

TIFFANY & CO
Form 10-Q
August 27, 2012
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended July 31, 2012

OR

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

For the transition period from _____ to _____

Commission file number: 1-9494

TIFFANY & CO.

(Exact name of registrant as specified in its charter)

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Delaware
(State of incorporation)

13-3228013
(I.R.S. Employer Identification No.)

727 Fifth Ave. New York, NY
(Address of principal executive offices)

10022
(Zip Code)

Registrant's telephone number, including area code: (212) 755-8000

Former name, former address and former fiscal year, if changed since last report

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 the definitions 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 Act). Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS: Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date: Common Stock, \$.01 par value, 126,637,625 shares outstanding at the close of business on July 31, 2012.

Table of Contents

TIFFANY & CO. AND SUBSIDIARIES

INDEX TO FORM 10-Q

FOR THE QUARTER ENDED JULY 31, 2012

	<u>PAGE</u>
<u>PART I FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements</u>	
<u>Condensed Consolidated Balance Sheets July 31, 2012, January 31, 2012 and July 31, 2011 (Unaudited)</u>	3
<u>Condensed Consolidated Statements of Earnings for the three and six months ended July 31, 2012 and 2011 (Unaudited)</u>	4
<u>Condensed Consolidated Statements of Comprehensive Earnings for the three and six months ended July 31, 2012 and 2011 (Unaudited)</u>	5
<u>Condensed Consolidated Statement of Stockholders Equity for the six months ended July 31, 2012 (Unaudited)</u>	6
<u>Condensed Consolidated Statements of Cash Flows for the six months ended July 31, 2012 and 2011 (Unaudited)</u>	7
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	8-21
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	22-31
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	32
<u>Item 4. Controls and Procedures</u>	33
<u>PART II OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	34
<u>Item 1A. Risk Factors</u>	35
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	36
<u>Item 6. Exhibits</u>	37
(a) Exhibits	

Table of Contents**PART I. Financial Information****Item 1. Financial Statements****TIFFANY & CO. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****(Unaudited)***(in thousands, except per share amounts)*

	July 31, 2012	January 31, 2012	July 31, 2011
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 366,080	\$ 433,954	\$ 532,981
Short-term investments	1,357	8,236	32,210
Accounts receivable, less allowances of \$10,353, \$11,772 and \$12,400	171,463	184,085	182,001
Inventories, net	2,230,474	2,073,212	1,836,874
Deferred income taxes	105,212	83,124	67,964
Prepaid expenses and other current assets	130,128	107,064	115,474
Total current assets	3,004,714	2,889,675	2,767,504
Property, plant and equipment, net	777,387	767,174	738,172
Deferred income taxes	276,451	271,156	185,020
Other assets, net	266,194	230,987	240,192
	\$ 4,324,746	\$ 4,158,992	\$ 3,930,888
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Short-term borrowings	\$ 155,137	\$ 112,973	\$ 97,272
Current portion of long-term debt		60,822	61,728
Accounts payable and accrued liabilities	259,608	328,962	274,301
Income taxes payable	26,901	60,977	20,687
Merchandise and other customer credits	63,112	62,943	66,764
Total current liabilities	504,758	626,677	520,752
Long-term debt	784,409	538,352	534,673
Pension/postretirement benefit obligations	316,319	338,564	205,298
Deferred gains on sale-leasebacks	112,285	119,692	125,173
Other long-term liabilities	198,176	186,802	193,256
Commitments and contingencies			
Stockholders' equity:			
Preferred Stock, \$0.01 par value; authorized 2,000 shares, none issued and outstanding			
Common Stock, \$0.01 par value; authorized 240,000 shares, issued and outstanding 126,638, 126,676 and 128,164	1,266	1,267	1,281
Additional paid-in capital	998,720	970,215	951,552
Retained earnings	1,509,806	1,462,553	1,378,054

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Accumulated other comprehensive gain (loss), net of tax	(113,302)	(85,130)	20,849
Total Tiffany & Co. stockholders equity	2,396,490	2,348,905	2,351,736
Non-controlling interest	12,309		
Total stockholders equity	2,408,799	2,348,905	2,351,736
	\$ 4,324,746	\$ 4,158,992	\$ 3,930,888

See notes to condensed consolidated financial statements.

Table of Contents**TIFFANY & CO. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS****(Unaudited)***(in thousands, except per share amounts)*

	Three Months Ended July 31,		Six Months Ended July 31,	
	2012	2011	2012	2011
Net sales	\$ 886,569	\$ 872,712	\$ 1,705,739	\$ 1,633,730
Cost of sales	387,407	358,015	737,559	675,340
Gross profit	499,162	514,697	968,180	958,390
Selling, general and administrative expenses	344,582	374,157	678,615	681,884
Earnings from operations	154,580	140,540	289,565	276,506
Interest and other expenses, net	14,250	9,619	24,804	19,766
Earnings from operations before income taxes	140,330	130,921	264,761	256,740
Provision for income taxes	48,529	40,878	91,426	85,634
Net earnings	\$ 91,801	\$ 90,043	\$ 173,335	\$ 171,106
Earnings per share:				
Basic	\$ 0.72	\$ 0.70	\$ 1.37	\$ 1.34
Diluted	\$ 0.72	\$ 0.69	\$ 1.36	\$ 1.32
Weighted-average number of common shares:				
Basic	126,631	128,030	126,677	127,816
Diluted	127,663	129,794	127,920	129,587

See notes to condensed consolidated financial statements.

Table of Contents**TIFFANY & CO. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS COMPREHENSIVE EARNINGS****(Unaudited)***(in thousands)*

	Three Months Ended July 31,		Six Months Ended July 31,	
	2012	2011	2012	2011
Net earnings	\$ 91,801	\$ 90,043	\$ 173,335	\$ 171,106
Foreign currency translation adjustments	(20,967)	4,942	(21,353)	35,016
Unrealized gain (loss) on marketable securities	5	(971)	1,102	475
Less: reclassification adjustment for loss included in net earnings		53		53
Unrealized gain (loss) on marketable securities	5	(918)	1,102	528
Unrealized loss on hedging instruments	(27,582)	(9,528)	(30,371)	(8,146)
Less: reclassification adjustments for loss included in net earnings	4,013	734	7,763	970
Unrealized loss on hedging instruments	(23,569)	(8,794)	(22,608)	(7,176)
Amortization of net loss	3,907	1,269	7,993	2,586
Amortization of prior service cost	89	102	178	203
Net unrealized gain on benefit plans	3,996	1,371	8,171	2,789
Other comprehensive (loss) earnings, before tax	(40,535)	(3,399)	(34,688)	31,157
Income tax benefit related to items of other comprehensive (loss) earnings	6,691	4,325	6,516	2,257
Other comprehensive (loss) earnings, net of tax	(33,844)	926	(28,172)	33,414
Comprehensive earnings	\$ 57,957	\$ 90,969	\$ 145,163	\$ 204,520

See notes to condensed consolidated financial statements.

Table of Contents**TIFFANY & CO. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY****(Unaudited)***(in thousands)*

	Total Stockholders Equity	Retained Earnings	Accumulated Other Comprehensive (Loss) Gain	Common Stock		Additional Paid-In Capital	Non- controlling Interests
				Shares	Amount		
Balances, January 31, 2012	\$ 2,348,905	\$ 1,462,553	\$ (85,130)	126,676	\$ 1,267	\$ 970,215	\$
Exercise of stock options and vesting of restricted stock units (RSUs)	4,922			730	7	4,915	
Tax effect of exercise of stock options and vesting of RSUs	10,012					10,012	
Share-based compensation expense	15,752					15,752	
Issuance of Common Stock under the Employee Profit Sharing and Retirement Savings Plan	3,150			45		3,150	
Purchase and retirement of Common Stock	(54,107)	(48,775)		(813)	(8)	(5,324)	
Cash dividends on Common Stock	(77,307)	(77,307)					
Other comprehensive loss, net of tax	(28,172)		(28,172)				
Net earnings attributable to Tiffany & Co.	173,335	173,335					
Non- controlling interests	12,309						12,309
Balances, July 31, 2012	\$ 2,408,799	\$ 1,509,806	\$ (113,302)	126,638	\$ 1,266	\$ 998,720	\$ 12,309

See notes to condensed consolidated financial statements.

Table of Contents**TIFFANY & CO. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)***(in thousands)*

	Six Months Ended July 31,	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	\$ 173,335	\$ 171,106
Adjustments to reconcile net earnings to net cash (used in) provided by operating activities:		
Depreciation and amortization	79,167	71,596
Lease exit charge		30,884
Amortization of gain on sale-leasebacks	(5,425)	(5,412)
Excess tax benefits from share-based payment arrangements	(10,020)	(15,749)
Provision for inventories	16,405	14,870
Deferred income taxes	(22,599)	(2,854)
Provision for pension/postretirement benefits	23,010	15,267
Share-based compensation expense	15,615	15,090
Changes in assets and liabilities:		
Accounts receivable	9,346	8,688
Inventories	(185,552)	(195,739)
Prepaid expenses and other current assets	(18,660)	(21,536)
Accounts payable and accrued liabilities	(72,826)	(21,300)
Income taxes payable	(18,247)	(19,391)
Merchandise and other customer credits	290	221
Other, net	(41,924)	(1,846)
Net cash (used in) provided by operating activities	(58,085)	43,895
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of marketable securities and short-term investments	(12,903)	(33,771)
Proceeds from sale of marketable securities and short-term investments	19,289	66,364
Capital expenditures	(96,952)	(111,016)
Notes receivable funded	(1,000)	(56,605)
Other		(1,674)
Net cash used in investing activities	(91,566)	(136,702)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from credit facility borrowings, net	34,929	51,174
Proceeds from other credit facility borrowings	10,481	
Repayment of long-term debt	(60,000)	(58,915)
Proceeds from issuance of long-term debt	250,000	
Repurchase of Common Stock	(54,107)	(52,487)
Proceeds from exercise of stock options	4,922	57,016
Excess tax benefits from share-based payment arrangements	10,020	15,749
Cash dividends on Common Stock	(77,307)	(69,088)
Payment for settlement of interest rate swaps	(29,335)	
Financing fees	(1,085)	
Net cash provided by (used in) financing activities	88,518	(56,551)

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Effect of exchange rate changes on cash and cash equivalents	(6,741)	748
Net decrease in cash and cash equivalents	(67,874)	(148,610)
Cash and cash equivalents at beginning of year	433,954	681,591
Cash and cash equivalents at end of six months	\$ 366,080	\$ 532,981

See notes to condensed consolidated financial statements.

Table of Contents

TIFFANY & CO. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The accompanying condensed consolidated financial statements include the accounts of Tiffany & Co. (the Company) and its subsidiaries in which a controlling interest is maintained. Controlling interest is determined by majority ownership interest and the absence of substantive third-party participating rights or, in the case of variable interest entities (VIEs), if the Company has the power to significantly direct the activities of a VIE, as well as the obligation to absorb significant losses of or the right to receive significant benefits from the VIE. Intercompany accounts, transactions and profits have been eliminated in consolidation. The interim statements are unaudited and, in the opinion of management, include all adjustments (which represent normal recurring adjustments) necessary to fairly state the Company's financial position as of July 31, 2012 and 2011 and the results of its operations and cash flows for the interim periods presented. The condensed consolidated balance sheet data for January 31, 2012 is derived from the audited financial statements, which are included in the Company's Annual Report on Form 10-K and should be read in connection with these financial statements. As permitted by the rules of the Securities and Exchange Commission, these financial statements do not include all disclosures required by generally accepted accounting principles.

The Company's business is seasonal in nature, with the fourth quarter typically representing at least one-third of annual net sales and approximately one-half of annual net earnings. Therefore, the results of its operations for the three and six months ended July 31, 2012 and 2011 are not necessarily indicative of the results of the entire fiscal year.

2. NEW ACCOUNTING STANDARDS

In June 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2011-05, Presentation of Comprehensive Income, which allows an entity the option to present components of net income and other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The guidance eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. The new guidance does not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The Company adopted the new guidance effective February 1, 2012, and it did not have an impact on the Company's financial position or earnings.

In September 2011, the FASB issued Accounting Standards Update No. 2011-08, Testing Goodwill for Impairment, which allows an entity to use a qualitative approach to test goodwill for impairment. The new guidance permits an entity to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If it is concluded that this is the case, it is necessary to perform the currently prescribed two-step goodwill impairment test. Otherwise, the two-step goodwill impairment test is not required. The Company adopted the new guidance effective February 1, 2012, and it did not have a material impact on the Company's financial position or earnings.

3. ACQUISITION

In July 2012, the Company, through a venture with a former independent distributor Damas Jewellery LLC (Damas), acquired the net assets associated with the five existing TIFFANY & CO. wholesale stores located in the United Arab Emirates (U.A.E.) for total consideration of \$25,000,000, of which \$24,493,000 was allocated to goodwill and the remainder to other tangible assets and liabilities. All of the goodwill associated with the transaction would be deductible for tax purposes; however the Company does not expect to receive a tax benefit as the U.A.E. does not impose a corporate income tax. Factors that contributed to a purchase price resulting in the recognition of goodwill are that the acquisition will (i) enable the Company to immediately integrate five existing TIFFANY & CO. stores into the Company's worldwide store network and (ii) enhance awareness of the Company's brand in the United Arab Emirates.

Table of Contents

In accordance with the agreement, the Company owns 49% of the common shares of the venture with Damas and will be entitled to 75% of the profits or losses of the venture. The Company is responsible for all merchandise assortment and pricing, advertising and promotional activities, staffing, store design and visual display and financial services. The Company has evaluated the variable interest entity consolidation requirements with respect to this transaction and has determined that the Company is the primary beneficiary as it has the power to direct the activities that most significantly impact the venture's economic performance. Therefore, the results of the venture will be consolidated within the financial results. Income or loss attributable to the noncontrolling interests will be presented within interest and other expenses, net on the condensed consolidated statement of earnings as the amount is not material. The results of the venture and the associated goodwill will be included within the Other non-reportable segment.

4. RECEIVABLES AND FINANCE CHARGES

The Company maintains an allowance for doubtful accounts for estimated losses associated with the accounts receivable recorded on the balance sheet. The allowance is determined based on a combination of factors including, but not limited to, the length of time that the receivables are past due, the Company's knowledge of the customer, economic and market conditions and historical write-off experiences.

For the receivables associated with Tiffany & Co. credit cards (Credit Card Receivables), the Company uses various indicators to determine whether to extend credit to customers and the amount of credit. Such indicators include reviewing prior experience with the customer, including sales and collection history, and using applicants' credit reports and scores provided by credit rating agencies. Credit Card Receivables require minimum balance payments. The Company classifies a Credit Card account as overdue if a minimum balance payment has not been received within the allotted timeframe (generally 30 days), after which internal collection efforts commence. For each account receivable recorded on the balance sheet, once all internal collection efforts have been exhausted and management has reviewed the account, the account balance is written off and may be sent for external collection or legal action. At July 31, 2012 and 2011, the carrying amount of the Credit Card Receivables (recorded in accounts receivable, net in the Company's condensed consolidated balance sheet) was \$50,831,000 and \$54,351,000, of which 97% was considered current in those same periods. The allowance for doubtful accounts for estimated losses associated with the Credit Card Receivables (approximately \$1,500,000 at July 31, 2012 and \$2,000,000 at July 31, 2011) was determined based on the factors discussed above, and did not change significantly from January 31, 2012. Finance charges on Credit Card accounts are not significant.

The Company may, from time to time, extend loans to diamond mining and exploration companies in order to obtain rights to purchase the mine's output. Management evaluates these and any other loans that may arise for potential impairment by reviewing the parties' financial statements and projections and other economic factors on a periodic basis. The carrying amount of loans receivable outstanding including accrued interest (primarily included within other assets, net on the Company's condensed consolidated balance sheet) was \$58,507,000 and \$57,396,000 as of July 31, 2012 and 2011. The Company has not recorded any material impairment charges on such loans as of July 31, 2012 and 2011.

5. INVENTORIES

<i>(in thousands)</i>	July 31, 2012	January 31, 2012	July 31, 2011
Finished goods	\$ 1,267,705	\$ 1,145,680	\$ 1,035,615
Raw materials	771,834	784,040	656,772
Work-in-process	190,935	143,492	144,487
Inventories, net	\$ 2,230,474	\$ 2,073,212	\$ 1,836,874

6. INCOME TAXES

The effective income tax rate for the three months ended July 31, 2012 was 34.6% versus 31.2% in the prior year. The effective income tax rate for the six months ended July 31, 2012 was 34.5% versus 33.4% in the prior year. The lower effective income tax rate for the three and six months ended July 31, 2011 is primarily due to the reversal of a valuation allowance against certain deferred tax assets where management had determined it was more likely than not that the deferred tax assets would be realized in the future.

Table of Contents

During the six months ended July 31, 2012, the change in the gross amount of unrecognized tax benefits and accrued interest and penalties was not significant.

The Company is subject to taxation in the U.S. and various state and foreign jurisdictions. As a matter of course, various taxing authorities regularly audit the Company. The Company's tax filings are currently being examined by a number of tax authorities in various jurisdictions. Ongoing audits where subsidiaries have a material presence include New York state (tax years 2004-2010), New Jersey (tax years 2006-2009) and the Internal Revenue Service (tax years 2006-2009). Tax years from 2004-present are open to examination in U.S. Federal and various state, local and foreign jurisdictions. The Company believes that its tax positions comply with applicable tax laws and that it has adequately provided for these matters. However, the audits may result in proposed assessments where the ultimate resolution may result in the Company owing additional taxes. Management anticipates that it is reasonably possible that the total gross amount of unrecognized tax benefits will decrease by approximately \$20,000,000 in the next 12 months, a portion of which may affect the effective tax rate; however, management does not currently anticipate a significant effect on net earnings. Future developments may result in a change in this assessment.

7. EARNINGS PER SHARE

Basic earnings per share (EPS) is computed as net earnings divided by the weighted-average number of common shares outstanding for the period. Diluted EPS includes the dilutive effect of the assumed exercise of stock options and unvested restricted stock units.

The following table summarizes the reconciliation of the numerators and denominators for the basic and diluted EPS computations:

<i>(in thousands)</i>	Three Months Ended July 31,		Six Months Ended July 31,	
	2012	2011	2012	2011
Net earnings for basic and diluted EPS	\$ 91,801	\$ 90,043	\$ 173,335	\$ 171,106
Weighted-average shares for basic EPS	126,631	128,030	126,677	127,816
Incremental shares based upon the assumed exercise of stock options and unvested restricted stock units	1,032	1,764	1,243	1,771
Weighted-average shares for diluted EPS	127,663	129,794	127,920	129,587

For the three months ended July 31, 2012 and 2011, there were 1,026,000 and 351,000 stock options and restricted stock units excluded from the computations of earnings per diluted share due to their antidilutive effect. For the six months ended July 31, 2012 and 2011, there were 886,000 and 332,000 stock options and restricted stock units excluded from the computations of earnings per diluted share due to their antidilutive effect.

8. HEDGING INSTRUMENTS**Background Information**

The Company uses derivative financial instruments, including interest rate swaps, forward contracts, put option contracts and net-zero-cost collar arrangements (combination of call and put option contracts) to mitigate its exposures to changes in interest rates, foreign currency and precious metal prices. Derivative instruments are recorded on the consolidated balance sheet at their fair values, as either assets or liabilities, with an offset to current or comprehensive earnings, depending on whether the derivative is designated as part of an effective hedge transaction and, if it is, the type of hedge transaction. If a derivative instrument meets certain hedge accounting criteria, the derivative instrument is designated as one of the following on the date the derivative is entered into:

Table of Contents

Fair Value Hedge A hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment. For fair value hedge transactions, both the effective and ineffective portions of the changes in the fair value of the derivative and changes in the fair value of the item being hedged are recorded in current earnings.

Cash Flow Hedge A hedge of the exposure to variability in the cash flows of a recognized asset, liability or a forecasted transaction. For cash flow hedge transactions, the effective portion of the changes in fair value of derivatives are reported as other comprehensive income (OCI) and are recognized in current earnings in the period or periods during which the hedged transaction affects current earnings. Amounts excluded from the effectiveness calculation and any ineffective portions of the change in fair value of the derivative are recognized in current earnings.

The Company formally documents the nature of and relationships between the hedging instruments and hedged items for a derivative to qualify as a hedge at inception and throughout the hedged period. The Company also documents its risk management objectives, strategies for undertaking the various hedge transactions and method of assessing hedge effectiveness. Additionally, for hedges of forecasted transactions, the significant characteristics and expected terms of a forecasted transaction must be identified, and it must be probable that each forecasted transaction will occur. If it were deemed probable that the forecasted transaction would not occur, the gain or loss on the derivative financial instrument would be recognized in current earnings. Derivative financial instruments qualifying for hedge accounting must maintain a specified level of effectiveness between the hedge instrument and the item being hedged, both at inception and throughout the hedged period.

The Company does not use derivative financial instruments for trading or speculative purposes.

Types of Derivative Instruments

Interest Rate Swaps In 2009, the Company entered into interest rate swaps to convert its fixed rate 2002 Series D and 2008 Series A obligations to floating rate obligations. Since the fair value of the Company's fixed rate long-term debt is sensitive to interest rate changes, the interest rate swaps serve as a hedge to changes in the fair value of these debt instruments. The Company hedges its exposure to changes in interest rates over the remaining maturities of the debt agreements being hedged. The Company accounts for the interest rate swaps as fair value hedges. During 2011, the Company terminated the interest rate swap used to convert the 2008 Series A fixed obligation to a floating rate obligation. The interest rate swap associated with the 2002 Series D debt expired in July 2012.

In the six months ended July 31, 2012, the Company entered into forward-starting interest rate swaps to hedge the impact of interest rate volatility on future interest payments associated with the anticipated incurrence of additional debt which was incurred in July 2012 (refer to Note 10. Debt). The Company accounts for the forward-starting interest rate swaps as cash flow hedges. The Company settled the interest rate swaps in the three months ended July 31, 2012 and paid \$29,335,000.

Foreign Exchange Forward and Put Option Contracts The Company uses foreign exchange forward contracts or put option contracts to offset the foreign currency exchange risks associated with foreign currency-denominated liabilities, intercompany transactions and forecasted purchases of merchandise between entities with differing functional currencies. For put option contracts, if the market exchange rate at the time of the put option contract's expiration is stronger than the contracted exchange rate, the Company allows the put option contract to expire, limiting its loss to the cost of the put option contract. The Company assesses hedge effectiveness based on the total changes in the put option contracts' cash flows. These foreign exchange forward contracts and put option contracts are designated and accounted for as either cash flow hedges or economic hedges that are not designated as hedging instruments.

In 2010, the Company de-designated all of its outstanding put option contracts at that time (none of which were outstanding at July 31, 2012) and entered into offsetting call option contracts. These put and call option contracts were accounted for as undesignated hedges. Any gains or losses on these de-designated put option contracts were substantially offset by losses or gains on the call option contracts.

Table of Contents

As of July 31, 2012, the notional amount of foreign exchange forward and put option contracts accounted for as cash flow hedges was \$139,500,000 and the notional amount of foreign exchange forward contracts accounted for as undesignated hedges was \$67,648,000. The term of all outstanding foreign exchange forward and put option contracts as of July 31, 2012 ranged from less than one month to 13 months.

Precious Metal Collars & Forward Contracts The Company periodically hedges a portion of its forecasted purchases of precious metals for use in its internal manufacturing operations in order to minimize the effect of volatility in precious metal prices. The Company may use a combination of call and put option contracts in net-zero-cost collar arrangements (precious metal collars) or forward contracts. For precious metal collars, if the price of the precious metal at the time of the expiration of the precious metal collar is within the call and put price, the precious metal collar expires at no cost to the Company. The Company accounts for its precious metal collars and forward contracts as cash flow hedges. The Company assesses hedge effectiveness based on the total changes in the precious metal collars and forward contracts cash flows. The maximum term over which the Company is hedging its exposure to the variability of future cash flows for all forecasted transactions is 12 months. As of July 31, 2012, there were approximately 14,800 ounces of platinum and 403,000 ounces of silver precious metal derivative instruments outstanding.

Information on the location and amounts of derivative gains and losses in the consolidated financial statements is as follows:

	Three Months Ended July 31,			
	2012	2011		2011
	Pre-Tax Loss Recognized in Earnings on Derivatives	Pre-Tax Gain Recognized in Earnings on Hedged Item	Pre-Tax Gain Recognized in Earnings on Derivatives	Pre-Tax Loss Recognized in Earnings on Hedged Item
<i>(in thousands)</i>				
Derivatives in Fair Value Hedging Relationships:				
Interest rate swap agreements ^a	\$ (194)	\$ 214	\$ 1,775	\$ (1,486)

	Six Months Ended July 31,			
	2012	2011		2011
	Pre-Tax Loss Recognized in Earnings on Derivatives	Pre-Tax Gain Recognized in Earnings on Hedged Item	Pre-Tax Gain Recognized in Earnings on Derivatives	Pre-Tax Loss Recognized in Earnings on Hedged Item
<i>(in thousands)</i>				
Derivatives in Fair Value Hedging Relationships:				
Interest rate swap agreements ^a	\$ (406)	\$ 464	\$ 1,750	\$ (1,492)

Table of Contents

	Three Months Ended July 31,			2011 Amount of (Loss) Gain Reclassified from Accumulated OCI into Earnings (Effective Portion)
	2012	2012	2012	
	Pre-Tax Loss Recognized in OCI (Effective Portion)	Amount of Loss Reclassified from Accumulated OCI into Earnings (Effective Portion)	Pre-Tax Loss Recognized in OCI (Effective Portion)	
<i>(in thousands)</i>				
Derivatives in Cash Flow Hedging Relationships:				
Foreign exchange forward contracts ^b	\$ (3,824)	\$ (1,732)	\$ (8,959)	\$ (1,156)
Put option contracts ^b	(308)	(6)	(51)	(701)
Precious metal collars ^b				213
Precious metal forward contracts ^b	(4,800)	(2,084)	(518)	910
Forward-starting interest rate swaps ^a	(18,650)	(134)		
	\$ (27,582)	\$ (3,956)	\$ (9,528)	\$ (734)

	Six Months Ended July 31,			2011 Amount of (Loss) Gain Reclassified from Accumulated OCI into Earnings (Effective Portion)
	2012	2012	2012	
	Pre-Tax Gain (Loss) Recognized in OCI (Effective Portion)	Amount of Loss Reclassified from Accumulated OCI into Earnings (Effective Portion)	Pre-Tax (Loss) Gain Recognized in OCI (Effective Portion)	
<i>(in thousands)</i>				
Derivatives in Cash Flow Hedging Relationships:				
Foreign exchange forward contracts ^b	\$ 4,261	\$ (4,313)	\$ (10,158)	\$ (2,053)
Put option contracts ^b	(409)	(129)	(61)	(1,339)
Precious metal collars ^b				607
Precious metal forward contracts ^b	(7,712)	(3,139)	2,073	1,815
Forward-starting interest rate swaps ^a	(26,511)	(134)		
	\$ (30,371)	\$ (7,715)	\$ (8,146)	\$ (970)

	Pre-Tax (Loss) Gain Recognized in Earnings on Derivative	
	Three Months Ended July 31, 2012	Three Months Ended July 31, 2011
<i>(in thousands)</i>		
Derivatives Not Designated as Hedging Instruments:		
Foreign exchange forward contracts ^a	\$ (277) ^c	\$ 94 ^c
Call option contracts ^b		25
Put option contracts ^b		(25)
	\$ (277)	\$ 94

Table of Contents

<i>(in thousands)</i>	Pre-Tax (Loss) Gain Recognized in Earnings on Derivative	
	Six Months Ended July 31, 2012	Six Months Ended July 31, 2011
	Derivatives Not Designated as Hedging Instruments:	
Foreign exchange forward contracts ^a	\$ (380) ^c	\$ 541 ^c
Call option contracts ^b		92
Put option contracts ^b		(92)
	\$ (380)	\$ 541

^a The gain or loss recognized in earnings is included within Interest and other expenses, net on the Company's Condensed Consolidated Statement of Earnings.

^b The gain or loss recognized in earnings is included within Cost of sales on the Company's Condensed Consolidated Statement of Earnings.

^c Gains or losses on the undesignated foreign exchange forward contracts substantially offset foreign exchange losses or gains on the liabilities and transactions being hedged.

There was no material ineffectiveness related to the Company's hedging instruments for the periods ended July 31, 2012 and 2011. The Company expects approximately \$9,270,000 of net pre-tax derivative losses included in accumulated other comprehensive income at July 31, 2012 will be reclassified into earnings within the next 12 months. This amount will vary due to fluctuations in foreign currency exchange rates and precious metal prices.

For information regarding the location and amount of the derivative instruments in the Condensed Consolidated Balance Sheet, refer to Note 9. Fair Value of Financial Instruments.

Concentration of Credit Risk

A number of major international financial institutions are counterparties to the Company's derivative financial instruments. The Company enters into derivative financial instrument agreements only with counterparties meeting certain credit standards (a credit rating of A/A2 or better at the time of the agreement) and limits the amount of agreements or contracts it enters into with any one party. The Company may be exposed to credit losses in the event of non-performance by individual counterparties or the entire group of counterparties.

9. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal market for the asset or liability in an orderly transaction between market participants on the measurement date. U.S. GAAP establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. U.S. GAAP prescribes three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities. Level 1 inputs are considered to carry the most weight within the fair value hierarchy due to the low levels of judgment required in determining fair values.

Level 2 Observable market-based inputs or unobservable inputs that are corroborated by market data.

Level 3 Unobservable inputs reflecting the reporting entity's own assumptions. Level 3 inputs are considered to carry the least weight within the fair value hierarchy due to substantial levels of judgment required in determining fair values.

The Company uses the market approach to measure fair value for its mutual funds, time deposits and

Table of Contents

derivative instruments. The Company's interest rate swaps are primarily valued using the 3-month LIBOR rate. The Company's put and call option contracts, as well as its foreign exchange forward contracts, are primarily valued using the appropriate foreign exchange spot rates. The Company's precious metal collars and forward contracts are primarily valued using the relevant precious metal spot rate. For further information on the Company's hedging instruments and program, see Note 8. Hedging Instruments.

Financial assets and liabilities carried at fair value at July 31, 2012 are classified in the table below in one of the three categories described above:

<i>(in thousands)</i>	Carrying Value	Estimated Fair Value			Total Fair Value
		Level 1	Level 2	Level 3	
Mutual funds ^a	\$ 41,155	\$ 41,155	\$	\$	\$ 41,155
Time deposits ^b	1,357	1,357			1,357
Derivatives designated as hedging instruments:					
Precious metal forward contracts ^c	23		23		23
Put option contracts ^c	152		152		152
Foreign exchange forward contracts ^c	1,414		1,414		1,414
Derivatives not designated as hedging instruments:					
Foreign exchange forward contracts ^c	423		423		423
Total financial assets	\$ 44,524	\$ 42,512	\$ 2,012	\$	\$ 44,524

<i>(in thousands)</i>	Carrying Value	Estimated Fair Value			Total Fair Value
		Level 1	Level 2	Level 3	
Derivatives designated as hedging instruments:					
Precious metal forward contracts ^d	\$ 3,946	\$	\$ 3,946	\$	\$ 3,946
Foreign exchange forward contracts ^d	382		382		382
Derivatives not designated as hedging instruments:					
Foreign exchange forward contracts ^d	77		77		77
Total financial liabilities	\$ 4,405	\$	\$ 4,405	\$	\$ 4,405

Table of Contents

Financial assets and liabilities carried at fair value at July 31, 2011 are classified in the table below in one of the three categories described above:

<i>(in thousands)</i>	Carrying Value	Estimated Fair Value			Total Fair Value
		Level 1	Level 2	Level 3	
Mutual funds ^a	\$ 39,564	\$ 39,564	\$	\$	\$ 39,564
Time deposits ^b	32,210	32,210			32,210
Derivatives designated as hedging instruments:					
Interest rate swaps ^a	7,905				