

Edgar Filing: TIFFANY & CO - Form 10-Q

TIFFANY & CO  
Form 10-Q  
November 24, 2015  
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 October 31, 2015

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)

Delaware

(State of incorporation)

13-3228013

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

727 Fifth Avenue, 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, 128,211,842 shares outstanding at the close of business on October 31, 2015.

Table of Contents

TIFFANY & CO. AND SUBSIDIARIES  
INDEX TO FORM 10-Q  
FOR THE QUARTER ENDED OCTOBER 31, 2015

	Page
<u>PART I - FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements</u>	
<u>Condensed Consolidated Balance Sheets - October 31, 2015, January 31, 2015 and October 31, 2014 (Unaudited)</u>	<u>2</u>
<u>Condensed Consolidated Statements of Earnings - for the three and nine months ended October 31, 2015 and 2014 (Unaudited)</u>	<u>3</u>
<u>Condensed Consolidated Statements of Comprehensive Earnings - for the three and nine months ended October 31, 2015 and 2014 (Unaudited)</u>	<u>4</u>
<u>Condensed Consolidated Statement of Stockholders' Equity - for the nine months ended October 31, 2015 (Unaudited)</u>	<u>5</u>
<u>Condensed Consolidated Statements of Cash Flows - for the nine months ended October 31, 2015 and 2014 (Unaudited)</u>	<u>6</u>
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	<u>7</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>25</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>38</u>
Item 4. <u>Controls and Procedures</u>	<u>38</u>
<u>PART II - OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	<u>39</u>
Item 1A. <u>Risk Factors</u>	<u>41</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>41</u>
Item 6. <u>Exhibits</u>	<u>42</u>
(a) Exhibits	

---

Table of Contents

## PART I. Financial Information

## Item 1. Financial Statements

## TIFFANY &amp; CO. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(in millions, except per share amounts)

	October 31, 2015	January 31, 2015	October 31, 2014
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$673.2	\$730.0	\$349.3
Short-term investments	51.9	1.5	34.1
Accounts receivable, less allowances of \$10.0, \$10.6 and \$10.5	206.5	195.2	177.3
Inventories, net	2,347.0	2,362.1	2,560.4
Deferred income taxes	102.0	102.6	104.7
Prepaid expenses and other current assets	204.2	220.0	284.6
Total current assets	3,584.8	3,611.4	3,510.4
Property, plant and equipment, net	912.2	899.5	888.1
Deferred income taxes	338.5	323.4	246.6
Other assets, net	330.3	346.3	351.9
	\$5,165.8	\$5,180.6	\$4,997.0
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
Current liabilities:			
Short-term borrowings	\$198.3	\$234.0	\$196.9
Current portion of long-term debt	82.6	—	—
Accounts payable and accrued liabilities	323.6	318.0	344.3
Income taxes payable	30.6	39.9	25.7
Merchandise credits and deferred revenue	73.4	66.1	67.7
Total current liabilities	708.5	658.0	634.6
Long-term debt	798.1	882.5	889.5
Pension/postretirement benefit obligations	545.8	524.2	284.4
Deferred gains on sale-leasebacks	57.9	64.5	71.3
Other long-term liabilities	184.5	200.7	208.5
Commitments and contingencies			
Stockholders' equity:			
Preferred Stock, \$0.01 par value; authorized 2.0 shares, none issued and outstanding	—	—	—
Common Stock, \$0.01 par value; authorized 240.0 shares, issued and outstanding 128.2, 129.3 and 129.4	1.3	1.3	1.3
Additional paid-in capital	1,181.6	1,173.6	1,168.1
Retained earnings	1,993.6	1,950.7	1,808.0
Accumulated other comprehensive loss, net of tax	(323.1)	) (290.5	) (83.1
Total Tiffany & Co. stockholders' equity	2,853.4	2,835.1	2,894.3
Non-controlling interests	17.6	15.6	14.4
Total stockholders' equity	2,871.0	2,850.7	2,908.7
	\$5,165.8	\$5,180.6	\$4,997.0

See notes to condensed consolidated financial statements.

TIFFANY & CO.

2

---

Table of Contents

TIFFANY & CO. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS  
 (Unaudited)

(in millions, except per share amounts)

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2015	2014	2015	2014
Net sales	\$938.2	\$959.6	\$2,891.2	\$2,964.7
Cost of sales	373.7	388.7	1,164.7	1,209.1
Gross profit	564.5	570.9	1,726.5	1,755.6
Selling, general and administrative expenses	408.1	402.4	1,227.3	1,168.8
Earnings from operations	156.4	168.5	499.2	586.8
Interest and other expenses, net	15.2	15.4	38.1	47.8
Loss on extinguishment of debt	—	93.8	—	93.8
Earnings from operations before income taxes	141.2	59.3	461.1	445.2
Provision for income taxes	50.2	21.0	160.4	157.2
Net earnings	\$91.0	\$38.3	\$300.7	\$288.0
Net earnings per share:				
Basic	\$0.71	\$0.30	\$2.33	\$2.23
Diluted	\$0.70	\$0.29	\$2.32	\$2.22
Weighted-average number of common shares:				
Basic	128.6	129.4	129.0	129.2
Diluted	129.1	130.0	129.5	129.9

See notes to condensed consolidated financial statements.

TIFFANY & CO.

3

---

Table of Contents

## TIFFANY &amp; CO. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS

(Unaudited)

(in millions)

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2015	2014	2015	2014
Net earnings	\$91.0	\$38.3	\$300.7	\$288.0
Other comprehensive (loss) earnings, net of tax				
Foreign currency translation adjustments	(5.9	) (38.2	) (34.1	) (26.1
Unrealized (loss) gain on marketable securities	(0.7	) 0.9	(0.8	) 1.2
Unrealized loss on hedging instruments	(4.4	) (0.5	) (11.5	) (5.3
Net unrealized gain on benefit plans	4.6	2.0	13.8	5.6
Total other comprehensive loss, net of tax	(6.4	) (35.8	) (32.6	) (24.6
Comprehensive earnings	\$84.6	\$2.5	\$268.1	\$263.4

See notes to condensed consolidated financial statements.

TIFFANY &amp; CO.

4

Table of Contents

## TIFFANY &amp; CO. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(Unaudited)

(in millions)

	Total Stockholders' Equity	Retained Earnings	Accumulated Other Comprehensive Loss	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Non- controlling Interests
Balance at January 31, 2015	\$2,850.7	\$1,950.7	\$ (290.5 )	129.3	\$1.3	\$1,173.6	\$15.6
Exercise of stock options and vesting of restricted stock units ("RSUs")	(0.1 )	—	—	0.3	—	(0.1 )	—
Tax effect of exercise of stock options and vesting of RSUs	2.1	—	—	—	—	2.1	—
Share-based compensation expense	20.0	—	—	—	—	20.0	—
Purchase and retirement of Common Stock	(116.2 )	(105.6 )	—	(1.4 )	—	(10.6 )	—
Cash dividends on Common Stock	(152.2 )	(152.2 )	—	—	—	—	—
Other comprehensive loss, net of tax	(32.6 )	—	(32.6 )	—	—	—	—
Net earnings	300.7	300.7	—	—	—	—	—
Redemption of non-controlling interest	(2.2 )	—	—	—	—	(3.4 )	1.2
Non-controlling interests	0.8	—	—	—	—	—	0.8
Balance at October 31, 2015	\$2,871.0	\$1,993.6	\$ (323.1 )	128.2	\$1.3	\$1,181.6	\$17.6

See notes to condensed consolidated financial statements.

TIFFANY &amp; CO.

5

Table of Contents

TIFFANY & CO. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)  
(in millions)

	Nine Months Ended October 31,	
	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net earnings	\$ 300.7	\$ 288.0
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	149.5	144.7
Amortization of gain on sale-leasebacks	(6.2)	) (7.0)
Excess tax benefits from share-based payment arrangements	(2.2)	) (14.0)
Provision for inventories	20.0	21.4
Deferred income taxes	(16.9)	) 17.1
Provision for pension/postretirement benefits	49.3	29.5
Share-based compensation expense	19.8	21.4
Impairment charge	9.6	—
Changes in assets and liabilities:		
Accounts receivable	(16.2)	) 8.3
Inventories	(36.0)	) (286.8)
Prepaid expenses and other current assets	(2.1)	) (38.7)
Accounts payable and accrued liabilities	(23.1)	) (1.2)
Income taxes payable	(12.6)	) 17.2
Merchandise credits and deferred revenue	8.1	(2.4)
Other, net	(14.2)	) (19.7)
Net cash provided by operating activities	427.5	177.8
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of marketable securities and short-term investments	(92.1)	) (36.4)
Proceeds from sales of marketable securities and short-term investments	60.7	21.7
Capital expenditures	(158.5)	) (153.1)
Proceeds from notes receivable	—	11.6
Net cash used in investing activities	(189.9)	) (156.2)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repayment of credit facility borrowings, net	(24.0)	) (54.4)
Proceeds from other credit facility borrowings	9.1	12.1
Repayment of other credit facility borrowings	(16.0)	) (3.4)
Proceeds from the issuance of long-term debt	—	548.0
Repayment of long-term debt	—	(400.0)
Payment for settlement of interest rate swaps	—	(4.2)
Repurchase of Common Stock	(116.2)	) (22.2)
Proceeds from exercised stock options	1.6	42.3
Excess tax benefits from share-based payment arrangements	2.2	14.0
Cash dividends on Common Stock	(152.2)	) (142.0)
Distribution to non-controlling interest	—	(1.9)
Financing fees	(0.2)	) (8.0)
Net cash used in financing activities	(295.7)	) (19.7)
Effect of exchange rate changes on cash and cash equivalents	1.3	1.6
Net (decrease) increase in cash and cash equivalents	(56.8)	) 3.5
Cash and cash equivalents at beginning of year	730.0	345.8



Edgar Filing: TIFFANY & CO - Form 10-Q

Cash and cash equivalents at end of nine months	\$673.2	\$349.3
---	---------	---------

See notes to condensed consolidated financial statements.

TIFFANY & CO.

6

---

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. (also referred to as the Registrant) and its subsidiaries (the "Company") 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 October 31, 2015 and 2014 and the results of its operations and cash flows for the interim periods presented. The condensed consolidated balance sheet data for January 31, 2015 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 approximately one-third of annual net sales and a higher percentage of annual net earnings. Therefore, the results of its operations for the three and nine months ended October 31, 2015 and 2014 are not necessarily indicative of the results of the entire fiscal year.

2. NEW ACCOUNTING STANDARDS

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09 – Revenue From Contracts with Customers, to clarify the principles of recognizing revenue and create common revenue recognition guidance between U.S. Generally Accepted Accounting Principles ("GAAP") and International Financial Reporting Standards. The core principle of the guidance is that a company should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under current guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. In August 2015, the FASB issued ASU 2015-14 – Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, deferring the effective date for one year to interim and annual periods beginning after December 15, 2017. Early adoption is permitted as of the original effective date, interim and annual periods beginning after December 15, 2016, and retrospective application is required. Management is currently evaluating the impact of this ASU on the consolidated financial statements.

In February 2015, the FASB issued ASU No. 2015-02 – Amendments to the Consolidation Analysis, which amends the criteria for determining which entities are considered VIEs, amends the criteria for determining if a service provider possesses a variable interest in a VIE and ends the deferral granted to investment companies for application of the VIE consolidation model. This ASU is effective for fiscal years and interim periods within those years beginning after December 15, 2015 and early adoption is permitted. Management is currently evaluating the impact of this ASU on the consolidated financial statements.

## Edgar Filing: TIFFANY & CO - Form 10-Q

In April 2015, the FASB issued ASU No. 2015-03 – Simplifying the Presentation of Debt Issuance Costs, which changes the presentation of debt issuance costs in financial statements. Under the ASU, an entity will present such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs will continue to be reported as interest expense. In August 2015, the FASB issued ASU No. 2015-15 – Presentation and Subsequent Measurement of Debt

TIFFANY & CO.

7

---

## Table of Contents

Issuance Costs Associated with Line-of-Credit Arrangements, which indicates the Securities and Exchange Commission staff would not object to an entity deferring and presenting debt issuance costs related to line-of-credit arrangements as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. ASU 2015-03 is effective retrospectively for interim and annual periods beginning after December 15, 2015 and early adoption is permitted. The Company expects to adopt ASU 2015-03 beginning on February 1, 2016 and the adoption of the new guidance is not expected to have a material impact on the Company's financial condition and financial statement disclosures.

In April 2015, the FASB issued ASU No. 2015-05 – Customer's Accounting for Fees Paid in a Cloud Computing Arrangement (an update to Subtopic 350-40, Intangibles – Goodwill and Other – Internal-Use Software), which provides guidance on accounting for cloud computing fees. If a cloud computing arrangement includes a software license, then the customer should account for the license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the arrangement should be accounted for as a service contract. This ASU is effective for arrangements entered into, or materially modified, in interim and annual periods beginning after December 15, 2015. Retrospective application is permitted but not required. Management is currently evaluating the impact of this ASU on the consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-11 – Inventory (Topic 330): Simplifying the Measurement of Inventory, which states an entity should measure inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. This amendment applies to all inventory that is measured using the average costs or first-in first-out (FIFO) methods. This supersedes prior guidance which allowed entities to measure inventory at the lower of cost or market, where market could be replacement cost, net realizable value or net realizable value less an approximately normal profit margin. This ASU is effective for interim and annual periods beginning after December 15, 2016. The amendments should be applied prospectively and earlier application is permitted. Management is currently evaluating the impact of this ASU on the consolidated financial statements.

### 3. RECEIVABLES AND FINANCING ARRANGEMENTS

Receivables. 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, management'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"), management uses various indicators to determine whether to extend credit to customers and, if so, 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. A Credit Card account is classified 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 all Credit Card Receivables 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 October 31, 2015 and 2014, the carrying amount of the Credit Card Receivables (recorded in accounts receivable, net) was \$66.2 million and \$54.9 million, of which 96% and 97% was considered current in the respective periods. The allowance for doubtful accounts for estimated losses associated with the Credit Card Receivables (approximately \$1.0 million at October 31, 2015 and 2014) was determined based on the factors discussed above. Finance charges earned on Credit Card accounts are not significant.

TIFFANY & CO.

8

---

Table of Contents

Financing Arrangements. The Company has provided financing to diamond mining and exploration companies in order to obtain rights to purchase the mine's output. Management evaluates these financing arrangements for potential impairment by reviewing the parties' financial statements along with projections and business, operational and other economic factors on a periodic basis. At October 31, 2015 and 2014, the current portion of the carrying amount of financing arrangements including accrued interest was \$3.3 million and \$23.9 million and was recorded in prepaid expenses and other current assets. At October 31, 2015 and 2014, the non-current portion of the carrying amount of financing arrangements including accrued interest was \$46.6 million and \$39.8 million and was included in other assets, net.

As of July 31, 2015, the Company had a \$44.1 million financing arrangement (the "Loan") with Koidu Limited (previously Koidu Holdings S.A.) ("Koidu"). On April 30, 2015, the Company agreed to defer Koidu's principal payment due on March 30, 2015, subject to certain conditions set forth in the amendment, which were met in June 2015. In August 2015, Koidu requested that its interest payment due in July 2015 be deferred until a future date to be determined, and it advised the Company that it was likely to request a deferral of interest payments due in August and September of 2015. Additionally, Koidu had informed the Company that it was seeking additional sources of capital to fund ongoing operations of the mine. Based on those discussions with Koidu, and with consideration given to the fact that Koidu did not respond to the Company's request for a proposed revised payment schedule for its obligations under the Loan, management believed that it was probable that the Company would be unable to collect all amounts due according to the contractual terms of the Loan, and recorded an impairment charge, and related valuation allowance, of \$9.6 million in the three months ended July 31, 2015. Additionally, the Company ceased accruing interest income on the outstanding Loan balance.

As of October 31, 2015, Koidu did not make its interest payments due in August, September and October of 2015 as well as its principal payment due in September 2015. The missed payments constitute events of default under the Loan. While Koidu has not yet provided a proposed revised payment schedule for its obligations under the Loan, the Company continues to participate in discussions with Koidu regarding its operational plans and forecasts, cash flow projections for the mine, and potential revisions to the payment schedule for the Loan. The outcome of these discussions, as well as any other developments, will inform discussions regarding the Loan repayment schedule as well as management's ongoing evaluation of the collectability of the Loan and the accrual of interest income. The Company recorded no additional impairment charges in the three months ended October 31, 2015. The Loan's net carrying amount of \$34.5 million is included in the non-current portion of the carrying amount of financing arrangements discussed above. See "Note 10. Commitments and Contingencies" for additional information on this financing arrangement.

The Company recorded no material impairment charges on such loans as of October 31, 2014.

## 4. INVENTORIES

(in millions)	October 31, 2015	January 31, 2015	October 31, 2014
Finished goods	\$1,375.6	\$1,386.8	\$1,533.4
Raw materials	859.1	866.9	888.1
Work-in-process	112.3	108.4	138.9
Inventories, net	\$2,347.0	\$2,362.1	\$2,560.4

TIFFANY & CO.

Table of Contents

## 5. INCOME TAXES

The effective income tax rate for the three months ended October 31, 2015 and 2014 was 35.5%. The effective income tax rate for the nine months ended October 31, 2015 was 34.8% versus 35.3% in the prior year. The effective income tax rate for the nine months ended October 31, 2015 included a decrease of 0.3 percentage point due to the impact of a valuation allowance release. The effective income tax rate for the nine months ended October 31, 2014 included an increase of 1.1 percentage points due to the one-time impact of changes in state tax legislation offset by the favorable impact of a valuation allowance release of 0.3 percentage point.

During the nine months ended October 31, 2015, the change in the gross amount of unrecognized tax benefits and accrued interest and penalties was not significant.

The Company conducts business globally, and, as a result, is subject to taxation in the U.S. and various state and foreign jurisdictions. As a matter of course, tax authorities regularly audit the Company. The Company's tax filings are currently being examined by a number of tax authorities in several jurisdictions, both in the U.S. and in foreign jurisdictions. Ongoing audits where subsidiaries have a material presence include New York City (tax years 2011–2012) and New York State (tax years 2012–2013), as well as an audit that is being conducted by the IRS (tax years 2010–2012). Tax years from 2010–present are open to examination in the U.S. Federal jurisdiction and 2006–present are open in various state, local and foreign jurisdictions. As part of these audits, the Company engages in discussions with taxing authorities regarding tax positions. At January 31, 2015, total unrecognized tax benefits were \$8.3 million of which approximately \$5.3 million, if recognized, would affect the effective income tax rate. Management believes it is reasonably possible that a majority of the total gross amount provided for unrecognized tax benefits will decrease in the next 12 months. Future developments may result in a change in this assessment.

## 6. 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:

(in millions)	Three Months Ended October 31,		Nine Months Ended October 31,	
	2015	2014	2015	2014
Net earnings for basic and diluted EPS	\$91.0	\$38.3	\$300.7	\$288.0
Weighted-average shares for basic EPS	128.6	129.4	129.0	129.2
Incremental shares based upon the assumed exercise of stock options and unvested restricted stock units	0.5	0.6	0.5	0.7
Weighted-average shares for diluted EPS	129.1	130.0	129.5	129.9

For the three and nine months ended October 31, 2015 and 2014, there were 0.7 million and 0.3 million stock options and restricted stock units excluded from the computations of earnings per diluted share due to their antidilutive effect.

TIFFANY &amp; CO.

10

Table of Contents

## 7.DEBT

(in millions)	October 31, 2015	January 31, 2015	October 31, 2014
Short-term borrowings:			
Credit Facilities	\$66.2	\$92.5	\$58.1
Other credit facilities	132.1	141.5	138.8
	\$198.3	\$234.0	\$196.9
Long-term debt:			
Unsecured Senior Notes:			
2010 1.72% Notes, due September 2016 <sup>a, b</sup>	82.6	84.4	91.4
2012 4.40% Series B Notes, due July 2042 <sup>c</sup>	250.0	250.0	250.0
2014 3.80% Senior Notes, due October 2024 <sup>a, d</sup>	249.3	249.3	249.3
2014 4.90% Senior Notes, due October 2044 <sup>a, d</sup>	298.8	298.8	298.8
	880.7	882.5	889.5
Less current portion of long-term debt	82.6	—	—
	\$798.1	\$882.5	\$889.5

<sup>a</sup> These agreements require lump sum repayments upon maturity.

<sup>b</sup> These Notes were issued, at par, ¥10.0 billion.

<sup>c</sup> The agreements governing these Notes require repayments of \$50.0 million in aggregate every five years beginning in 2022.

<sup>d</sup> These Notes were issued at a discount which will be amortized until the debt maturity.

In the three months ended October 31, 2014, Tiffany & Co. issued \$250.0 million aggregate principal amount of 3.8% Senior Notes due 2024 (the "2024 Notes") and \$300.0 million aggregate principal amount of 4.9% Senior Notes due 2044 (the "2044 Notes", and, together with the 2024 Notes, the "Notes"). Tiffany & Co. used the net proceeds from the issuance of the Notes to redeem all of the aggregate principal amount outstanding of its (i) \$100.0 million principal amount of 9.05% Series A Senior Notes due December 23, 2015; (ii) \$125.0 million principal amount of 10.0% Series A-2009 Senior Notes due February 13, 2017; (iii) \$50.0 million principal amount of 10.0% Series A Senior Notes due April 9, 2018; and (iv) \$125.0 million principal amount of 10.0% Series B-2009 Senior Notes due February 13, 2019 (collectively, the "Private Placement Notes") prior to maturity in accordance with the respective note purchase agreements governing each series of Private Placement Notes, which included provisions for make-whole payments in the event of early redemption. As a result of the redemptions, the Company recorded a loss on extinguishment of debt of \$93.8 million in the three months ended October 31, 2014.

There have been no material changes to the agreements governing the Credit Facilities or Senior Notes referenced in the table above since January 31, 2015.

At October 31, 2015, the Company was in compliance with all debt covenants.

TIFFANY & CO.

11



## Table of Contents

### 8. HEDGING INSTRUMENTS

#### Background Information

The Company uses derivative financial instruments, including interest rate swaps and forward contracts to mitigate a portion of 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, it is designated as one of the following on the date it is entered into:

**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 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 \$250.0 million of additional debt which was incurred in July 2012. The Company accounted for the forward-starting interest rate swaps as cash flow hedges.

In 2014, 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 long-term debt which was incurred in September 2014. The Company accounted for the forward-starting interest rate swaps as cash flow hedges, and recorded a loss within accumulated other comprehensive loss, which is being amortized over the terms of the notes to which the interest rate swaps related.

Foreign Exchange Forward Contracts – The Company uses foreign exchange forward contracts to offset a portion of the foreign currency exchange risks associated with foreign currency-denominated liabilities, intercompany transactions and forecasted purchases of merchandise between entities with differing functional currencies. The Company assesses hedge effectiveness based on the total changes in the foreign exchange forward contracts' cash flows. These foreign exchange forward contracts are designated and accounted for as either cash flow hedges or economic hedges that are not designated as hedging instruments.

TIFFANY & CO.

12

---

Table of Contents

As of October 31, 2015, the notional amount of foreign exchange forward contracts accounted for as cash flow hedges was \$185.8 million and the notional amount of foreign exchange forward contracts accounted for as undesignated hedges was \$141.6 million. The maximum term of the Company's outstanding foreign exchange forward contracts as of October 31, 2015 is 12 months.

**Precious Metal Forward Contracts** – The Company periodically hedges a portion of its forecasted purchases of precious metals for use in its internal manufacturing operations through the use of forward contracts in order to manage the effect of volatility in precious metal prices. The Company accounts for its precious metal forward contracts as cash flow hedges. The Company assesses hedge effectiveness based on the total changes in the precious metal forward contracts' cash flows. During the three months ended October 31, 2015, the Company increased the term over which it is hedging its exposure to volatility in precious metal prices, as well as the portion of expected future metals purchases hedged, which has increased the number of precious metal derivative instruments outstanding at the end of the period. As of October 31, 2015, the maximum term over which the Company is hedging its exposure to the variability of future cash flows for all forecasted transactions is 25 months and there were precious metal derivative instruments outstanding for approximately 76,000 ounces of platinum, 1,500,000 ounces of silver and 34,100 ounces of gold.

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

(in millions)	Three Months Ended October 31, 2015		2014	
	Pre-Tax Gain (Loss) Recognized in OCI (Effective Portion)	Pre-Tax Gain (Loss) Reclassified from Accumulated OCI into Earnings (Effective Portion)	Pre-Tax Gain (Loss) Recognized in OCI (Effective Portion)	Pre-Tax Gain (Loss) Reclassified from Accumulated OCI into Earnings (Effective Portion)
<b>Derivatives in Cash Flow Hedging Relationships:</b>				
Foreign exchange forward contracts <sup>a</sup>	\$(3.1	) \$5.8	\$9.9	\$3.0
Precious metal forward contracts <sup>a</sup>	(0.3	) (1.9	) (5.0	) (0.7
Forward-starting interest rate swaps <sup>b</sup>	—	(0.4	) (4.2	) (0.4
	\$(3.4	) \$3.5	\$0.7	\$1.9

TIFFANY & CO.

13

Table of Contents

(in millions)	Nine Months Ended October 31, 2015		2014	
	Pre-Tax Gain (Loss) Recognized in OCI (Effective Portion)	Pre-Tax Gain (Loss) Reclassified from Accumulated OCI into Earnings (Effective Portion)	Pre-Tax Gain (Loss) Recognized in OCI (Effective Portion)	Pre-Tax Gain (Loss) Reclassified from Accumulated OCI into Earnings (Effective Portion)
Derivatives in Cash Flow Hedging Relationships:				
Foreign exchange forward contracts <sup>a</sup>	\$4.9	\$15.2	\$10.4	\$15.9
Precious metal forward contracts <sup>a</sup>	(13.4)	) (4.3	) (3.3	) (3.5
Forward-starting interest rate swaps <sup>b</sup>	—	(1.2	) (4.2	) (1.1
	\$(8.5	) \$9.7	\$2.9	\$11.3

<sup>a</sup>The gain or loss recognized in earnings is included within Cost of sales.

<sup>b</sup>The gain or loss recognized in earnings is included within Interest and other expenses, net.

The gains and losses on derivatives not designated as hedging instruments were not significant in the periods ended October 31, 2015 and 2014. There was no material ineffectiveness related to the Company's hedging instruments for the periods ended October 31, 2015 and 2014. The Company expects the net amount of pre-tax derivative gains and losses included in accumulated other comprehensive income at October 31, 2015 to be reclassified into earnings within the next 12 months will not be material. 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, see "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 nonperformance 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.

TIFFANY & CO.

14

---

Table of Contents

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 marketable securities, time deposits and derivative instruments. The Company's foreign exchange forward contracts are primarily valued using the appropriate foreign exchange spot rates. The Company's precious metal 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 October 31, 2015 are classified in the tables below in one of the three categories described above:

(in millions)	Carrying Value	Estimated Fair Value			Total Fair Value
		Level 1	Level 2	Level 3	
Marketable securities <sup>a</sup>	\$33.8	\$33.8	\$—	\$—	\$33.8
Time deposits <sup>b</sup>	51.9	51.9	—	—	51.9
Derivatives designated as hedging instruments:					
Foreign exchange forward contracts <sup>c</sup>	2.9	—	2.9	—	2.9
Derivatives not designated as hedging instruments:					
Foreign exchange forward contracts <sup>c</sup>	1.9	—	1.9	—	1.9
Total financial assets	\$90.5	\$85.7	\$4.8	\$—	\$90.5
(in millions)	Carrying Value	Estimated Fair Value			Total Fair Value
		Level 1	Level 2	Level 3	
Derivatives designated as hedging instruments:					
Precious metal forward contracts <sup>d</sup>	\$4.8	\$—	\$4.8	\$—	\$4.8
Foreign exchange forward contracts <sup>d</sup>	0.7	—	0.7	—	0.7
Derivatives not designated as hedging instruments:					
Foreign exchange forward contracts <sup>d</sup>	0.7	—	0.7	—	0.7
Total financial liabilities	\$6.2	\$—	\$6.2	\$—	\$6.2

TIFFANY & CO.

Table of Contents

Financial assets and liabilities carried at fair value at October 31, 2014 are classified in the tables below in one of the three categories described above:

(in millions)	Carrying Value	Estimated Fair Value			Total Fair Value
		Level 1	Level 2	Level 3	
Marketable securities <sup>a</sup>	\$54.7	\$54.7	\$—	\$—	\$54.7
Time deposits <sup>b</sup>	34.1	34.1	—	—	34.1
Derivatives designated as hedging instruments:					
Foreign exchange forward contracts <sup>c</sup>	9.2	—	9.2	—	9.2
Total financial assets	\$98.0	\$88.8	\$9.2	\$—	\$98.0
(in millions)	Carrying Value	Estimated Fair Value			Total Fair Value
		Level 1	Level 2	Level 3	
Derivatives designated as hedging instruments:					
Precious metal forward contracts <sup>d</sup>	\$3.7	\$—	\$3.7	\$—	\$3.7
Total financial liabilities	\$3.7	\$—	\$3.7	\$—	\$3.7

aIncluded within Other assets, net.

bIncluded within Short-term investments.

cIncluded within Prepaid expenses and other current assets.

dIncluded within Accounts payable and accrued liabilities.

The fair value of derivatives not designated as hedging instruments was not significant in the period ended October 31, 2014. The fair value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximates carrying value due to the short-term maturities of these assets and liabilities and would be measured using Level 1 inputs. The fair value of debt with variable interest rates approximates carrying value and is measured using Level 2 inputs. The fair value of debt with fixed interest rates was determined using the quoted market prices of debt instruments with similar terms and maturities, which are considered Level 2 inputs. The total carrying value of short-term borrowings and long-term debt was \$1.1 billion and the corresponding fair value was approximately \$1.1 billion at October 31, 2015 and 2014.

## 10.COMMITMENTS AND CONTINGENCIES

**Diamond Sourcing Activities.** The Company has agreements with various diamond producers to purchase defined portions of their mines' output at prevailing fair market prices. In addition, the Company also regularly purchases rough and polished diamonds from other suppliers, although it has no contractual obligations to do so.

In consideration of its diamond supply agreements, the Company has provided financing to certain suppliers of its rough diamonds. In March 2011, Laurelton Diamonds, Inc. ("Laurelton"), a wholly-owned subsidiary of the Company, as lender, entered into a \$50.0 million amortizing term loan facility agreement with Koidu, as borrower, and BSG Resources Limited, as a limited guarantor. Koidu operates a kimberlite diamond mine in Sierra Leone (the "Mine") from which Laurelton acquires diamonds. Koidu was required under the terms of the Loan to apply the proceeds of the Loan to capital expenditures necessary to increase the output of the Mine, among other purposes. As of July 31, 2011, the Loan was fully funded. In consideration of the Loan, Laurelton entered into a supply agreement, pursuant to which Laurelton is required to purchase at fair market value certain diamonds recovered from the Mine that meet Laurelton's quality standards. The assets of Koidu, including all equipment and rights in respect of the Mine, are subject to the security interest of a lender that is not affiliated with the Company. The Loan is partially secured by the diamonds, if any, that have been extracted from the Mine and that have not been sold to third parties. The Company has evaluated the variable interest entity consolidation requirements with respect to this transaction and has determined that it is not the primary beneficiary,

TIFFANY & CO.





## Table of Contents

as it does not have the power to direct any of the activities that most significantly impact Koidu's economic performance.

On March 29, 2013, the Company entered into an amendment relating to the Loan which deferred principal and interest payments due in 2013 to subsequent years, and, on March 31, 2014, the Company entered into a further amendment providing that the principal payments due in 2014 be paid on a monthly basis rather than on a semi-annual basis. On April 30, 2015, the Company entered into a further amendment (the "2015 Amendment"). Pursuant to the 2015 Amendment, once certain customary conditions relating to the addition of one of Koidu's affiliates as an obligor under the Loan were satisfied, the principal payment due on March 30, 2015 would be deferred until a date to be specified by the Company (which date may be upon at least 30 days' written notice to Koidu, or upon the occurrence of certain specified acceleration conditions). As of June 2015, all of the conditions had been satisfied and the deferral of the principal payment due on March 30, 2015 had become effective, subject to the acceleration conditions set forth in the 2015 Amendment, which include Koidu remaining current on its other payment obligations to the Company. The Loan, as amended, is required to be repaid in full by March 2017 through semi-annual payments. Under the 2015 Amendment, the interest rate on the Loan was increased and, as of April 1, 2015, interest will accrue at a rate per annum that is the greater of (i) LIBOR plus 3.5% or (ii) 6.75%. Koidu also agreed to pay, and subsequently paid, an additional 2% per annum of interest on all deferred principal repayments.

At July 31, 2015, there was \$44.1 million of principal and interest outstanding under this Loan (see "Note 3. Receivables and Financing Arrangements"). In August 2015, Koidu requested that its interest payment due in July 2015 be deferred until a future date to be determined, and it advised the Company that it was likely to request a deferral of interest payments due in August and September of 2015. Additionally, Koidu had informed the Company that it was seeking additional sources of capital to fund ongoing operations of the mine. Based on those discussions with Koidu and with consideration given to the fact that Koidu did not respond to the Company's request for a proposed revised payment schedule for its obligations under the Loan, management believed that it was probable that the Company would be unable to collect all amounts due according to the contractual terms of the Loan, and recorded an impairment charge, and related valuation allowance, of \$9.6 million in the three months ended July 31, 2015. Additionally, the Company ceased accruing interest income on the outstanding Loan balance.

As of October 31, 2015, Koidu did not make its interest payments due in August, September and October of 2015 as well as its principal payment due in September 2015. The missed payments constitute events of default under the Loan. While Koidu has not yet provided a proposed revised payment schedule for its obligations under the Loan, the Company continues to participate in discussions with Koidu regarding its operational plans and forecasts, cash flow projections for the mine, and potential revisions to the payment schedule for the Loan. The outcome of these discussions, as well as any other developments, will inform discussions regarding the Loan repayment schedule as well as management's ongoing evaluation of the collectability of the Loan and the accrual of interest income. It is possible that such ongoing evaluation may result in additional changes to management's assessment of collectability. While such changes in management's assessment would not have a material adverse effect on the Company's financial position or cash flows, it is possible that such a change in assessment could affect the Company's earnings in the period in which such a change were to occur.

**Arbitration Award.** On December 21, 2013, an award was issued (the "Arbitration Award") in favor of The Swatch Group Ltd. ("Swatch") and its wholly-owned subsidiary Tiffany Watch Co. ("Watch Company"; Swatch and Watch Company, together, the "Swatch Parties") in an arbitration proceeding (the "Arbitration") between the Registrant and its wholly-owned subsidiaries, Tiffany and Company and Tiffany (NJ) Inc. (the Registrant and such subsidiaries, together, the "Tiffany Parties") and the Swatch Parties.

The Arbitration was initiated in June 2011 by the Swatch Parties, who sought damages for alleged breach of agreements entered into by and among the Swatch Parties and the Tiffany Parties in December 2007 (the

"Agreements"). The Agreements pertained to the development and commercialization of a watch business and, among other things, contained various licensing and governance provisions and approval requirements relating to business, marketing and branding plans and provisions allocating profits relating to sales of the watch business between the Swatch Parties and the Tiffany Parties.

TIFFANY & CO.

17

---

## Table of Contents

In general terms, the Swatch Parties alleged that the Tiffany Parties breached the Agreements by obstructing and delaying development of Watch Company's business and otherwise failing to proceed in good faith. The Swatch Parties sought damages based on alternate theories ranging from CHF 73.0 million (or approximately \$74.0 million at October 31, 2015) (based on its alleged wasted investment) to CHF 3.8 billion (or approximately \$3.8 billion at October 31, 2015) (calculated based on alleged future lost profits of the Swatch Parties and their affiliates over the entire term of the Agreements).

The Registrant believes that the claims of the Swatch Parties are without merit. In the Arbitration, the Tiffany Parties defended against the Swatch Parties' claims vigorously, disputing both the merits of the claims and the calculation of the alleged damages. The Tiffany Parties also asserted counterclaims for damages attributable to breach by the Swatch Parties, stemming from the Swatch Parties' September 12, 2011 public issuance of a Notice of Termination purporting to terminate the Agreements due to alleged material breach by the Tiffany Parties, and for termination due to such breach. In general terms, the Tiffany Parties alleged that the Swatch Parties did not have grounds for termination, failed to meet the high standard for proving material breach set forth in the Agreements and failed to provide appropriate management, distribution, marketing and other resources for TIFFANY & CO. brand watches and to honor their contractual obligations to the Tiffany Parties regarding brand management. The Tiffany Parties' counterclaims sought damages based on alternate theories ranging from CHF 120.0 million (or approximately \$121.0 million at October 31, 2015) (based on its wasted investment) to approximately CHF 540.0 million (or approximately \$545.0 million at October 31, 2015) (calculated based on alleged future lost profits of the Tiffany Parties).

The Arbitration hearing was held in October 2012 before a three-member arbitral panel convened in the Netherlands pursuant to the Arbitration Rules of the Netherlands Arbitration Institute (the "Rules"), and the Arbitration record was completed in February 2013.

Under the terms of the Arbitration Award, and at the request of the Swatch Parties and the Tiffany Parties, the Agreements were deemed terminated. The Arbitration Award stated that the effective date of termination was March 1, 2013. Pursuant to the Arbitration Award, the Tiffany Parties were ordered to pay the Swatch Parties damages of CHF 402.7 million (the "Arbitration Damages"), as well as interest from June 30, 2012 to the date of payment, two-thirds of the cost of the Arbitration and two-thirds of the Swatch Parties' legal fees, expenses and costs. These amounts were paid in full in January 2014.

Prior to the ruling of the arbitral panel, no accrual was established in the Company's consolidated financial statements because management did not believe the likelihood of an award of damages to the Swatch Parties was probable. As a result of the ruling, in the fourth quarter of 2013, the Company recorded a charge of \$480.2 million, which included the damages, interest, and other costs associated with the ruling and which was classified as Arbitration award expense in the consolidated statement of earnings.

On March 31, 2014, the Tiffany Parties took action in the District Court of Amsterdam to annul the Arbitration Award. Generally, arbitration awards are final; however, Dutch law does provide for limited grounds on which arbitral awards may be set aside. The Tiffany Parties petitioned to annul the Arbitration Award on these statutory grounds. These grounds include, for example, that the arbitral tribunal violated its mandate by changing the express terms of the Agreements.

A three-judge panel presided over the annulment hearing on January 19, 2015, and, on March 4, 2015, issued a decision in favor of the Tiffany Parties. Under this decision, the Arbitration Award is set aside. However, the Swatch Parties have taken action in the Dutch courts to appeal the District Court's decision, and the Arbitration Award may ultimately be upheld by the courts of the Netherlands. Registrant's management expects that the annulment action will not be ultimately resolved until, at the earliest, Registrant's fiscal year ending January 31, 2017.

If the Arbitration Award is finally annulled, management anticipates that the claims and counterclaims that formed the basis of the Arbitration, and potentially additional claims and counterclaims, will be litigated in court proceedings between and among the Swatch Parties and the Tiffany Parties. The identity and location of the courts that would hear such actions have not been determined at this time.

TIFFANY & CO.

18

---

Table of Contents

Management also anticipates that the Tiffany Parties would seek the return of the amounts paid by them under the Arbitration Award in court proceedings.

In any litigation regarding the claims and counterclaims that formed the basis of the arbitration, issues of liability and damages will be pled and determined without regard to the findings of the arbitral panel. As such, it is possible that the court could find that the Swatch Parties were in material breach of their obligations under the Agreements, that the Tiffany Parties were in material breach of their obligations under the Agreements or that neither the Swatch Parties nor the Tiffany Parties were in material breach. If the Swatch Parties' claims of liability were accepted by the court, the damages award cannot be reasonably estimated at this time, but could exceed the Arbitration Damages and could have a material adverse effect on the Registrant's consolidated financial statements or liquidity.

Although the District Court has issued a decision in favor of the Tiffany Parties, an amount will only be recorded for any return of amounts paid under the Arbitration Award when the District's Court decision is final (i.e., after any right of appeal has been exhausted) and return of these amounts is deemed probable and collection is reasonably assured. As such, the Company has not recorded any amounts in its consolidated financial statements related to the District Court's decision.

Additionally, management has not established any accrual in the Company's condensed consolidated financial statements for the quarter ended October 31, 2015 related to the annulment process or any potential subsequent litigation because it does not believe that the final annulment of the Arbitration Award and a subsequent award of damages exceeding the Arbitration Damages is probable.

Royalties payable to the Tiffany Parties by Watch Company under the Agreements were not significant in any year and watches manufactured by Watch Company and sold in TIFFANY & CO. stores constituted 1% of worldwide net sales in 2013 and 2012. The Company is proceeding with the design, production, marketing and distribution of TIFFANY & CO. brand watches through certain of its Swiss subsidiaries. Management introduced new TIFFANY & CO. brand watches in April 2015.

Other Litigation Matters. The Company is from time to time involved in routine litigation incidental to the conduct of its business, including proceedings to protect its trademark rights, litigation with parties claiming infringement of patents and other intellectual property rights by the Company, litigation instituted by persons alleged to have been injured upon premises under the Company's control and litigation with present and former employees and customers. Although litigation with present and former employees is routine and incidental to the conduct of the Company's business, as well as for any business employing significant numbers of employees, such litigation can result in large monetary awards when a civil jury is allowed to determine compensatory and/or punitive damages for actions claiming discrimination on the basis of age, gender, race, religion, disability or other legally-protected characteristic or for termination of employment that is wrongful or in violation of implied contracts. However, the Company believes that all such litigation currently pending to which it is a party or to which its properties are subject will be resolved without any material adverse effect on the Company's financial position, earnings or cash flows.

Environmental Matter. In 2005, the US Environmental Protection Agency ("EPA") designated a 17-mile stretch of the Passaic River (the "River") part of the Diamond Alkali "Superfund" site. This designation resulted from the detection of hazardous substances emanating from the site, which was previously home to the Diamond Shamrock Corporation, a manufacturer of pesticides and herbicides. Under the Superfund law, the EPA will negotiate with potentially responsible parties to agree on remediation approaches.

The Company, which operated a silverware manufacturing facility near a tributary of the River from approximately 1897 to 1985, is one of more than 300 parties (the "Potentially Responsible Parties") designated in litigation as potentially responsible parties with respect to the River. The EPA issued general notice letters to 125 of these parties.

Edgar Filing: TIFFANY & CO - Form 10-Q

The Company, along with approximately 70 other Potentially Responsible Parties (collectively, the "Cooperating Parties Group" or "CPG") voluntarily entered into an Administrative Settlement Agreement and Order on Consent ("AOC") with the EPA in May 2007 to perform a Remedial Investigation/Feasibility Study (the "RI/FS") of the lower 17 miles of the River. In June 2012, most of the CPG voluntarily entered into a second AOC related to focused

TIFFANY & CO.

19

---

Table of Contents

remediation actions at Mile 10.9 of the River. The actions under the Mile 10.9 AOC are complete (except for continued monitoring), and the RI/FS submission under the 2007 AOC was submitted as complete on April 30, 2015. The Company has accrued for its financial obligations under both AOCs, which have not been material to its financial position or results of operations in previous financial periods or on a cumulative basis.

Separately, the EPA has issued and is reviewing comments on its proposed plan for remediating the lower eight miles of the River, which is supported by a Focused Feasibility Study (the "FFS"). The FFS provides multiple approaches to remediation, which range in cost from \$360.0 million to \$3.25 billion, with the cost of the EPA-recommended approach ranging from \$950.0 million to \$1.73 billion. It cannot be determined how any costs of remediation identified as a result of the FFS would be allocated among any of the potentially responsible parties.

The Remedial Investigation ("RI") portion of the RI/FS was submitted to the EPA on February 19, 2015. On April 30, 2015, the CPG submitted the Feasibility Study (the "FS") portion of the RI/FS to the EPA. The FS presented and evaluated four remedial alternatives, including the approach recommended by the EPA in the FFS, and recommended an alternative approach for a targeted remediation of the entire 17-mile stretch of the River. The estimated cost of the approach recommended by the CPG in the FS is approximately \$483.0 million. The Company expects that the RI and FS will be reviewed and subject to comment by the EPA and other governmental agencies and stakeholders. Ultimately, the Company expects that the EPA will, after this review and review of the comments received on the FFS, identify and negotiate with any or all of the potentially responsible parties regarding any remediation action that may be necessary, and issue a Record of Decision with a proposed remediation approach.

Until one or more Records of Decision are issued, neither the ultimate remedial approaches and their costs, nor the Company's participation, if any, relative to the other potentially responsible parties in these approaches and costs, can be determined. As such, the Company's obligations, if any, beyond those already recorded for the 2007 AOC and the Mile 10.9 AOC cannot be determined at this time, and the Company has therefore not recorded any additional liability related to this matter. In light of the number of companies that are Potentially Responsible Parties, which includes, but goes well beyond, those in the CPG that participated in the 2007 AOC and the Mile 10.9 AOC, and the Company's relative participation in the costs related thereto, the Company does not expect that its ultimate liability, if any, related to these matters will be material to its financial position. However, it is possible that, when the uncertainties discussed above are resolved, such liability could be material to its results of operations or cash flows in the period in which such uncertainties are resolved.

## 11. STOCKHOLDERS' EQUITY

Accumulated Other Comprehensive Loss (in millions)	October 31, 2015	January 31, 2015	October 31, 2014
Accumulated other comprehensive (loss) earnings, net of tax:			
Foreign currency translation adjustments	\$(110.4)	) \$(76.3	) \$(9.1)
Unrealized gain on marketable securities	1.1	1.9	3.8
Deferred hedging loss	(16.9)	) (5.4	) (11.9)
Net unrealized loss on benefit plans	(196.9)	) (210.7	) (65.9)
	\$(323.1)	) \$(290.5	) \$(83.1)

TIFFANY &amp; CO.

20

Table of Contents

Additions to and reclassifications out of accumulated other comprehensive loss are as follows:

(in millions)	Three Months Ended		Nine Months Ended	
	October 31,		October 31,	
	2015	2014	2015	2014
Foreign currency translation adjustments	\$(5.0)	) \$(41.8	) \$(35.9	) \$(29.6
Income tax (expense) benefit	(0.9)	) 3.6	1.8	3.5
Foreign currency translation adjustments, net of tax	(5.9)	) (38.2	) (34.1	) (26.1
Unrealized (loss) gain on marketable securities	(1.0)	) 1.1	(0.8)	) 1.9
Reclassification adjustment for losses (gains) included in net earnings <sup>a</sup>	0.1	—	(0.4)	) —
Income tax benefit (expense)	0.2	(0.2)	) 0.4	(0.7)
Unrealized (loss) gain on marketable securities, net of tax	(0.7)	) 0.9	(0.8)	) 1.2
Unrealized (loss) gain on hedging instruments	(3.4)	) 0.7	(8.5)	) 2.9
Reclassification adjustment for gains included in net earnings <sup>b</sup>	(3.5)	) (1.9	) (9.7	) (11.3
Income tax benefit	2.5	0.7	6.7	3.1
Unrealized loss on hedging instruments, net of tax	(4.4)	) (0.5	) (11.5	) (5.3
Prior service cost	—	—	—	(0.5)
Amortization of net loss included in net earnings <sup>c</sup>	7.6	3.3	22.8	9.9
Amortization of prior service credit included in net earnings <sup>c</sup>	(0.2)	) (0.1	) (0.5	) (0.3
Income tax expense	(2.8)	) (1.2	) (8.5	) (3.5)
Net unrealized gain on benefit plans, net of tax	4.6	2.0	13.8	5.6
Total other comprehensive loss, net of tax	\$(6.4	) \$(35.8	) \$(32.6	) \$(24.6

<sup>a</sup> These losses (gains) are reclassified into Interest and other expenses, net.

<sup>b</sup> These gains are reclassified into Cost of sales and Interest and other expenses, net (see "Note 8. Hedging Instruments" for additional details).

<sup>c</sup> These accumulated other comprehensive income components are included in the computation of net periodic pension costs (see "Note 12. Employee Benefit Plans" for additional details).

Share Repurchase Program. In March 2014, the Company's Board of Directors approved a share repurchase program which authorizes the Company to repurchase up to \$300.0 million of its Common Stock through open market transactions. Purchases are executed under a written plan for trading securities as specified under Rule 10b5-1 promulgated under the Securities Exchange Act of 1934, as amended, the terms of which are within the Company's discretion, subject to applicable securities laws, and are based on market conditions and the Company's liquidity needs. The program will expire on March 31, 2017.

TIFFANY & CO.



Table of Contents

The Company's share repurchase activity was as follows:

	Three Months Ended October 31,		Nine Months Ended October 31,	
(in millions, except per share amounts)	2015	2014	2015	2014
Cost of repurchases	\$60.5	\$5.8	\$116.2	\$22.2
Shares repurchased and retired	0.8	0.1	1.4	0.2
Average cost per share	\$80.31	\$92.02	\$84.03	\$89.91

At October 31, 2015, \$156.7 million remained available for share repurchases under this authorization.

Cash Dividends. The Company's Board of Directors declared quarterly dividends of \$0.40 and \$0.38 per share of Common Stock in the three months ended October 31, 2015 and 2014 and \$1.18 and \$1.10 per share of Common Stock in the nine months ended October 31, 2015 and 2014.

## 12.EMPLOYEE BENEFIT PLANS

The Company maintains several pension and retirement plans, and also provides certain health-care and life insurance benefits.

Net periodic pension and other postretirement benefit expense included the following components:

	Three Months Ended October 31,		Other Postretirement Benefits	
(in millions)	Pension Benefits 2015	2014	2015	2014
Net Periodic Benefit Cost:				
Service cost	\$5.8	\$4.1	\$1.1	\$0.6
Interest cost	7.6	7.1	0.8	0.7
Expected return on plan assets	(6.2	) (5.9	) —	—
Amortization of prior service cost (credit)	—	0.1	(0.2	) (0.2
Amortization of net loss	7.2	3.3	0.4	—
Net expense	\$14.4	\$8.7	\$2.1	\$1.1

  

	Nine Months Ended October 31,		Other Postretirement Benefits	
(in millions)	Pension Benefits 2015	2014	2015	2014
Net Periodic Benefit Cost:				
Service cost	\$17.0	\$12.6	\$3.2	\$1.7
Interest cost	22.9	21.2	2.4	2.0
Expected return on plan assets	(18.5	) (17.7	) —	—
Amortization of prior service cost (credit)	—	0.2	(0.5	) (0.5
Amortization of net loss	21.7	9.9	1.1	—
Net expense	\$43.1	\$26.2	\$6.2	\$3.2

TIFFANY & CO.

Table of Contents

## 13. SEGMENT INFORMATION

The Company's reportable segments are as follows:

Americas includes sales in Company-operated TIFFANY & CO. stores in the United States, Canada and Latin America, as well as sales of TIFFANY & CO. products in certain markets through business-to-business, Internet, catalog and wholesale operations;

Asia-Pacific includes sales in Company-operated TIFFANY & CO. stores, as well as sales of TIFFANY & CO. products in certain markets through Internet and wholesale operations;

Japan includes sales in Company-operated TIFFANY & CO. stores, as well as sales of TIFFANY & CO. products through business-to-business, Internet and wholesale operations;

Europe includes sales in Company-operated TIFFANY & CO. stores, as well as sales of TIFFANY & CO. products in certain markets through the Internet; and

Other consists of all non-reportable segments. Other includes the Emerging Markets region, which consists of retail sales in Company-operated TIFFANY & CO. stores in the United Arab Emirates and, beginning in February 2014, in Russia and wholesale sales of TIFFANY & CO. merchandise to independent distributors for resale in certain emerging markets (primarily in the Middle East and, through January 2014, in Russia). In addition, Other includes wholesale sales of diamonds obtained through bulk purchases that were subsequently deemed not suitable for the Company's needs as well as earnings received from third-party licensing agreements.

Certain information relating to the Company's segments is set forth below:

	Three Months Ended October 31,		Nine Months Ended October 31,	
(in millions)	2015	2014	2015	2014
Net sales:				
Americas	\$425.1	\$458.6	\$1,343.4	\$1,380.9
Asia-Pacific	238.4	243.2	742.7	740.9
Japan	132.7	113.3	380.0	406.3
Europe	112.1	114.4	337.6	335.7
Total reportable segments	908.3	929.5	2,803.7	2,863.8
Other	29.9	30.1	87.5	100.9
	\$938.2	\$959.6	\$2,891.2	\$2,964.7
Earnings from operations*:				
Americas	\$61.9	\$82.7	\$229.0	\$274.0
Asia-Pacific	63.9	65.1	193.4	202.5
Japan	50.8	34.3	140.7	145.0
Europe	16.3	19.4	53.3	61.5
Total reportable segments	192.9	201.5	616.4	683.0
Other	0.9	1.7	6.1	6.3
	\$193.8	\$203.2	\$622.5	\$689.3

\* Represents earnings from operations before (i) unallocated corporate expenses, (ii) interest and other expenses, net, (iii) loss on extinguishment of debt, and (iv) other operating expense.

TIFFANY & CO.



Table of Contents

The following table sets forth a reconciliation of the segments' earnings from operations to the Company's consolidated earnings from operations before income taxes:

(in millions)	Three Months Ended		Nine Months Ended	
	October 31,		October 31,	
	2015	2014	2015	2014
Earnings from operations for segments	\$193.8	\$203.2	\$622.5	\$689.3
Unallocated corporate expenses	(37.4	) (34.7	) (113.7	) (102.5
Interest and other expenses, net	(15.2	) (15.4	) (38.1	) (47.8
Loss on extinguishment of debt	—	(93.8	) —	(93.8
Other operating expense	—	—	(9.6	) —
Earnings from operations before income taxes	\$141.2	\$59.3	\$461.1	\$445.2

Unallocated corporate expenses include certain costs related to administrative support functions which the Company does not allocate to its segments. Such unallocated costs include those for centralized information technology, finance, legal and human resources departments.

Other operating expense in the nine months ended October 31, 2015 represents an impairment charge related to a financing arrangement with Koidu. See "Note 3. Receivables and Financing Arrangements" and "Note 10. Commitments and Contingencies" for additional information.

Loss on extinguishment of debt in the three and nine months ended October 31, 2014 was related to the redemption of \$400.0 million in aggregate principal amount of the Private Placement Notes prior to their scheduled maturities (see "Note 7. Debt" for additional details).

#### 14. SUBSEQUENT EVENT

On November 19, 2015, the Company's Board of Directors approved a quarterly dividend of \$0.40 per share of Common Stock. This dividend will be paid on January 11, 2016 to shareholders of record on December 21, 2015.

TIFFANY & CO.

## Table of Contents

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

#### OVERVIEW

Tiffany & Co. (the "Registrant") is a holding company that operates through its subsidiary companies (collectively, the "Company"). The Registrant's principal subsidiary, Tiffany and Company ("Tiffany"), is a jeweler and specialty retailer whose principal merchandise offering is jewelry. The Company also sells timepieces, leather goods, sterling silverware, china, crystal, stationery, fragrances and accessories. Through Tiffany and other subsidiaries, the Registrant is engaged in product design, manufacturing and retailing activities.

The Company's reportable segments are as follows:

Americas includes sales in 125 Company-operated TIFFANY & CO. stores in the United States ("U.S."), Canada and Latin America, as well as sales of TIFFANY & CO. products in certain markets through business-to-business, Internet, catalog and wholesale operations;

Asia-Pacific includes sales in 79 Company-operated TIFFANY & CO. stores, as well as sales of TIFFANY & CO. products in certain markets through Internet and wholesale operations;

Japan includes sales in 56 Company-operated TIFFANY & CO. stores, as well as sales of TIFFANY & CO. products through business-to-business, Internet and wholesale operations;

Europe includes sales in 39 Company-operated TIFFANY & CO. stores, as well as sales of TIFFANY & CO. products in certain markets through the Internet; and

Other consists of all non-reportable segments. Other includes the Emerging Markets region, which consists of retail sales in five Company-operated TIFFANY & CO. stores in the United Arab Emirates and, beginning in February 2014, in one Company-operated TIFFANY & CO. store in Russia and wholesale sales of TIFFANY & CO. merchandise to independent distributors for resale in certain emerging markets (primarily in the Middle East and, through January 2014, in Russia). In addition, Other includes wholesale sales of diamonds obtained through bulk purchases that were subsequently deemed not suitable for the Company's needs as well as earnings received from third-party licensing agreements.

#### HIGHLIGHTS

In the three months ("third quarter") ended October 31, 2015, worldwide net sales decreased 2% to \$938.2 million. On a constant-exchange-rate basis (see "Non-GAAP Measures" below), worldwide net sales increased 4% and comparable store sales increased 1% reflecting substantial growth in Japan, and, to a lesser extent, in Europe and Asia-Pacific, while sales in the Americas decreased from the prior year.

Worldwide net sales decreased 2% to \$2,891.2 million in the nine months ("year-to-date") ended October 31, 2015.

On a constant-exchange-rate basis (see "Non-GAAP Measures" below), worldwide net sales increased 4% and comparable store sales increased 2% reflecting growth in Europe, Japan and Asia-Pacific, while sales in the Americas decreased modestly from the prior year.

The Company added 11 TIFFANY & CO. stores (opening seven in Asia-Pacific, three in the Americas and one in Europe) while closing one (in Asia-Pacific) in the year-to-date.

Earnings from operations as a percentage of net sales ("operating margin") decreased 0.9 percentage point in the third quarter due to lower sales and higher selling, general and administrative ("SG&A") expenses partly offset by higher gross margin and decreased 2.5 percentage points in the year-to-date. Excluding an impairment charge recorded in the second quarter of 2015 (see "Non-GAAP Measures" below), operating margin decreased 2.2 percentage points in the year-to-date due to higher SG&A expenses partly offset by higher gross margin.

Excluding the loss on extinguishment of debt recorded in the third quarter of 2014 (see "Non-GAAP Measures" below), net earnings decreased 8% in the third quarter. As reported, net earnings increased 138% to \$91.0 million, or \$0.70 per diluted share, in the third quarter.

TIFFANY & CO.

25

---

Table of Contents

Excluding certain expenses recorded in the year-to-date of 2015 and 2014 (see "Non-GAAP Measures" below), net earnings decreased 12% in the year-to-date. As reported, net earnings increased 4% to \$300.7 million, or \$2.32 per diluted share, in the year-to-date.

Inventories, net decreased 8% from October 31, 2014. The strengthening of the U.S. dollar had the effect of decreasing inventories by 4% as compared with October 31, 2014, and therefore, excluding this effect, inventories would have decreased 4%.

The Company introduced its new CT60™ watch collection in April 2015.

The Company increased its quarterly dividend by 5% in May 2015 and has repurchased approximately \$116 million of its Common Stock in the year-to-date.

**RESULTS OF OPERATIONS****Non-GAAP Measures**

The Company reports information in accordance with U.S. Generally Accepted Accounting Principles ("GAAP"). The Company's management does not, nor does it suggest that investors should, consider non-GAAP financial measures in isolation from, or as a substitute for, financial information prepared in accordance with GAAP. The Company presents such non-GAAP financial measures in reporting its financial results to provide investors with an additional tool to evaluate the Company's operating results.

**Net Sales.** The Company's reported net sales reflect either a translation-related benefit from strengthening foreign currencies or a detriment from a strengthening U.S. dollar. Internally, management monitors and measures its sales performance on a non-GAAP basis that eliminates the positive or negative effects that result from translating sales made outside the U.S. into U.S. dollars ("constant-exchange-rate basis"). Management believes this constant-exchange-rate basis provides a more representative assessment of sales performance and provides better comparability between reporting periods. The following table reconciles the sales percentage increases (decreases) from the GAAP to the non-GAAP basis versus the previous year:

	Third Quarter 2015 vs. 2014			Year-to-date 2015 vs. 2014		
	GAAP Reported	Translation Effect	Constant- Exchange- Rate Basis	GAAP Reported	Translation Effect	Constant- Exchange- Rate Basis
<b>Net Sales:</b>						
Worldwide	(2)	)%	(6)	)%	4	%
Americas	(7)	)	(2)	)	(5)	)
Asia-Pacific	(2)	)	(8)	)	6	)
Japan	17		(17)	)	34	
Europe	(2)	)	(11)	)	9	)
Other	(1)	)	(9)	)	8	)
<b>Comparable Store Sales:</b>						
Worldwide	(5)	)%	(6)	)%	1	%
Americas	(9)	)	(3)	)	(6)	)
Asia-Pacific	(5)	)	(7)	)	2	)
Japan	9		(15)	)	24	
Europe	(5)	)	(11)	)	6	)
Other	(18)	)	(15)	)	(3)	)

TIFFANY & CO.





Table of Contents

Statement of Earnings. Internally, management monitors and measures its earnings performance excluding certain items listed below. Management believes excluding such items presents the Company's results on a more comparable basis to the corresponding period in the prior year, thereby providing investors with an additional perspective to analyze the results of operations of the Company. The following table reconciles GAAP amounts to non-GAAP amounts:

(in millions, except per share amounts)	GAAP	Impairment charge <sup>a</sup> (decrease)/increase	Non-GAAP	
Nine months ended October 31, 2015				
Selling, general and administrative expenses	\$1,227.3	\$(9.6)	) \$1,217.7	
As a % of net sales	42.4	%	42.1	%
Earnings from operations	499.2	9.6	508.8	
As a % of net sales	17.3	%	17.6	%
Net earnings	300.7	6.3	307.0	
Diluted earnings per share	\$2.32	\$0.05	\$2.37	

<sup>a</sup> In the nine months ended October 31, 2015, the Company recorded an impairment charge related to a financing arrangement with Koidu Limited. See "Item 1. Notes to Condensed Consolidated Financial Statements – Note 3. Receivables and Financing Arrangements" and "Note 10. Commitments and Contingencies" for additional information.

(in millions, except per share amounts)	GAAP	Debt extinguishment <sup>b</sup> (decrease)/increase	Non-GAAP	
Three months ended October 31, 2014				
Loss on extinguishment of debt	\$93.8	\$(93.8)	) \$—	
Provision for income taxes	21.0	32.8	53.8	
Net earnings	38.3	61.0	99.3	
Diluted earnings per share	\$0.29	\$0.47	\$0.76	

Nine months ended October 31, 2014				
Loss on extinguishment of debt	\$93.8	\$(93.8)	) \$—	
Provision for income taxes	157.2	32.8	190.0	
Net earnings	288.0	61.0	349.0	
Diluted earnings per share	\$2.22	\$0.47	\$2.69	

<sup>b</sup> Expenses associated with the redemption of \$400.0 million in aggregate principal amount of the Private Placement Notes prior to their scheduled maturities (see "Loss on Extinguishment of Debt" below).

**Comparable Store Sales**

Comparable store sales include only sales transacted in Company-operated stores open for more than 12 months. Sales for relocated stores are included in comparable store sales if the relocation occurs within the same geographical market. Sales for a new store are not included if the store was relocated from one department store to another or from a department store to a free-standing location. In all markets, the results of a store in which the square footage has been expanded or reduced remain in the comparable store base.

TIFFANY &amp; CO.

Table of Contents

## Net Sales

In the third quarter of 2015, worldwide net sales decreased \$21.4 million, or 2%, due to a decline in all regions except Japan. In the year-to-date of 2015, worldwide net sales decreased \$73.5 million, or 2%, primarily due to a decline in the Americas and Japan (see below).

The strengthening of the U.S. dollar versus other currencies had the translation effect of reducing worldwide net sales growth by 6% in both the third quarter and year-to-date of 2015, with net sales on a constant-exchange-rate basis increasing 4% in the third quarter (due to substantial growth in Japan, and, to a lesser extent, in Europe and Asia-Pacific, while sales in the Americas decreased from the prior year) and increasing 4% in the year-to-date (due to growth in Europe, Japan and Asia-Pacific, while sales in the Americas decreased modestly from the prior year).

In the third quarter, by product category, as reported in U.S. dollars on a GAAP basis, the engagement jewelry & wedding bands category decreased \$11.5 million, or 4%, from the prior year (reflecting decreases in both solitaire diamond rings and wedding bands); the fashion jewelry category decreased \$11.0 million, or 3% (as growth in gold jewelry sales was entirely offset by a decline in entry-level price point silver jewelry sales); and the statement, fine & solitaire jewelry category was approximately equal to the prior year (reflecting increases in statement jewelry which were offset by decreases in fine jewelry).

In the year-to-date, by product category, as reported in U.S. dollars on a GAAP basis, the engagement jewelry & wedding bands category decreased \$50.7 million, or 5%, from the prior year (reflecting decreases in both solitaire diamond rings and wedding bands, primarily in Japan and Asia-Pacific); the statement, fine & solitaire jewelry category decreased \$8.0 million, or 1% (reflecting increases in statement jewelry which were more than offset by decreases in fine jewelry); and the fashion jewelry category was approximately equal to the prior year, decreasing \$2.3 million (as growth in gold jewelry sales was entirely offset by a decline in sales of entry-level price point jewelry).

Net sales by segment were as follows:

	Third Quarter			Year-to-date		
(in millions)	2015	2014	Increase/(Decrease)	2015	2014	Increase/(Decrease)
Americas	\$425.1	\$458.6	(7)%	\$1,343.4	\$1,380.9	(3)%
Asia-Pacific	238.4	243.2	(2)	742.7	740.9	—
Japan	132.7	113.3	17	380.0	406.3	(6)
Europe	112.1	114.4	(2)	337.6	335.7	1
Other	29.9	30.1	(1)	87.5	100.9	(13)
	\$938.2	\$959.6	(2)%	\$2,891.2	\$2,964.7	(2)%

Americas. Total sales decreased \$33.5 million, or 7%, in the third quarter due to a 12% decrease in the number of jewelry units sold across all categories partly offset by a 6% increase in the average price per jewelry unit sold (attributed to price increases and a shift in sales mix toward statement jewelry). Included in the \$33.5 million decrease is a \$35.7 million, or 9%, decrease in comparable store sales. On a constant-exchange-rate basis, total sales decreased 5% and comparable store sales decreased 6% from the prior year reflecting lower foreign tourist spending in the U.S. which management attributes to the strong U.S. dollar, while sales to U.S. customers were approximately equal to the prior year. There was also strong comparable store sales growth in Canada and Latin America.

Total sales decreased \$37.5 million, or 3%, in the year-to-date due to a 12% decrease in the number of jewelry units sold across all categories largely offset by a 10% increase in the average price per jewelry unit sold (attributed to price increases and a shift in sales mix toward higher-priced products within the fashion jewelry category and to statement jewelry). Included in the \$37.5 million decrease is a \$47.8 million, or 4%, decrease in comparable store sales partly offset by an \$8.7 million increase in non-comparable store sales. On a constant-exchange-rate basis, total sales decreased 1% and comparable store sales decreased 2% from the prior year reflecting lower foreign tourist spending

in the U.S. which management attributes to the strong U.S. dollar, while sales to U.S. customers

TIFFANY & CO.

28

---

## Table of Contents

were approximately equal to the prior year. There was also strong comparable store sales growth in Canada and Latin America.

Asia-Pacific. Total sales decreased \$4.8 million, or 2%, in the third quarter largely due to a 4% decrease in the average price per jewelry unit sold. Management attributes this decrease in average price to the negative effect of currency translation which was partially offset by price increases and a shift in sales mix toward higher-priced products within the fashion jewelry category and to statement jewelry. Included in the \$4.8 million decrease is an \$11.1 million, or 5%, decrease in comparable store sales and a decrease in wholesale sales of TIFFANY & CO. merchandise to independent distributors partly offset by a \$9.3 million increase in non-comparable store sales. On a constant-exchange-rate basis, total sales increased 6% and comparable store sales increased 2% primarily due to sales growth in Australia and China, while sales declined in Hong Kong and Macau.

Total sales increased \$1.8 million, or less than 1%, in the year-to-date due to a 4% increase in the average price per jewelry unit sold offset by a 4% decrease in the number of jewelry units sold. Management attributes the increase in average price to price increases and a shift in sales mix toward higher-priced products within the fashion jewelry category and to statement jewelry. The decrease in jewelry units is attributed to soft demand for entry-level price point silver jewelry as well as a unit decline in fine jewelry. Included in the \$1.8 million increase is a \$21.0 million increase in non-comparable store sales, which was largely offset by a \$12.3 million, or 2%, decrease in comparable store sales and a decrease in wholesale sales of TIFFANY & CO. merchandise to independent distributors. On a constant-exchange-rate basis, total sales increased 6% and comparable store sales increased 4% primarily due to sales growth in Australia and China, with mixed performance in other markets.

Japan. Sales performance in Japan was volatile in the third quarter and year-to-date as compared to the prior year when consumer demand was affected by spending before and after an increase in their consumption tax on April 1, 2014. Comparable store sales had increased 30% on a constant-exchange-rate basis in last year's first quarter followed by a 13% decline in the second quarter and a 6% decline in the third quarter.

Total sales increased \$19.4 million, or 17%, and comparable store sales increased \$8.9 million, or 9%, in the third quarter, benefiting from higher retail sales to both foreign tourists and local customers. The balance of the increase primarily reflected increased wholesale sales of TIFFANY & CO. merchandise to independent distributors. On a constant-exchange-rate basis, total sales increased 34% due to a 19% increase in the average price per jewelry unit sold (which management attributes to price increases and a shift in sales mix toward higher-priced products) as well as a 16% increase in the number of jewelry units sold across all categories. Comparable store sales on a constant-exchange-rate basis increased 24%.

Total sales decreased \$26.3 million, or 6%, and comparable store sales decreased \$46.2 million, or 12%, in the year-to-date due to the negative effects of currency translation. This was partly offset by increased wholesale sales of TIFFANY & CO. merchandise to independent distributors. On a constant-exchange-rate basis, total sales increased 10% with a 9% increase in the average price per jewelry unit sold (which management attributes to price increases and a shift in sales mix toward higher-priced products). Comparable store sales on a constant-exchange-rate basis increased 3%.

Europe. Total sales decreased \$2.3 million, or 2%, and comparable store sales decreased \$5.5 million, or 5%, in the third quarter. The decrease in total sales was the result of a 2% decrease in the number of jewelry units sold (attributed to soft demand for entry-level price point silver jewelry). The average price per jewelry unit sold was unchanged which management attributes to a shift in sales mix toward higher-priced products as well as the impact of price increases, which were offset by the negative effects of currency translation. On a constant-exchange-rate basis, total sales increased 9% and comparable store sales increased 6% due to broad-based growth across the region, reflecting higher spending by foreign tourists and, to a lesser extent, higher sales to local customers.

Total sales increased \$1.9 million, or 1%, and comparable store sales decreased \$6.8 million, or 2%, in the year-to-date. The increase in total sales was driven by a 1% increase in the average price per jewelry unit sold which management attributes to a shift in sales mix toward higher-priced products as well as the impact of price increases, which were mostly offset by the negative effects of currency translation. On a constant-exchange-rate basis, total sales increased 16% and comparable store sales increased 14% due to growth across the region, reflecting higher spending by foreign tourists and, to a lesser extent, higher sales to local customers.

TIFFANY & CO.

29

---

Table of Contents

Other. Other sales in the third quarter were approximately equal to the prior year. Other sales decreased \$13.4 million, or 13%, in the year-to-date primarily due to a decrease in wholesale sales of diamonds as well as the negative effects of currency translation. Comparable store sales decreased 18% and 10% in the third quarter and year-to-date, respectively. On a constant-exchange-rate basis, other sales increased 8% in the third quarter and decreased 6% in the year-to-date and comparable store sales decreased 3% in the third quarter and increased 2% in the year-to-date.

Store Data. Management expects to increase the number of Company-operated stores by 12, net, during the fiscal year ending January 31, 2016 ("fiscal 2015"), with the majority of expansion planned in Asia-Pacific and the balance in the Americas and Europe. In the year-to-date of 2015, the Company added 11 Company-operated stores: seven in Asia-Pacific (four in China, two in Macau and one in Thailand), three in the Americas (one each in the U.S., Canada and Chile) and one in Europe (in Switzerland) while closing one store in Asia-Pacific (in Korea). The Company's plan also includes relocating approximately ten existing locations during fiscal 2015.

## Gross Margin

	Third Quarter		Year-to-date		
	2015	2014	2015	2014	
Gross profit as a percentage of net sales	60.2	% 59.5	% 59.7	% 59.2	%

Gross margin (gross profit as a percentage of net sales) increased 0.7 percentage point in the third quarter, benefiting from favorable product input costs offset by a shift in sales mix toward higher-priced, lower-margin products as well as an increase in the wholesale sale of diamonds. In addition, the benefit from retail price increases was partly offset by the negative effect from the strong U.S. dollar. Gross margin increased 0.5 percentage point in the year-to-date reflecting similar items as noted above, except for the impact from the wholesale sale of diamonds, which was not significant on a year-to-date basis.

Management periodically reviews and adjusts its retail prices when appropriate to address product input cost increases, specific market conditions and changes in foreign currencies/U.S. dollar relationships. Its long-term strategy is to continue that approach. Among the market conditions that management considers are consumer demand for the product category involved, which may be influenced by consumer confidence, and competitive pricing conditions. Management uses derivative instruments to mitigate certain foreign exchange and precious metal price exposures (see "Item 1. Notes to Condensed Consolidated Financial Statements – Note 8. Hedging Instruments"). Management increased retail prices in the year-to-date of both 2015 and 2014 across all geographic regions and product categories.

## Selling, General and Administrative ("SG&amp;A") Expenses

	Third Quarter		Year-to-date		
	2015	2014	2015	2014	
SG&A expenses as a percentage of net sales	43.5	% 41.9	% 42.4	% 39.4	%

SG&A expenses increased \$5.7 million, or 1%, in the third quarter reflecting increased store occupancy and depreciation expenses (related to new and existing stores) mostly offset by decreased labor costs (reduced variable labor costs, including incentive compensation and sales commissions, that were partly offset by increased costs for U.S. pension and postretirement benefit plans). The strengthening of the U.S. dollar had the effect of decreasing SG&A expense growth by 5% as compared with the prior year, and therefore, excluding this effect, SG&A expenses would have increased 6%.

SG&A expenses increased \$58.5 million, or 5%, in the year-to-date. Included in the year-to-date amount is an impairment charge of \$9.6 million recorded in the second quarter of 2015 (see "Non-GAAP Measures"). Excluding the impairment charge, SG&A expenses increased \$48.9 million, or 4%, in the year-to-date reflecting increased marketing expenses of \$25.9 million, increased store occupancy and depreciation expenses of \$10.7 million (related to new and existing stores) and increased labor costs of \$2.9 million (which includes increased costs for U.S. pension and postretirement benefit plans partly offset by reduced variable labor costs, including incentive compensation and

sales commissions). The strengthening of the U.S. dollar had the effect of decreasing SG&A

TIFFANY & CO.

30

---

Table of Contents

expense growth by 5% as compared with the prior year, and therefore, excluding this effect, SG&A expenses would have increased 9%.

SG&A expenses as a percentage of net sales increased 1.6 percentage points in the third quarter and 3.0 percentage points in the year-to-date and would have increased 2.7 percentage points in the year-to-date, when excluding the item noted above, due to sales deleveraging of operating expenses, as well as increased marketing spending in the year-to-date.

## Earnings from Operations

Earnings from operations decreased 7% and operating margin decreased 0.9 percentage point in the third quarter due to lower sales and higher SG&A expenses partly offset by higher gross margin.

Results by segment are as follows:

(in millions)	Third Quarter 2015	% of Net Sales	Third Quarter 2014	% of Net Sales	
Earnings from operations*:					
Americas	\$61.9	14.6	% \$82.7	18.0	%
Asia-Pacific	63.9	26.8	65.1	26.8	
Japan	50.8	38.3	34.3	30.3	
Europe	16.3	14.5	19.4	16.9	
Other	0.9	2.7	1.7	5.6	
	193.8		203.2		
Unallocated corporate expenses	(37.4	) (4.0	)% (34.7	) (3.6	)%
Earnings from operations	\$156.4	16.7	% \$168.5	17.6	%

\*Percentages represent earnings from operations as a percentage of each segment's net sales.

On a segment basis, the ratio of earnings from operations to each segment's net sales in the third quarter of 2015 compared with 2014 was as follows:

Americas – the ratio decreased 3.4 percentage points due to a decrease in net sales resulting in deleveraging of operating expenses;

Asia-Pacific – the ratio was unchanged from the prior year due to an increase in gross margin (attributable to favorable product input costs and price increases) which was offset by increased store-related operating expenses;

Japan – the ratio increased 8.0 percentage points due to an increase in net sales resulting in leverage on operating expenses as well as an increase in gross margin (which includes a benefit from the Company's ongoing program to utilize Yen forward contracts for a portion of forecasted merchandise purchases);

Europe – the ratio decreased 2.4 percentage points due to a decrease in net sales resulting in deleveraging of operating expenses, which includes operating expense growth tied to store expansion; and

Other – the ratio decreased 2.9 percentage points due to a decrease in gross margin attributed to an increase in wholesale sales of diamonds partly offset by the leveraging of operating expenses as operating expenses decreased at a higher rate than sales.

TIFFANY & CO.

31



Table of Contents

Earnings from operations decreased 15% and operating margin decreased 2.5 percentage points in the year-to-date. Excluding the other operating expense noted below, earnings from operations decreased 13% and operating margin decreased 2.2 percentage points in the year-to-date, due to higher SG&A expenses, primarily related to marketing spending, partly offset by higher gross margin.

Results by segment are as follows:

(in millions)	Year-to-date 2015	% of Net Sales	Year-to-date 2014	% of Net Sales	
Earnings from operations*:					
Americas	\$229.0	17.0	% \$274.0	19.8	%
Asia-Pacific	193.4	26.0	202.5	27.3	
Japan	140.7	37.0	145.0	35.7	
Europe	53.3	15.8	61.5	18.3	
Other	6.1	7.0	6.3	6.3	
	622.5		689.3		
Unallocated corporate expenses	(113.7	) (3.9	)% (102.5	) (3.5	)%
Other operating expense	(9.6	)	—		
Earnings from operations	\$499.2	17.3	% \$586.8	19.8	%

\* Percentages represent earnings from operations as a percentage of each segment's net sales.

On a segment basis, the ratio of earnings from operations to each segment's net sales in the year-to-date of 2015 compared with 2014 was as follows:

- Americas – the ratio decreased 2.8 percentage points due to a decrease in net sales resulting in deleveraging of operating expenses as well as increased marketing spending and labor-related expenses;
- Asia-Pacific – the ratio decreased 1.3 percentage points due to increased marketing spending and store-related operating expenses partly offset by an improvement in gross margin (attributable to favorable product input costs and price increases);
- Japan – the ratio increased 1.3 percentage points primarily due to leveraging of operating expenses (as operating expenses decreased at a higher rate than sales) partly offset by a decrease in gross margin (which includes a reduced benefit from the Company's ongoing program to utilize Yen forward contracts for a portion of forecasted merchandise purchases);
- Europe – the ratio decreased 2.5 percentage points resulting from increased store-related operating expenses and marketing spending; and
- Other – the ratio increased 0.7 percentage point primarily due to an improvement in gross margin offset by the deleveraging of operating expenses both of which were affected by the decrease in wholesale sales of diamonds. To a lesser extent, contributing to the increase is the improvement in the performance of retail operations in the Emerging Markets region.

Unallocated corporate expenses include certain costs related to administrative support functions which the Company does not allocate to its segments. Such unallocated costs include those for centralized information technology, finance, legal and human resources departments. Unallocated corporate expenses increased by \$2.7 million in the third quarter of 2015 and by \$11.2 million in the year-to-date of 2015 primarily due to increased costs associated with upgrades to the Company's information technology systems, as well as, for the year-to-date period, higher unallocated labor costs associated with changes in corporate management.

Other operating expense in the year-to-date of 2015 represents an impairment charge related to a financing arrangement with Koidu Limited. See "Item 1. Notes to Condensed Consolidated Financial Statements – Note 3. Receivables and Financing Arrangements" and "Note 10. Commitments and Contingencies" for additional information.

TIFFANY & CO.

32

---

Table of Contents

## Interest and Other Expenses, net

Interest and other expenses, net in the third quarter were approximately equal to the prior year and decreased \$9.7 million, or 20%, in the year-to-date. Lower interest expense in both periods resulted from the redemption of long-term debt in October 2014 by using proceeds from the issuance of lower-rate long-term debt. In addition, foreign currency transaction losses affected changes in both periods.

## Loss on Extinguishment of Debt

In the third quarter of 2014, the Company recorded a loss on extinguishment of debt of \$93.8 million associated with the redemption of all of the aggregate principal amount of the Company's (i) \$100.0 million principal amount of 9.05% Series A Senior Notes due December 23, 2015; (ii) \$125.0 million principal amount of 10.0% Series A-2009 Senior Notes due February 13, 2017; (iii) \$50.0 million principal amount of 10.0% Series A Senior Notes due April 9, 2018; and (iv) \$125.0 million principal amount of 10.0% Series B-2009 Senior Notes due February 13, 2019 (collectively, the "Private Placement Notes") prior to maturity in accordance with the respective note purchase agreements governing each series of Private Placement Notes, which included provisions for make-whole payments in the event of early repayment.

## Provision for Income Taxes

The effective income tax rate for the third quarter of 2015 and 2014 was 35.5%. The effective income tax rate for the year-to-date of 2015 was 34.8% versus 35.3% in the prior year. The effective income tax rate for the year-to-date of 2015 included a decrease of 0.3 percentage point due to the impact of a valuation allowance release. The effective income tax rate for the year-to-date of 2014 included an increase of 1.1 percentage points due to the one-time impact of changes in state tax legislation offset by the favorable impact of a valuation allowance release of 0.3 percentage point.

## LIQUIDITY AND CAPITAL RESOURCES

The Company's liquidity needs have been, and are expected to remain, primarily a function of its ongoing, seasonal and expansion-related working capital requirements and capital expenditure needs. Over the long term, the Company manages its cash and capital structure to maintain a strong financial position that provides flexibility to pursue strategic initiatives. Management regularly assesses its working capital needs, capital expenditure requirements, debt service, dividend payouts, share repurchases and future investments. Management believes that cash on hand, internally-generated cash flows, the funds available under its revolving credit facilities and the ability to access the debt and capital markets are sufficient to support the Company's liquidity and capital requirements for the foreseeable future.

The following table summarizes cash flows from operating, investing and financing activities:

(in millions)	Year-to-date	
	2015	2014
Net cash provided by (used in):		
Operating activities	\$427.5	\$177.8
Investing activities	(189.9)	) (156.2)
Financing activities	(295.7)	) (19.7)
Effect of exchange rates on cash and cash equivalents	1.3	1.6
Net (decrease) increase in cash and cash equivalents	\$(56.8)	) \$3.5

TIFFANY & CO.

33

---

## Table of Contents

### Operating Activities

The Company had net cash inflows from operating activities of \$427.5 million in the year-to-date of 2015 compared with \$177.8 million in the year-to-date of 2014. The variance is primarily due to changes in inventory growth rates, as inventory declined by 1% in the year-to-date of 2015 compared to growth of 10% in the year-to-date of 2014.

**Working Capital.** Working capital (current assets less current liabilities) and the corresponding current ratio (current assets divided by current liabilities) were \$2.9 billion and 5.1 at October 31, 2015, compared with \$3.0 billion and 5.5 at January 31, 2015 and \$2.9 billion and 5.5 at October 31, 2014.

Accounts receivable, less allowances at October 31, 2015 rose 6% from January 31, 2015 and 16% from October 31, 2014 due to the timing of collections. The strengthening of the U.S. dollar had the effect of decreasing accounts receivable, less allowances by 3% as compared with January 31, 2015 and 8% as compared with October 31, 2014, and therefore, excluding this effect, accounts receivable, less allowances would have been 9% and 25% higher than the respective periods, due in part to the timing of collection of department store receivables in Japan.

Inventories, net at October 31, 2015 were 1% lower than January 31, 2015 and 8% lower than October 31, 2014. Finished goods inventories declined 1% from January 31, 2015 and 10% from October 31, 2014, while combined raw material and work-in-process inventories were approximately equal to January 31, 2015 and decreased 5% from October 31, 2014. The strengthening of the U.S. dollar had the effect of decreasing inventories by 4% as compared with October 31, 2014; therefore, excluding this effect, inventories would have been 4% lower than at October 31, 2014. This effect was not significant when compared with January 31, 2015.

### Investing Activities

The Company had net cash outflows from investing activities of \$189.9 million in the year-to-date of 2015 compared with \$156.2 million in the year-to-date of 2014. The change is driven by an increase in net purchases of marketable securities and short-term investments.

**Marketable Securities and Short-Term Investments.** The Company invests a portion of its cash in marketable securities and short-term investments. The Company had net purchases of marketable securities and short-term investments of \$31.4 million during the year-to-date of 2015 compared with \$14.7 million during the year-to-date of 2014.

### Financing Activities

The Company had net cash outflows from financing activities of \$295.7 million in the year-to-date of 2015 compared with \$19.7 million in the year-to-date of 2014. Year-over-year changes in cash flows from financing activities are largely driven by repayments of borrowings in the year-to-date of 2015 compared with proceeds from borrowings in the year-to-date of 2014 (when the Company had issued \$550.0 million of senior notes and used the net proceeds primarily to redeem \$400.0 million in aggregate principal amount of existing senior notes), as well as an increase in share repurchases and reduced proceeds from the exercise of stock options.

TIFFANY & CO.

Table of Contents

Recent Borrowings. The Company had net (repayments of) proceeds from borrowings as follows:

(in millions)	Year-to-date	
	2015	2014
Short-term borrowings:		
Repayment of credit facility borrowings, net	\$(24.0	) \$(54.4
Proceeds from other credit facility borrowings	9.1	12.1
Repayment of other credit facility borrowings	(16.0	) (3.4
Net repayment of short-term borrowings	(30.9	) (45.7
Long-term borrowings:		
Proceeds	—	548.0
Repayment	—	(400.0
Net proceeds from long-term borrowings	—	148.0
Net (repayments of) proceeds from total borrowings	(30.9	) 102.3
Payment of debt extinguishment costs (included in operating activities)	—	(93.4
Net (repayments) proceeds	\$(30.9	) \$8.9

Credit Facilities. In October 2014, Tiffany & Co. entered into a four-year \$375.0 million and a five-year \$375.0 million multi-bank, multi-currency, committed unsecured revolving credit facility, including letter of credit subfacilities, (collectively, the "New Credit Facilities") resulting in a total borrowing capacity of \$750.0 million. The New Credit Facilities replaced the previously existing \$275.0 million three-year unsecured revolving credit facility and \$275.0 million five-year unsecured revolving credit facility (collectively, the "Previously Existing Facilities"), which were terminated and repaid concurrently with Tiffany & Co.'s entry into the New Credit Facilities.

Under all of the Company's credit facilities, there were \$198.3 million of borrowings outstanding, \$5.7 million of letters of credit issued but not outstanding and \$818.4 million available for borrowing at October 31, 2015. The weighted-average interest rate for the amount outstanding at October 31, 2015 was 2.95% compared with 3.55% at October 31, 2014.

Senior Notes. In September 2014, Tiffany & Co. issued \$250.0 million aggregate principal amount of 3.80% Senior Notes due 2024 (the "2024 Notes") and \$300.0 million aggregate principal amount of 4.90% Senior Notes due 2044 (the "2044 Notes" and, together with the 2024 Notes, the "Senior Notes"). The Notes were issued at a discount with aggregate net proceeds of \$548.0 million (with an effective yield of 3.836% for the 2024 Notes and an effective yield of 4.926% for the 2044 Notes). Tiffany & Co. used the net proceeds from the issuance of the Senior Notes to redeem \$400.0 million in aggregate principal amount of the Private Placement Notes prior to their scheduled maturities which ranged from 2015 to 2019 and paid \$93.4 million of debt extinguishment costs associated with the redemption. The Company used the remaining net proceeds from the sale of the Senior Notes for general corporate purposes. See "Item 1. Financial Statements - Note 7. Debt" for additional information.

The ratio of total debt (short-term borrowings, current portion of long-term debt and long-term debt) to stockholders' equity was 38% at October 31, 2015, 39% at January 31, 2015 and 37% at October 31, 2014.

At October 31, 2015, the Company was in compliance with all debt covenants.

Share Repurchases. In March 2014, the Company's Board of Directors approved a share repurchase program which authorizes the Company to repurchase up to \$300.0 million of its Common Stock through open market transactions. Purchases are executed under a written plan for trading securities as specified under Rule 10b5-1 promulgated under the Securities Exchange Act of 1934, as amended, the terms of which are within the Company's discretion, subject to applicable securities laws, and are based on market conditions and the Company's liquidity needs. The program will

expire on March 31, 2017.

TIFFANY & CO.

35

---

Table of Contents

The Company's share repurchase activity was as follows:

(in millions, except per share amounts)	Third Quarter		Year-to-date	
	2015	2014	2015	2014
Cost of repurchases	\$60.5	\$5.8	\$116.2	\$22.2
Shares repurchased and retired	0.8	0.1	1.4	0.2
Average cost per share	\$80.31	\$92.02	\$84.03	\$89.91

At October 31, 2015, \$156.7 million remained available for share repurchases under this authorization.

#### Financing Arrangements with Diamond Mining and Exploration Companies

The Company has provided financing to diamond mining and exploration companies in order to obtain rights to purchase the mine's output. At July 31, 2015, there was \$44.1 million of principal and interest outstanding under a financing arrangement (the "Loan") with Koidu Limited (previously Koidu Holdings S.A.) ("Koidu"). On April 30, 2015, the Company agreed to defer Koidu's principal payment due on March 30, 2015, subject to certain conditions set forth in the amendment, which were met in June 2015. In August 2015, Koidu requested that its interest payment due in July 2015 be deferred until a future date to be determined, and it advised the Company that it was likely to request a deferral of interest payments due in August and September of 2015. Additionally, Koidu had informed the Company that it was seeking additional sources of capital to fund ongoing operations of the mine. Based on those discussions with Koidu, and with consideration given to the fact that Koidu did not respond to the Company's request for a proposed revised payment schedule for its obligations under the Loan, management believed that it was probable that the Company would be unable to collect all amounts due according to the contractual terms of the Loan, and recorded an impairment charge, and related valuation allowance, of \$9.6 million in the second quarter of 2015. Additionally, the Company ceased accruing interest income on the outstanding Loan balance.

As of October 31, 2015, Koidu did not make its interest payments due in August, September and October of 2015 as well as its principal payment due in September 2015. The missed payments constitute events of default under the Loan. While Koidu has not yet provided a proposed revised payment schedule for its obligations under the Loan, the Company continues to participate in discussions with Koidu regarding its operational plans and forecasts, cash flow projections for the mine, and potential revisions to the payment schedule for the Loan. The outcome of these discussions, as well as any other developments, will inform discussions regarding the Loan repayment schedule as well as management's ongoing evaluation of the collectability of the Loan and the accrual of interest income. It is possible that such ongoing evaluation may result in additional changes to management's assessment of collectability. While such changes in management's assessment would not have a material adverse effect on the Company's financial position or cash flows, it is possible that such a change in assessment could affect the Company's earnings in the period in which such a change were to occur. Additionally, if Koidu were to default under its diamond supply agreement with the Company, the Company could lose access to the mine's output, although management believes this would not have a material impact to the Company's operations. See "Item 1. Notes to Condensed Consolidated Financial Statements – Note 3. Receivables and Financing Arrangements" and "Note 10. Commitments and Contingencies" for additional information on this financing arrangement.

#### Contractual Obligations

The Company's contractual cash obligations and commercial commitments at October 31, 2015 and the effects such obligations and commitments are expected to have on the Company's liquidity and cash flows in future periods have not changed significantly since January 31, 2015.

At January 31, 2015, total unrecognized tax benefits were \$8.3 million of which approximately \$5.3 million, if recognized, would affect the effective income tax rate. Management believes it is reasonably possible that a majority



of the total gross amount provided for unrecognized tax benefits will decrease in the next 12 months. Future developments may result in a change in this assessment.

TIFFANY & CO.

36

---

## Table of Contents

### Seasonality

As a jeweler and specialty retailer, the Company's business is seasonal in nature, with the fourth quarter typically representing approximately one-third of annual net sales and a higher percentage of annual net earnings. Management expects such seasonality to continue.

### 2015 Outlook

For the fiscal year ending January 31, 2016, management now expects net earnings per diluted share to be 5% – 10% below the \$4.20 earned in the prior year excluding the loan impairment charge in the second quarter of 2015 and the debt extinguishment charge in the prior year. This forecast does not assume any potential additional charges associated with any further impairment of the loan receivable from Koidu. This forecast continues to assume improving inventory productivity; assumes capital expenditures of \$260.0 million; and projects free cash flow in excess of \$500.0 million. This forecast is based on assumptions, which are approximate and may or may not prove valid, and which should be read in conjunction with risk factors disclosed in Part I, Item 1A in the Registrant's Annual Report on Form 10-K for the fiscal year ended January 31, 2015 as well as in "Part II, Item 1A. Risk Factors" on page 41.

### Forward-Looking Statements

The statements in this quarterly report on Form 10-Q that refer to plans and expectations for the current fiscal year and future periods are forward-looking statements that involve a number of risks and uncertainties. Words such as 'expects,' 'intends,' 'anticipates,' 'forecasts,' 'plans,' 'believes,' 'continues,' 'may,' 'will,' and variations of such words and similar expressions are intended to identify such forward-looking statements. Examples of forward-looking statements include, but are not limited to, statements we make regarding the Company's objectives, expectations and beliefs with respect to store openings and closings, product introductions, sales, sales growth, retail prices, gross margin, expenses, operating margin, effective income tax rate, net earnings and net earnings per share, inventories, capital expenditures, cash flow, liquidity, currency translation and growth opportunities. These forward-looking statements are subject to a number of risks and uncertainties, many of which are beyond the Company's control, which could cause the Company's actual results to differ materially from those indicated in these forward-looking statements. Such factors include, but are not limited to, risks from global economic conditions, decreases in consumer confidence, the Company's significant operations outside of the United States, regional instability and conflict that could disrupt tourist travel and local consumer spending, weakening foreign currencies, changes in the Company's product or geographic sales mix and changes in costs or reduced supply availability of diamonds and precious metals. Please also see the Company's risk factors, as they may be amended from time to time, set forth in the Company's filings with the Securities and Exchange Commission, including the Company's most recently filed Annual Report on Form 10-K and in this quarterly report, particularly under "Part II, Item 1A. Risk Factors," for a discussion of these and other factors that could cause actual results to differ materially. The Company undertakes no obligation to update or revise any forward-looking statements to reflect subsequent events or circumstances, except as required by applicable law or regulation.

TIFFANY & CO.

37

---

## Table of Contents

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company is exposed to market risk from fluctuations in foreign currency exchange rates, precious metal prices and interest rates, which could affect its consolidated financial position, earnings and cash flows. The Company manages its exposure to market risk through its regular operating and financing activities and, when deemed appropriate, through the use of derivative financial instruments. The Company uses derivative financial instruments as risk management tools and not for trading or speculative purposes.

#### Foreign Currency Risk

The Company uses foreign exchange forward contracts to offset a portion of the foreign currency exchange risks associated with foreign currency-denominated liabilities, intercompany transactions and forecasted purchases of merchandise between entities with differing functional currencies. The maximum term of the Company's outstanding foreign exchange forward contracts as of October 31, 2015 is 12 months.

#### Precious Metal Price Risk

The Company periodically hedges a portion of its forecasted purchases of precious metals for use in its internal manufacturing operations through the use of forward contracts in order to manage the effect of volatility in precious metal prices. During the quarter ended October 31, 2015, the Company increased the term over which it is hedging its exposure to volatility in precious metal prices, as well as the portion of expected future metals purchases hedged, which has increased the number of precious metal derivative instruments outstanding at the end of the period. The maximum term of the Company's outstanding precious metal forward contracts as of October 31, 2015 is 25 months.

### Item 4. Controls and Procedures

#### Disclosure Controls and Procedures

Based on their evaluation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended), the Registrant's chief executive officer and chief financial officer concluded that, as of the end of the period covered by this report, the Registrant's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Registrant in the reports that it files or submits under the Securities Exchange Act of 1934, as amended, is (i) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and (ii) accumulated and communicated to our management, including our chief executive officer and chief financial officer, to allow timely decisions regarding required disclosure.

In the ordinary course of business, the Registrant reviews its system of internal control over financial reporting and makes changes to its systems and processes to improve controls and increase efficiency, while ensuring that the Registrant maintains an effective internal control environment. Changes may include activities such as implementing new, more efficient systems and automating manual processes.

The Registrant's chief executive officer and chief financial officer have determined that there have been no changes in the Registrant's internal control over financial reporting during the most recently completed fiscal quarter covered by this report identified in connection with the evaluation described above that have materially affected, or are reasonably likely to materially affect, the Registrant's internal control over financial reporting.

The Registrant's management, including its chief executive officer and chief financial officer, necessarily applied their judgment in assessing the costs and benefits of such controls and procedures. By their nature, such controls and

procedures cannot provide absolute certainty, but can provide reasonable assurance regarding management's control objectives. Our chief executive officer and our chief financial officer have concluded that the Registrant's disclosure controls and procedures are (i) designed to provide such reasonable assurance and (ii) are effective at that reasonable assurance level.

TIFFANY & CO.

38

---

Table of Contents

PART II. Other Information

Item 1. Legal Proceedings

Arbitration Award. On December 21, 2013, an award was issued (the "Arbitration Award") in favor of The Swatch Group Ltd. ("Swatch") and its wholly-owned subsidiary Tiffany Watch Co. ("Watch Company"; Swatch and Watch Company, together, the "Swatch Parties") in an arbitration proceeding (the "Arbitration") between the Registrant and its wholly-owned subsidiaries, Tiffany and Company and Tiffany (NJ) Inc. (the Registrant and such subsidiaries, together, the "Tiffany Parties") and the Swatch Parties.

The Arbitration was initiated in June 2011 by the Swatch Parties, who sought damages for alleged breach of agreements entered into by and among the Swatch Parties and the Tiffany Parties in December 2007 (the "Agreements"). The Agreements pertained to the development and commercialization of a watch business and, among other things, contained various licensing and governance provisions and approval requirements relating to business, marketing and branding plans and provisions allocating profits relating to sales of the watch business between the Swatch Parties and the Tiffany Parties.

In general terms, the Swatch Parties alleged that the Tiffany Parties breached the Agreements by obstructing and delaying development of Watch Company's business and otherwise failing to proceed in good faith. The Swatch Parties sought damages based on alternate theories ranging from CHF 73.0 million (or approximately \$74.0 million at October 31, 2015) (based on its alleged wasted investment) to CHF 3.8 billion (or approximately \$3.8 billion at October 31, 2015) (calculated based on alleged future lost profits of the Swatch Parties and their affiliates over the entire term of the Agreements).

The Registrant believes that the claims of the Swatch Parties are without merit. In the Arbitration, the Tiffany Parties defended against the Swatch Parties' claims vigorously, disputing both the merits of the claims and the calculation of the alleged damages. The Tiffany Parties also asserted counterclaims for damages attributable to breach by the Swatch Parties, stemming from the Swatch Parties' September 12, 2011 public issuance of a Notice of Termination purporting to terminate the Agreements due to alleged material breach by the Tiffany Parties, and for termination due to such breach. In general terms, the Tiffany Parties alleged that the Swatch Parties did not have grounds for termination, failed to meet the high standard for proving material breach set forth in the Agreements and failed to provide appropriate management, distribution, marketing and other resources for TIFFANY & CO. brand watches and to honor their contractual obligations to the Tiffany Parties regarding brand management. The Tiffany Parties' counterclaims sought damages based on alternate theories ranging from CHF 120.0 million (or approximately \$121.0 million at October 31, 2015) (based on its wasted investment) to approximately CHF 540.0 million (or approximately \$545.0 million at October 31, 2015) (calculated based on alleged future lost profits of the Tiffany Parties).

The Arbitration hearing was held in October 2012 before a three-member arbitral panel convened in the Netherlands pursuant to the Arbitration Rules of the Netherlands Arbitration Institute (the "Rules"), and the Arbitration record was completed in February 2013.

Under the terms of the Arbitration Award, and at the request of the Swatch Parties and the Tiffany Parties, the Agreements were deemed terminated. The Arbitration Award stated that the effective date of termination was March 1, 2013. Pursuant to the Arbitration Award, the Tiffany Parties were ordered to pay the Swatch Parties damages of CHF 402.7 million (the "Arbitration Damages"), as well as interest from June 30, 2012 to the date of payment, two-thirds of the cost of the Arbitration and two-thirds of the Swatch Parties' legal fees, expenses and costs. These amounts were paid in full in January 2014.

Prior to the ruling of the arbitral panel, no accrual was established in the Company's consolidated financial statements because management did not believe the likelihood of an award of damages to the Swatch Parties was probable. As a result of the ruling, in the fourth quarter of 2013, the Company recorded a charge of \$480.2 million, which included the damages, interest, and other costs associated with the ruling and which was classified as Arbitration award expense in the consolidated statement of earnings.

On March 31, 2014, the Tiffany Parties took action in the District Court of Amsterdam to annul the Arbitration Award. Generally, arbitration awards are final; however, Dutch law does provide for limited grounds on which arbitral awards may be set aside. The Tiffany Parties petitioned to annul the Arbitration Award on these statutory grounds.

TIFFANY & CO.

39

---

## Table of Contents

These grounds include, for example, that the arbitral tribunal violated its mandate by changing the express terms of the Agreements.

A three-judge panel presided over the annulment hearing on January 19, 2015, and, on March 4, 2015, issued a decision in favor of the Tiffany Parties. Under this decision, the Arbitration Award is set aside. However, the Swatch Parties have taken action in the Dutch courts to appeal the District Court's decision, and the Arbitration Award may ultimately be upheld by the courts of the Netherlands. Registrant's management expects that the annulment action will not be ultimately resolved until, at the earliest, Registrant's fiscal year ending January 31, 2017.

If the Arbitration Award is finally annulled, management anticipates that the claims and counterclaims that formed the basis of the Arbitration, and potentially additional claims and counterclaims, will be litigated in court proceedings between and among the Swatch Parties and the Tiffany Parties. The identity and location of the courts that would hear such actions have not been determined at this time. Management also anticipates that the Tiffany Parties would seek the return of the amounts paid by them under the Arbitration Award in court proceedings.

In any litigation regarding the claims and counterclaims that formed the basis of the arbitration, issues of liability and damages will be pled and determined without regard to the findings of the arbitral panel. As such, it is possible that the court could find that the Swatch Parties were in material breach of their obligations under the Agreements, that the Tiffany Parties were in material breach of their obligations under the Agreements or that neither the Swatch Parties nor the Tiffany Parties were in material breach. If the Swatch Parties' claims of liability were accepted by the court, the damages award cannot be reasonably estimated at this time, but could exceed the Arbitration Damages and could have a material adverse effect on the Registrant's consolidated financial statements or liquidity.

Although the District Court has issued a decision in favor of the Tiffany Parties, an amount will only be recorded for any return of amounts paid under the Arbitration Award when the District's Court decision is final (i.e., after any right of appeal has been exhausted) and return of these amounts is deemed probable and collection is reasonably assured. As such, the Company has not recorded any amounts in its consolidated financial statements related to the District Court's decision.

Additionally, management has not established any accrual in the Company's condensed consolidated financial statements for the quarter ended October 31, 2015 related to the annulment process or any potential subsequent litigation because it does not believe that the final annulment of the Arbitration Award and a subsequent award of damages exceeding the Arbitration Damages is probable.

Royalties payable to the Tiffany Parties by Watch Company under the Agreements were not significant in any year and watches manufactured by Watch Company and sold in TIFFANY & CO. stores constituted 1% of worldwide net sales in 2013 and 2012.

The Company is proceeding with the design, production, marketing and distribution of TIFFANY & CO. brand watches through certain of its Swiss subsidiaries. Management introduced new TIFFANY & CO. brand watches in April 2015. The effective development and growth of this watch business has required and will continue to require additional resources and involves risks and uncertainties.

**Other Litigation Matters.** The Company is from time to time involved in routine litigation incidental to the conduct of its business, including proceedings to protect its trademark rights, litigation with parties claiming infringement of patents and other intellectual property rights by the Company, litigation instituted by persons alleged to have been injured upon premises under the Company's control and litigation with present and former employees and customers. Although litigation with present and former employees is routine and incidental to the conduct of the Company's business, as well as for any business employing significant numbers of employees, such litigation can result in large

monetary awards when a civil jury is allowed to determine compensatory and/or punitive damages for actions claiming discrimination on the basis of age, gender, race, religion, disability or other legally-protected characteristic or for termination of employment that is wrongful or in violation of implied contracts. However, the Company believes that all such litigation currently pending to which it is a party or to which its properties are subject will be resolved without any material adverse effect on the Company's financial position, earnings or cash flows.

TIFFANY & CO.

40

---



Table of Contents

## Item 1A. Risk Factors

Except as presented below, there have been no material changes to the risk factors disclosed in Part I, Item 1A in the Registrant's Annual Report on Form 10-K for the fiscal year ended January 31, 2015.

(i) If diamond mining and exploration companies, to which the Company or its subsidiaries have provided financing, were to experience financial difficulties, those funds might not be recovered, which would reduce the Company's earnings and could result in losing access to the mine's output.

The Company and its subsidiaries may, from time to time, provide financing to diamond mining and exploration companies in order to obtain rights to purchase mining output. Mining operations are inherently risky, and often occur in regions subject to additional political, social and environmental risks, such as the resurgence of the Ebola virus in 2014 in certain regions of Africa. Given these risks, there is no assurance that the diamond mining and exploration companies subject to these arrangements will be able to meet their obligations to the Company under their financing agreements or related diamond supply agreements. If a diamond mining or exploration company defaults under its financing agreement, the Company would be required to take a period charge in respect of all or a portion of the financing, which would affect the Company's earnings. Additionally, a default under a diamond supply agreement could result in the Company losing access to the mine's output under the related supply agreements. The Company has experienced such situations in the past; additionally, in the second quarter of 2015, the Company recorded a \$9.6 million impairment charge, and related valuation allowance, associated with a \$44.1 million financing arrangement with Koidu Limited (previously Koidu Holdings S.A.). Management will continue to evaluate the collectability of the financing arrangement and it is possible that such ongoing evaluation may result in additional changes to management's assessment of collectability. While such changes in management's assessment would not have a material adverse effect on the Company's financial position or cash flows, it is possible that such a change in assessment could affect the Company's earnings in the period in which such a change were to occur.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

## Issuer Purchases of Equity Securities

In March 2014, the Company's Board of Directors approved a share repurchase program which authorizes the Company to repurchase up to \$300.0 million of its Common Stock through open market transactions. Purchases are executed under a written plan for trading securities as specified under Rule 10b5-1 promulgated under the Securities Exchange Act of 1934, as amended, the terms of which are within the Company's discretion, subject to applicable securities laws, and are based on market conditions and the Company's liquidity needs. The program will expire on March 31, 2017.

The following table contains the Company's purchases of equity securities in the third quarter of 2015:

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs (in millions)
August 1, 2015 to August 31, 2015	87,902	\$ 89.22	87,902	\$ 209.4
September 1, 2015 to September 30, 2015	262,593	\$ 80.04	262,593	\$ 188.3

Edgar Filing: TIFFANY & CO - Form 10-Q

October 1, 2015 to October 31, 2015	402,211	\$ 78.54	402,211	\$ 156.7
TOTAL	752,706	\$ 80.31	752,706	\$ 156.7

TIFFANY & CO.

41

---

Table of Contents

Item 6. Exhibits

Exhibit Table (numbered in accordance with Item 601 of Regulation S-K)

Exhibit No.	Description
12.1	Statement of Computation of Ratio of Earnings to Fixed Charges.
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following financial information from Tiffany & Co.'s Quarterly Report on Form 10-Q for the fiscal quarter ended October 31, 2015, filed with the SEC, formatted in Extensible Business Reporting Language (XBRL): (i) the Condensed Consolidated Balance Sheets; (ii) the Condensed Consolidated Statements of Earnings; (iii) the Condensed Consolidated Statements of Comprehensive Earnings; (iv) the Condensed Consolidated Statement of Stockholders' Equity; (v) the Condensed Consolidated Statements of Cash Flows; and (vi) the Notes to the Condensed Consolidated Financial Statements.

TIFFANY & CO.

42

---

Table of Contents

SIGNATURES

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.

Date: November 24, 2015

TIFFANY & CO.  
(Registrant)

By: /s/ Ralph Nicoletti  
Ralph Nicoletti  
Executive Vice President  
Chief Financial Officer  
(Principal Financial Officer)

TIFFANY & CO.  
43