a 20 basis point favorable impact to gross margin due to a more favorable channel mix. These increases were partially offset by the impact of increased promotional activity, primarily in our outlet channel, negatively impacting gross margin by 200 basis points as the Company passed on the benefit of lower costs through pricing to consumers.

*International Gross Profit* increased 5.7% or \$15.9 million to \$298.1 million in the first quarter of fiscal 2017. Gross margin decreased 110 basis points from 76.5% in the first quarter of fiscal 2016 to 75.4% in the first quarter of fiscal 2017. The change in foreign currency impact on gross margin of each period was an unfavorable 180 basis points, primarily due to the Japanese Yen. Excluding the impact of foreign currency in each period, International gross margin increased 70 basis points primarily due to higher initial mark-ups, primarily due to lower average product costs in our outlet stores, and an improved mix of elevated product sales, favorably impacting gross margin by 140 basis points. Furthermore, the favorable effects of decreased duty costs positively impacted gross margin by 80 basis points. These increases were partially offset by increased promotional activity and a less favorable geographic mix of sales (due primarily to the growth of our Europe and international wholesale businesses), negatively impacting gross margin by 110 basis points and 60 basis points, respectively.

*Corporate Unallocated Gross Profit* increased \$8.9 million from \$7.3 million in the first quarter of fiscal 2016 to \$16.2 million in the first quarter of fiscal 2017, primarily due to the impact of more favorable production variances.

*Stuart Weitzman Gross Profit* increased 2.7% or \$1.4 million to \$51.1 million during the first quarter of fiscal 2017. Gross margin increased 160 basis points from 56.8% in the first quarter of fiscal 2016 to 58.4% in the first quarter of fiscal 2017. Excluding the short-term impact of purchase accounting, Stuart Weitzman gross profit totaled \$51.5 million and \$50.6 million in the first quarter of fiscal 2017 and fiscal 2016, respectively, resulting in a gross margin of 58.9% and 57.8%, respectively. The increase in gross margin is primarily attributable to a 140 basis point impact from a shift in channel mix towards higher margin retail business.

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

SG&A expenses are comprised of four categories: (i) selling; (ii) advertising, marketing and design; (iii) distribution and customer service; and (iv) administrative. Selling expenses include store employee compensation, occupancy costs, supply costs, wholesale and retail account administration compensation globally and Coach international operating expenses. These expenses are affected by the number of stores open during any fiscal period and store performance, as compensation and rent expenses vary with sales. Advertising, marketing and design expenses include employee compensation, media space and production, advertising agency fees, new product design costs, public relations and market research expenses. Distribution and customer service expenses include warehousing, order fulfillment, shipping and handling, customer service, employee compensation and bag repair costs. Administrative expenses include compensation costs for "corporate" functions including: executive, finance, human resources, legal and information systems departments, as well as corporate headquarters occupancy costs, consulting fees and software expenses. Administrative expenses also include global equity compensation expense.

The Company includes inbound product-related transportation costs from our service providers within cost of sales. The Company, similar to some companies, includes certain transportation-related costs related to our distribution network in SG&A

expenses rather than in cost of sales; for this reason, our gross margins may not be comparable to that of entities that include all costs related to their distribution network in cost of sales.

SG&A expenses decreased 1.1% or \$6.3 million to \$548.8 million in the first quarter of fiscal 2017 as compared to \$555.1 million in the first quarter of fiscal 2016. As a percentage of net sales, SG&A expenses decreased to 52.9% during the first quarter of fiscal 2017 as compared to 53.9% during the first quarter of fiscal 2016. Excluding non-GAAP adjustments of \$10.5 million and \$22.7 million in the first quarter of fiscal 2017 and fiscal 2016, respectively, as discussed in the "GAAP to Non-GAAP Reconciliation" herein, SG&A expenses increased \$5.9 million from the first quarter of fiscal 2016; and SG&A expenses as a percentage of net sales increased, from 51.7% in the first quarter of fiscal 2016 to 51.9% in the first quarter of fiscal 2017, primarily due to the increased SG&A expenses within the Stuart Weitzman segment to support the growth of the business.

Selling expenses were \$381.0 million, or 36.7% of net sales, in the first quarter of fiscal 2017 compared to \$367.2 million, or 35.6% of net sales, in the first quarter of fiscal 2016. The \$13.8 million increase is primarily due to unfavorable foreign currency effects in Japan, as well as increases in Stuart Weitzman and Europe to support growth in the business, partially offset by decreases in International wholesale and Asia (excluding Greater China and Japan), primarily due to reduced employee related costs.

Advertising, marketing, and design costs were \$62.8 million, or 6.1% of net sales, in the first quarter of fiscal 2017, compared to \$69.1 million, or 6.7% of net sales, during the first quarter of fiscal 2016. The decrease was primarily due to lower costs for Coach brand marketing and advertising-related events, including lower costs associated with New York fashion week and, to a lesser extent, timing of expenses.

Distribution and customer service expenses were \$15.2 million, or 1.5% of net sales, in the first quarter of fiscal 2017, relatively in-line with first quarter fiscal 2016 expenses of \$16.5 million, or 1.6% of net sales.

Administrative expenses were \$89.8 million, or 8.7% of net sales, in the first quarter of fiscal 2017 compared to \$102.3 million, or 9.9% of net sales, in the first quarter of fiscal 2016. Excluding non-GAAP adjustments of \$10.5 million in the first quarter of fiscal 2017 and \$22.7 million in the first quarter of fiscal 2016, administrative expenses were \$79.3 million and \$79.6 million, respectively, or 7.6% and 7.7% of net sales. The slight decrease is primarily due to decreased Coach brand incentive compensation and employee related costs, partially offset by higher occupancy costs.

### Operating Income

Operating income increased 17.3% or \$24.5 million to \$165.9 million in the first quarter of fiscal 2017 as compared to \$141.4 million in the first quarter of fiscal 2016. Operating margin was 16.0% in the first quarter of fiscal 2017 as compared to 13.7% in the first quarter of fiscal 2016. Excluding non-GAAP adjustments of \$10.9 million in the first quarter of fiscal 2017 and \$23.6 million in the first quarter of fiscal 2016, as discussed in the "GAAP to Non-GAAP Reconciliation" herein, operating income increased 7.1% or \$11.8 million to \$176.8 million from \$165.0 million in the first quarter of fiscal 2016; and operating margin was 17.0% in the first quarter of fiscal 2017 as compared to 16.0% in the first quarter of fiscal 2016.

The following table presents operating income by reportable segment for the first quarter of fiscal 2017 compared to the first quarter of fiscal 2016:

	Three Months Ended			
	Operating Income		Variance	
	October 1, 2016	September 26, 2015 (millions)	Amount	%
North America	\$ 164.2	\$ 171.7	\$ (7.5)	(4.4)%
International	113.3	107.2	6.1	5.9
Other <sup>(1)</sup>	6.1	6.1	—	—
Corporate unallocated	(122.8)	(151.3)	28.5	18.8
Coach brand	\$ 160.8	\$ 133.7	\$ 27.1	20.2 %
Stuart Weitzman	5.1	7.7	(2.6)	(34.0)
Total operating income	\$ 165.9	\$ 141.4	\$ 24.5	17.3 %

<sup>(1)</sup> Operating income in the Other category, which is not a reportable segment, consists of Coach brand sales generated in licensing and disposition channels.

Operating income for the Coach brand, which includes the North America and International segments, as well as Other and Corporate Unallocated results, increased 20.2% or \$27.1 million to \$160.8 million in the first quarter of fiscal 2017. Furthermore, operating margin for the Coach brand increased 270 basis points from 14.2% in the first quarter of fiscal 2016 to 16.9% in the first quarter of fiscal 2017, as described below. Excluding non-GAAP adjustments, Coach brand operating income totaled \$170.3 million in the first quarter of fiscal 2017, resulting in an operating margin of 17.9%. This compared to Coach brand operating income of \$149.9 million in the first quarter of fiscal 2016, or an operating margin of 15.9%.

*North America Operating Income* decreased 4.4% or \$7.5 million to \$164.2 million in the first quarter of fiscal 2017 reflecting the decrease in gross profit of \$7.7 million, partially offset by lower SG&A expenses of \$0.2 million. The decrease in SG&A expenses was due to favorable employee related costs due to lower store count, partially offset by increased rent for our new flagship store. Operating margin decreased 50 basis points to 30.1% in the first quarter of fiscal 2017 from 30.6% during the same period in the prior year due to higher SG&A expense as a percentage of net sales of 90 basis points, partially offset by higher gross margin of 40 basis points. The increase in SG&A expense as a percentage of net sales is primarily due to rent expense for the flagship store with no associated revenue as the location is not yet open.

*International Operating Income* increased 5.9% or \$6.1 million to \$113.3 million in the first quarter of fiscal 2017 primarily reflecting higher gross profit of \$15.9 million, partially offset by higher SG&A expenses of \$9.8 million. The increase in SG&A expenses is primarily related to unfavorable foreign currency effects in Japan, as well as increases in Europe to support growth in business, partially offset by decreases in International wholesale and Asia (excluding Greater China and Japan), primarily due to employee related costs. Operating margin decreased 30 basis points to 28.7% in fiscal 2017 from 29.0% during the same period in the prior year primarily due to lower gross margin of 110 basis points, partially offset by lower SG&A expenses (particularly selling expenses) as a percentage of net sales, which decreased by 80 basis points.

*Corporate Unallocated Operating Expense* decreased \$28.5 million to \$122.8 million in the first quarter of fiscal 2017, a decrease of 18.8% from \$151.3 million in the first quarter of fiscal 2016. Excluding non-GAAP adjustments, unallocated operating expenses decreased by \$21.8 million to \$113.3 million in the first quarter of fiscal 2017. This decrease is primarily related to more favorable production variances, reduced advertising costs, decreased Coach brand incentive compensation and employee related costs, partially offset by higher Coach brand occupancy costs.

*Stuart Weitzman Operating Income* decreased 34.0% or \$2.6 to \$5.1 million in the first quarter of fiscal 2017, resulting in an operating margin of 5.8%, compared to \$7.7 million and 8.8%, respectively, in fiscal 2016. Excluding non-GAAP adjustments, Stuart Weitzman operating income totaled \$6.5 million in the first quarter of fiscal 2017, resulting in an operating margin of 7.5%, compared to \$15.1 million and 17.2%, respectively, in fiscal 2016. The decrease in operating margin is primarily due to higher SG&A expenses (particularly selling expenses) as a percentage of net sales, which increased from 40.6% in fiscal 2016 to 51.4% in fiscal 2017 due to increased investments in the growth of the business, particularly rent expense for two new flagship stores with no associated revenue as the locations are not yet open, slightly offset by higher gross margin of 110 basis points.

### **Provision for Income Taxes**

The effective tax rate was 26.7% in the first quarter of fiscal 2017, as compared to 28.4% in the first quarter of fiscal 2016. Excluding non-GAAP adjustments, the effective tax rate was 26.3% in the first quarter of 2017, compared to 28.6% in the first quarter of fiscal 2016. The decrease in our effective tax rate was primarily attributable to the geographic mix of earnings and the ongoing benefit of available foreign tax credits, partially offset by lower benefits from the expiration of certain statutes.

### **Net Income**

Net income increased 21.7% or \$21.0 million to \$117.4 million in the first quarter of fiscal 2017 as compared to \$96.4 million in the first quarter of fiscal 2016. Excluding non-GAAP adjustments, net income increased 11.4% or \$12.9 million to \$126.0 million in the first quarter of fiscal 2017. This increase was primarily due to higher operating income and lower interest expense.

### **Earnings per Share**

Net income per diluted share increased 20.2% to \$0.42 in the first quarter of fiscal 2017 as compared to \$0.35 in the first quarter of fiscal 2016. Excluding non-GAAP adjustments, net income per diluted share increased 10.0% to \$0.45 in the first quarter of fiscal 2017 from \$0.41 in the first quarter of fiscal 2016, primarily due to higher net income.

## NON-GAAP MEASURES

The Company's reported results are presented in accordance with GAAP. The reported gross profit, SG&A expenses, operating income, provision for income taxes, net income and earnings per diluted share in the first quarter of fiscal 2017 and fiscal 2016 reflect certain items, including the impact of the Transformation Plan, the Operational Efficiency Plan and Acquisition-Related Charges. As a supplement to the Company's reported results, these metrics are also reported on a non-GAAP basis to exclude the impact of these items, along with a reconciliation to the most directly comparable GAAP measures.

These non-GAAP performance measures were used by management to conduct and evaluate its business during its regular review of operating results for the periods affected. Management and the Company's Board utilized these non-GAAP measures to make decisions about the uses of Company resources, analyze performance between periods, develop internal projections and measure management performance. The Company's primary internal financial reporting excluded these items. In addition, the compensation committee of the Company's Board will use these non-GAAP measures when setting and assessing achievement of incentive compensation goals.

The Company operates on a global basis and reports financial results in U.S. dollars in accordance with GAAP. Fluctuations in foreign currency exchange rates can affect the amounts reported by the Company in U.S. dollars with respect to its foreign revenues and profit. Accordingly, certain increases and decreases in operating results for the Company, the Coach brand and the Company's North America and International segment have been presented both including and excluding currency fluctuation effects from translating foreign-denominated amounts into U.S. dollars and compared to the same period in the prior fiscal year. Constant currency information compares results between periods as if exchange rates had remained constant period-over-period. The Company calculates constant currency revenue results by translating current period revenue in local currency using the prior year period's monthly average currency conversion rate.

We believe these non-GAAP measures are useful to investors and others in evaluating the Company's ongoing operating and financial results in a manner that is consistent with management's evaluation of business performance and understanding how such results compare with the Company's historical performance. Additionally, we believe presenting certain increases and decreases in constant currency provides a framework for assessing the performance of the Company's business outside the United States and helps investors and analysts understand the effect of significant year-over-year currency fluctuations. We believe excluding these items assists investors and others in developing expectations of future performance. By providing the non-GAAP measures, as a supplement to GAAP information, we believe we are enhancing investors' understanding of our business and our results of operations. The non-GAAP financial measures are limited in their usefulness and should be considered in addition to, and not in lieu of, U.S. GAAP financial measures. Further, these non-GAAP measures may be unique to the Company, as they may be different from non-GAAP measures used by other companies.

For a detailed discussion on these non-GAAP measures, see Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations."

## LIQUIDITY AND CAPITAL RESOURCES

### Cash Flows

	<b>Three Months Ended</b>		
	<b>October 1, 2016</b>	September 26, 2015	Change
		(millions)	
Net cash (used in) provided by operating activities . . . . .	\$ (38.1)	\$ 8.0	\$ (46.1)
Net cash provided by (used in) investing activities . . . . .	555.6	(220.4)	776.0
Net cash (used in) financing activities . . . . .	(377.4)	(110.7)	(266.7)
Effect of exchange rate changes on cash and cash equivalents . . . . .	0.9	(2.7)	3.6
Net increase (decrease) in cash and cash equivalents . . . . .	<u>\$ 141.0</u>	<u>\$ (325.8)</u>	<u>\$ 466.8</u>

The Company's cash and cash equivalents increased by \$141.0 million in the first quarter of fiscal 2017 as compared to a decrease of \$325.8 million in the first quarter of fiscal 2016, as discussed below.

#### **Net cash (used in) provided by operating activities**

Net cash used in operating activities increased \$46.1 million due to changes in operating assets and liabilities of \$40 million and lower non-cash charges, primarily deferred taxes, of \$27.1 million, partially offset by higher net income of \$21.0 million.

The \$40 million decline in changes in operating asset and liability balances was primarily driven by changes in accrued liabilities, other assets, accounts receivable and inventories. Accrued liabilities was a use of cash of \$114.3 million in the first quarter of fiscal 2017 as compared to a use of cash of \$65.0 million in the first quarter of fiscal 2016, driven by changes in accrued income taxes, the timing of bond interest payments in conjunction with the term loan repayment and timing of payroll related payments. Other balance sheet changes, net were a use of cash of \$12.9 million in the first quarter of fiscal 2017 compared to a source of cash of \$19.2 million in the first quarter of fiscal 2016, primarily related to changes in tax receivables. Accounts receivable was a source of cash of \$0.6 million in the first quarter of fiscal 2017 as compared to a use of cash of \$29.3 million in the first quarter of fiscal 2016, primarily driven by a smaller build in receivables compared to prior year within North America wholesale due to the strategic actions, as well as a decline in receivables within Greater China in fiscal 2017. Inventories were a use of cash of \$86.1 million in the first quarter of fiscal 2017 as compared to a use of cash of \$95.5 million in the first quarter of fiscal 2016, primarily driven by heightened focus on inventory management.

#### **Net cash provided by (used in) investing activities**

Net cash provided by investing activities was \$555.6 million in the first quarter of fiscal 2017 and a use of cash during the first quarter of fiscal 2016 of \$220.4 million. This \$776 million increase in net cash provided by investing activities is primarily due to proceeds from the sale of the Company's investments in Hudson Yards of \$680.6 million, the absence of an equity method investment in the first quarter of fiscal 2017 as compared to a \$51.4 million investment in the first quarter of fiscal 2016, and the impact of net purchases of investments of \$50.6 million in the first quarter of fiscal 2017, compared to net purchases of investments of \$99.5 million in the first quarter of fiscal 2016.

#### **Net cash (used in) financing activities**

Net cash used in financing activities was \$377.4 million and \$110.7 million in the first quarter of fiscal 2017 and fiscal 2016, respectively. The \$266.7 million increase was primarily due to the repayment of long-term debt of \$285.0 million during the first quarter of fiscal 2017, partially offset by proceeds from share-based awards of \$20.7 million in the first quarter of fiscal 2017 as compared to \$2.9 million in the first quarter of fiscal 2016.

## Working Capital and Capital Expenditures

As of October 1, 2016, in addition to our cash flows from operations, our sources of liquidity and capital resources were comprised of the following:

	Sources of Liquidity	Outstanding Indebtedness	Total Available Liquidity
	(millions)		
Cash and cash equivalents <sup>(1)</sup> .....	\$ 1,000.0	\$ —	\$ 1,000.0
Short-term investments <sup>(1)</sup> .....	533.2	—	533.2
Non-current investments .....	74.4	—	74.4
Amended and Restated Credit Agreement <sup>(2)</sup> .....	700.0	—	700.0
4.250% Senior Notes <sup>(3)</sup> .....	600.0	600.0	—
International credit facilities .....	51.6	—	51.6
<b>Total</b> .....	<b>\$ 2,959.2</b>	<b>\$ 600.0</b>	<b>\$ 2,359.2</b>

<sup>(1)</sup> As of October 1, 2016, approximately 63% of our cash and short-term investments were held outside the U.S. in jurisdictions where we intend to permanently reinvest our undistributed earnings to support our continued growth. We are not dependent on foreign cash to fund our domestic operations. If we choose to repatriate any funds to the U.S., we would be subject to applicable U.S. and foreign taxes.

<sup>(2)</sup> In March 2015, the Company amended and restated its existing \$700.0 million revolving credit facility (the "Revolving Facility") with certain lenders and JP Morgan Chase Bank, N.A. as the administrative agent, to provide for a five-year senior unsecured \$300.0 million term loan (the "Term Loan") and to extend the maturity date to March 18, 2020 (the "Amended and Restated Credit Agreement"). On August 3, 2016, the Company prepaid its outstanding borrowings under the Term Loan facility. There were no debt borrowings under the Revolving Facility for the first quarter of fiscal 2017 and fiscal 2016. The Amended and Restated Credit Agreement contains various covenants and customary events of default, including the requirement to maintain a maximum ratio of adjusted debt to consolidated EBITDAR, as defined in the agreement, of no greater than 4.0 as of the date of measurement. As of October 1, 2016, no known events of default have occurred. Refer to Note 9, "Debt," for further information on our existing debt instruments.

We believe that our Amended and Restated Credit Agreement is adequately diversified with no undue concentrations in any one financial institution. As of October 1, 2016, there were 11 financial institutions participating in the facility, with no one participant maintaining a maximum commitment percentage in excess of 14%. We have no reason at this time to believe that the participating institutions will be unable to fulfill their obligations to provide financing in accordance with the terms of the facility in the event we elect to draw funds in the foreseeable future.

<sup>(3)</sup> In March 2015, the Company issued \$600.0 million aggregate principal amount of 4.250% senior unsecured notes due April 1, 2025 at 99.445% of par (the "4.250% Senior Notes"). Furthermore, the indenture for the 4.250% Senior Notes contains certain covenants limiting the Company's ability to: (i) create certain liens, (ii) enter into certain sale and leaseback transactions and (iii) merge, or consolidate or transfer, sell or lease all or substantially all of the Company's assets. As of October 1, 2016, no known events of default have occurred. Refer to Note 9, "Debt," for further information on our existing debt instruments.

We have the ability to draw on our credit facilities or access other sources of financing options available to us in the credit and capital markets for, among other things, our restructuring initiatives, acquisition or integration-related costs, settlement of a material contingency, or a material adverse business or macroeconomic development, as well as for other general corporate business purposes. The Company expects to receive net proceeds of approximately \$125 million related to the sale of our prior headquarters' buildings on 34th Street in New York. We expect to receive these proceeds by the end of the second quarter of fiscal 2017.

Management believes that cash flows from operations, access to the credit and capital markets and our credit lines, on-hand cash and cash equivalents and our investments will provide adequate funds to support our operating, capital, and debt service requirements for the foreseeable future, our plans for acquisitions, further business expansion and restructuring-related initiatives. Future events, such as acquisitions or joint ventures, and other similar transactions may require additional capital. There can be no assurance that any such capital will be available to the Company on acceptable terms or at all. Our ability to fund working capital needs, planned capital expenditures, dividend payments and scheduled debt payments, as well as to comply with all of the financial covenants under our debt agreements, depends on 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 the Company's control.



Reference should be made to our most recent Annual Report on Form 10-K for additional information regarding liquidity and capital resources.

#### Stuart Weitzman Acquisition

On May 4, 2015, the Company acquired all of the equity interests of Stuart Weitzman Intermediate LLC, a luxury footwear company and the parent of Stuart Weitzman Holdings, LLC, from Topco for an aggregate payment of approximately \$531.1 million in cash, subject to customary purchase price adjustments, as well as a potential earnout of up to \$44.0 million based on the achievement of certain revenue targets. The total amount payable under the earnout will not exceed \$44.0 million, and will be paid out in fiscal 2018 if targets are achieved.

#### Seasonality

Seasonality primarily impacts the Coach brand. Because Coach brand's products are frequently given as gifts, we experience seasonal variations in its net sales, operating cash flows and working capital requirements, primarily related to seasonal holiday shopping. During the first fiscal quarter, we build inventory for the holiday selling season. In the second fiscal quarter, working capital requirements are reduced substantially as we generate higher net sales and operating income, especially during the holiday months of November and December. Accordingly, the Company's net sales, operating income and operating cash flows for the three months ended October 1, 2016 are not necessarily indicative of that expected for the full fiscal 2017. However, fluctuations in net sales, operating income and operating cash flows of the Company in any fiscal quarter may be affected by the timing of wholesale shipments and other events affecting retail sales, including adverse weather conditions or other macroeconomic events.

### **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

Our significant accounting policies are described in Note 2 to the audited consolidated financial statements in our fiscal 2016 10-K. Our discussion of results of operations and financial condition relies on our condensed consolidated financial statements that are prepared based on certain critical accounting policies that require management to make judgments and estimates which are subject to varying degrees of uncertainty. While we believe that these accounting policies are based on sound measurement criteria, actual future events can and often do result in outcomes that can be materially different from these estimates or forecasts.

For a complete discussion of our critical accounting policies and estimates, see the "Critical Accounting Policies and Estimates" section of the MD&A in our fiscal 2016 10-K. As of October 1, 2016, there have been no material changes to any of the critical accounting policies.

As disclosed in our fiscal 2016 10-K, the Company performs its annual impairment assessment of goodwill, including trademarks and trade names, during the fourth quarter of each fiscal year. Furthermore, as previously disclosed, the fair value of the Stuart Weitzman brand reporting unit exceeded fair value by less than 20%, valued using the discounted cash flow method. Additionally, the percentage by which the fair value of the Stuart Weitzman brand indefinite-lived trademarks and trade names exceeded its carrying value was less than 5%, valued using the relief from royalty method. Several factors could impact the brand's ability to achieve future cash flows, including optimization of the store fleet productivity, the impact of promotional activity in department stores, the consolidation or take-back of certain distributor relationships, the simplification of certain corporate overhead structures and other initiatives aimed at expanding certain higher performing categories of the business. For the three months ended October 1, 2016, the Stuart Weitzman brand has generally performed in line with the estimated cash flows included in the fiscal 2016 annual impairment assessment. However, given the relatively small excess of fair value over the carrying value as noted above, if the profitability trends or market multiples decline during the remainder of fiscal 2017 from those that were expected, it is possible that an interim test, or our annual impairment test, could result in an impairment of these assets.

### **ITEM 3. 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 foreign currency exchange rates or interest rates. Coach manages these exposures through operating and financing activities and, when appropriate, through the use of derivative financial instruments. The use of derivative financial instruments is in accordance with the Company's risk management policies, and we do not enter into derivative transactions for speculative or trading purposes.

The quantitative disclosures in the following discussion 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 Currency Exchange Rate Risk**

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 and expenses translated into U.S. dollars. The Company is exposed to risk from foreign currency exchange rate fluctuations resulting from its operating subsidiaries' U.S. dollar and Euro denominated inventory purchases. To mitigate such risk, Coach Japan, Coach Canada and Stuart Weitzman enter into foreign currency derivative contracts, primarily forward foreign currency contracts. As of October 1, 2016 and July 2, 2016, zero-cost collar options and forward foreign currency exchange contracts designated as cash flow hedges with a notional amount of \$137.8 million and \$190.1 million, respectively, were outstanding. As a result of the use of derivative instruments, we are exposed to the risk that counterparties to the derivative instruments will fail to meet their contractual obligations. To mitigate the counterparty credit risk, we only enter into derivative contracts with carefully selected financial institutions. The Company also reviews the creditworthiness of our counterparties on a regular basis. As a result of the above considerations, we do not believe that we are exposed to any undue concentration of counterparty credit risk associated with our derivative contracts as of October 1, 2016.

The Company is also exposed to transaction risk from foreign currency exchange rate fluctuations with respect to various cross-currency intercompany loans which are not long term in investment nature. This primarily includes exposure to exchange rate fluctuations in the Singapore Dollar, the Euro, the British Pound Sterling, the New Taiwan Dollar and the Chinese Renminbi. To manage the exchange rate risk related to these loans, the Company primarily enters into forward foreign currency contracts. As of October 1, 2016 and July 2, 2016 the total notional values of outstanding forward foreign currency contracts related to these loans were \$79.0 million and \$75.5 million, respectively.

The fair value of outstanding foreign currency derivatives included in Other current assets at October 1, 2016 and July 2, 2016 was \$0.6 million and \$0.6 million, respectively. The fair value of outstanding foreign currency derivatives included in current liabilities at October 1, 2016 and July 2, 2016 was \$5.4 million and \$11.1 million, respectively.

#### **Interest Rate Risk**

The Company is exposed to interest rate risk in relation to the Revolving Facility (if utilized), the 4.250% Senior Notes and investments.

Our exposure to changes in interest rates is primarily attributable to debt outstanding under our Revolving Facility. Borrowings under the Revolving Facility bear interest at a rate per annum equal to, at Coach's option, either (a) a rate based on the rates applicable for deposits in the interbank market for U.S. dollars or the applicable currency in which the loans are made plus an applicable margin or (b) an alternate base rate (which is a rate equal to the greatest of (i) the Prime Rate in effect on such day, (ii) the Federal Funds Effective Rate in effect on such day plus ½ of 1% or (iii) the Adjusted LIBO Rate for a one month Interest Period on such day plus 1%). Furthermore, we are also exposed to changes in interest rates related to the fair value of our \$600.0 million 4.250% Senior Notes. At October 1, 2016 and July 2, 2016, the fair value of the 4.250% Senior Notes was approximately \$632 million and \$622 million, respectively, based on external pricing data, including available quoted market prices of these instruments, and consideration of comparable debt instruments with similar interest rates and trading frequency, among other factors, and is classified as Level 2 measurements within the fair value hierarchy.

The Company's investment portfolio is maintained in accordance with the Company's investment policy, which defines our investment principles including credit quality standards and limits the credit exposure of any single issuer. The primary objective of our investment activities is the preservation of principal while maximizing interest income and minimizing risk. We do not hold any investments for trading purposes.

#### **ITEM 4. Controls and Procedures**

Based on the evaluation of the Company's disclosure controls and procedures, as that term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended, the Chief Executive Officer of the Company and the Chief Financial Officer of the Company have concluded that the Company's disclosure controls and procedures are effective as of October 1, 2016.

There were no changes in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Reference should be made to our most recent Annual Report on Form 10-K for additional information regarding discussion of the effectiveness of the Company's controls and procedures.

## **PART II – OTHER INFORMATION**

### **ITEM 1. Legal Proceedings**

The Company 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 Inc.'s intellectual property rights, litigation instituted by persons alleged to have been injured by advertising claims or upon premises within the Company's control, and litigation with present or former employees.

As part of Coach's policing program for its intellectual property rights, from time to time, the Company files lawsuits in the U.S. and abroad alleging acts of trademark counterfeiting, trademark infringement, patent infringement, trade dress infringement, copyright infringement, unfair competition, trademark dilution and/or state or foreign law claims. At any given point in time, Coach may have a number 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, either as affirmative defenses or as counterclaims, the invalidity or unenforceability of certain of Coach's intellectual properties.

Although the Company's litigation as a defendant is routine and incidental to the conduct of Coach's business, as well as for any business of its size, such litigation can result in large monetary awards when a civil jury is allowed to determine compensatory and/or punitive damages.

The Company believes that the outcome of all pending legal proceedings in the aggregate will not have a material adverse effect on Coach's business or consolidated financial statements.

### **ITEM 1A. Risk Factors**

There are no material changes from the risk factors previously disclosed in Part I, Item 1A, Risk Factors of our Annual Report on Form 10-K for the fiscal year ended July 2, 2016.

### **ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds**

The Company did not repurchase any shares during the first quarter of fiscal 2017. As of October 1, 2016, the Company had zero availability remaining in the stock repurchase program.

### **ITEM 4. Mine Safety Disclosures**

Not applicable.

## ITEM 6. Exhibits

- 10.1\* Redemption Agreement and Amendment to Limited Liability Company Agreement, dated as of August 1, 2016, by and between Legacy Yards LLC, Coach Legacy Yards LLC and Podium Fund Tower C SPV LLC
- 10.2\* Lease Agreement, dated as of August 1, 2016, by and between Coach, Inc. and Legacy Yards Tenant LP
- 10.3\* Amended and Restated Development Agreement, dated as of August 1, 2016, by and between ERY Developer LLC and Coach Legacy Yards LLC
- 10.4\* Termination and Release of the Coach Guaranty, dated as of August 1, 2016, by and between Podium Fund Tower C SPV LLC and ERY Developer LLC
- 10.5 Amended and Restated Coach, Inc. 2010 Stock Incentive Plan (Amended and Restated as of September 23, 2016), which is incorporated by reference to Appendix B to Coach's Definitive Proxy Statement for the 2016 Annual Meeting of Stockholders filed on September 30, 2016.
- 10.6 Amended and Restated Coach, Inc. 2001 Employee Stock Purchase Plan, which is incorporated by reference to Appendix C to Coach's Definitive Proxy Statement for the 2016 Annual Meeting of Stockholders filed on September 30, 2016.
- 31.1\* Rule 13(a) – 14(a)/15(d) – 14(a) Certifications
- 32.1\* Section 1350 Certifications
- 101.INS\* XBRL Instance Document
- 101.SCH\* XBRL Taxonomy Extension Schema Document
- 101.CAL\* XBRL Taxonomy Extension Calculation Linkbase
- 101.LAB\* XBRL Taxonomy Extension Label Linkbase
- 101.PRE\* XBRL Taxonomy Extension Presentation Linkbase
- 101.DEF\* XBRL Taxonomy Extension Definition Linkbase

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\* Filed Herewith

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

COACH, INC.  
(Registrant)

By: /s/ Melinda Brown  
Name: Melinda Brown  
Title: Corporate Controller  
(Principal Accounting Officer)

Dated: November 9, 2016